

Income Statement

Topics to be Discussed

- Revenue recognition
- Expense recognition
- Extraordinary items
- Prior period adjustments
- Accounting changes
 - Change in accounting principle
 - Change in accounting estimate
- Income tax allocation
 - Intraperiod tax allocation
- Income statement formats
- Earnings per share

Revenue Recognition

revenue principle

revenue is generally considered to be realized when

- ☛ all efforts necessary to earn revenue have been completed by the entity
- ☛ an arms-length exchange has taken place

revenue is generally recognized at the point of sale (when title passes) or as service is performed

THE NEW YORK TIMES COMPANY
December 30, 2007 10K Report***Revenue Recognition***

- Advertising revenue is recognized when advertisements are published, broadcast or placed on the Company's Web sites.
- Circulation revenue includes single copy and home-delivery subscription revenue. Single copy revenue is recognized based on date of publication, net of provisions for related returns. Proceeds from home-delivery subscriptions are deferred at the time of sale and are recognized in earnings on a pro rata basis over the terms of the subscriptions.

USA Truck, Inc.

The Company operates as a dry van truckload motor carrier transporting general commodities throughout the continental United States and between locations in the United States and Quebec and Ontario, Canada

1994 ANNUAL REPORT**NOTES TO FINANCIAL STATEMENTS****NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****Revenue recognition**

Prior to 1992, revenues were recognized on the date the shipments were picked up from the customer. Drivers' wages and other direct operating expenses were accrued when the related revenue was recognized.

In January 1992, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus that recognition of revenue for freight when picked up from the customer was no longer an acceptable accounting method. As a result, the Company adopted a new revenue recognition method whereby revenue is allocated between reporting periods based on relative transit time in each period and direct expenses are allocated on the same basis.

USA Truck, Inc.**2007 10-K REPORT****NOTES TO FINANCIAL STATEMENTS****NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****Revenue recognition**

Revenue generated by the Company's Trucking segment is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, the Company recognizes revenue pro rata based on relative transit time completed as a portion of the estimated total transit time. . . . Expenses are recognized as incurred.

CARNIVAL PLC.

November 30, 2007 10-K REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Revenue and Expense Recognition**

Guest cruise deposits represent unearned revenues and are initially recorded as customer deposit liabilities when received. Customer deposits are subsequently recognized as cruise revenues, together with revenues from onboard and other activities, which include transportation and shore excursion revenues and all associated direct costs of a voyage, upon completion of voyages with durations of ten nights or less and on a pro rata basis for voyages in excess of ten nights. Future travel discount vouchers issued to guests are typically recorded as a reduction of revenues when such vouchers are utilized. . . . Revenues and expenses from our tour and travel services are recognized at the time the services are performed or expenses are incurred.

AMERICAN GREETINGS CORPORATION

February 29, 2008 10-K REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 1: Significant Accounting Policies****Revenue recognition**

Sales of seasonal product to unrelated, third party retailers are recognized at the approximate date the product is received by the customer, commonly referred to in the industry as the ship-to-arrive date ("STA"). The Corporation maintains STA data due to the large volume of seasonal product shipment activity and the lead time required to achieve customer-requested delivery dates. Seasonal cards and certain other seasonal products are generally sold with the right of return on unsold merchandise. In addition, the Corporation provides for estimated returns of seasonal cards and certain other seasonal products when those sales to unrelated, third party retailers are recognized. Accrual rates utilized for establishing estimated returns reserves have approximated actual returns experience. At Corporation-owned retail locations, sales of seasonal product are recognized upon the sales of products to the consumer.

Except for seasonal products and retailers with a scan-based trading ("SBT") arrangement, sales are generally recognized by the Corporation upon shipment of products to unrelated, third party retailers and upon the sale of products to the consumer at Corporation-owned retail locations. Sales of these products are generally sold without the right of return. Sales credits for non-seasonal product are issued at the Corporation's discretion for damaged, obsolete and outdated products.

AMR CORPORATION
2007 10-K REPORT**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1: SUMMARY OF ACCOUNTING POLICIES**

Passenger Revenues Passenger ticket sales are initially recorded as a component of Air traffic liability. Revenue derived from ticket sales is recognized at the time service is provided. However, due to various factors, including the industry's pricing structure and interline agreements throughout the industry, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized, including breakage. These estimates are generally based upon the evaluation of historical trends, including the use of regression analysis and other methods to model the outcome of future events based on the Company's historical experience, and are recognized at the scheduled time of departure. The Company's estimation techniques have been applied consistently from year to year. However, due to changes in the Company's ticket refund policy and changes in the travel profile of customers, historical trends may not be representative of future results.

Frequent Flyer Program American uses the incremental cost method to account for the portion of its frequent flyer liability incurred when AAdvantage members earn mileage credits by flying on American or its regional affiliates. In 2007, the Company changed its policy regarding the life of AAdvantage mileage credits. Effective December 15, 2007, AAdvantage members now must have mileage earning or redemption activity at least once every eighteen (18) months in order to remain active and retain their miles. Prior to this change, mileage credits automatically expired after thirty-six (36) months of inactivity in the AAdvantage member's account. The Company recorded a one-time benefit of \$39 million as a component of passenger revenue in 2007 to reflect the impact of the additional miles expiring upon the change of expiration period for AAdvantage mileage.

The Company's total liability for future AAdvantage award redemptions for free, discounted or upgraded travel on American, American Eagle or participating airlines as well as unrecognized revenue from selling AAdvantage miles to other companies was approximately \$1.6 billion at both December 21, 2007 and 2006 (and is recorded as a component of Air traffic liability in the consolidated balance sheets), representing 19.2 percent and 18.3 percent of AMR's total current liabilities, at December 31, 2007 and 2006, respectively.

Intel Corporation
December 29, 2007 10-K REPORT**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 2: Accounting Policies (in part)**
Revenue Recognition

We recognize net revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, and acceptance, if applicable, as well as fixed pricing and probable collectibility. We record pricing allowances, including discounts based on contractual arrangements with customers, when revenue is recognized as a reduction to both accounts receivable and net revenue. Because of frequent sales price reductions and rapid technology obsolescence in the industry, we defer sales made to distributors under agreements allowing price protection and/or right of return until the distributors sell the merchandise. We include shipping charges billed to customers in net revenue, and include the related shipping costs in cost of sales.

Hertz Corporation
2007 10-K REPORT**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Our car rental and equipment rental operations are seasonal businesses, with decreased levels of business in the winter months and heightened activity during the spring and summer. We have the ability to dynamically manage fleet capacity, the most significant portion of our cost structure, to meet market demand. For instance, to accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. As business demand declines, fleet and staff are decreased accordingly. A number of our other major operating costs, including airport concession fees, commissions and vehicle liability expenses, are directly related to revenues or transaction volumes. In addition, our management expects to utilize enhanced process improvements, including efficiency initiatives and the use of our information systems, to help manage our variable costs. Approximately two-thirds of our typical annual operating costs represent variable costs, while the remaining one-third are fixed or semi-fixed. We also maintain a flexible workforce, with a significant number of part time and seasonal workers. However, certain operating expenses, including minimum concession fees, rent, insurance, and administrative overhead, remain fixed and cannot be adjusted for seasonal demand.

Priceline.com
2007 10-K REPORT**Item 1A: Risk Factors (in part)**

Our revenues and operating results have varied significantly from quarter to quarter because our business experiences seasonal fluctuations, which reflect seasonal trends for the travel services offered by our websites. Traditional leisure travel bookings in the United States are higher in the second and third calendar quarters of the year as consumers take spring and summer vacations. In the first and fourth quarters of the calendar year, demand for travel services in the United States generally declines and the number of bookings flattens. Travel revenues in Europe, on the other hand, have been higher in the third and fourth quarters than in the first and second quarters. Furthermore, prior to introducing a retail travel option to our customers, substantially all of our business was conducted under the *Name Your Own Price*[®] system and accordingly, because those services are non-refundable in nature, we recognize travel revenue at the time a booking was generated. We recognize revenue generated from our retail hotel service, however, including our international operations, at the time that the customer checks out of the hotel. As a result, we have seen and expect to continue to see, that a meaningful amount of retail hotel bookings generated earlier in the year, as customers plan and reserve their spring and summer vacations, will not be recognized until future quarters. This could result in a disproportionate amount of our annual earnings being recognized in later quarters.

Expense Recognition

Matching principle

against the revenues of a time period we should match the related expenses, the expenses that generated the revenue

Extraordinary items

Current Operating Concept

Income statement

normal and recurring operating items

Retained earnings statement

extraordinary and infrequently occurring items

Supportive arguments

- ☛ the income statement should show as clearly as possible what the company was able to earn under normal conditions for the period
- ☛ the trained accountant is in a better position to distinguish between ordinary and extraordinary items than outsiders or nonaccountants

All-Inclusive Concept

Income statement

normal and recurring operating items as well as extraordinary and infrequently occurring items

Supportive argument

- ☛ the income statement should provide the full story of activities so that annual statements since the start of the enterprise will offer the total income history for the life of the enterprise

All-Inclusive Concept (continued)

Arguments against the current operating concept

- ☛ readers of financial statements may be unaware of the fact that some revenue/expense items may not be shown in the income statement, but rather appear in the retained earnings statement
- ☛ income may be manipulated by burying significant information in retained earnings
- ☛ the use of the current operating concept results in the reporting of normalized income rather than “actual” income
- ☛ unusual events are part of the past and should be considered in arriving at estimates concerning the future
- ☛ differences in judgment will be found in the treatment of borderline cases

APB Opinion #9

“. . . net income should reflect all items of profit and loss recognized during the period with the sole exception of . . . prior period adjustments. . . . Extraordinary items should, however, be segregated from the results of ordinary operations and shown separately in the income statement with disclosure of the nature and amounts thereof.”

APB Opinion #30

for an occurrence to be classified as “extraordinary” it must meet both the following criteria:

Unusual in nature

- ☛ high degree of abnormality
- ☛ clearly unrelated to ordinary and typical activities
- ☛ take into account the environment in which entity operates

Infrequency of occurrence

- ☛ not reasonably expected to recur
- ☛ take into account the environment in which entity operates

classification as an extraordinary item reserved for material items

items specifically excluded from being classified as extraordinary:

- ☛ write-down or write-off of receivables, inventories, equipment leased to others, or intangible assets
- ☛ gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations
- ☛ gains or losses on disposal of a segment of a business
- ☛ other gains or losses from sale or abandonment of property, plant, or equipment used in the business
- ☛ effects of a strike, including those against competitors and major suppliers
- ☛ adjustment of accruals on long-term contracts

gains and losses from items shown above may be extraordinary if such gains or losses resulted from

- ☛ a major casualty, such as an earthquake
- ☛ an expropriation
- ☛ a prohibition under a newly enacted law or legislation

Income statement presentation of extraordinary items:

| | |
|--|------------|
| Income before extraordinary item | \$XXX |
| Extraordinary items (less applicable income taxes of \$YY) (Note Z) | <u>XXX</u> |
| Net income | \$XXX |

material events that are unusual or infrequently occurring, but not both:

- ☛ separate line disclosure on the face of the income statement
- ☛ not reported net of tax
- ☛ not reported in manner which could imply “extraordinary status”

Examples of extraordinary items

EXTRAORDINARY ITEMS

| | | | | |
|---------------------------------|------|------|------|------|
| Nature | 2006 | 2005 | 2004 | 2003 |
| Negative goodwill | 3 | 2 | 2 | --- |
| Debt extinguishments | --- | --- | --- | 4 |
| Other | 1 | 5 | 4 | 8 |
| Total Extraordinary Items | 4 | 5 | 4 | 12 |
| Number of Companies | | | | |
| Presenting extraordinary | | | | |
| items | 4 | 5 | 4 | 12 |
| Not presenting extraordinary | | | | |
| items | 596 | 595 | 596 | 588 |
| Total Companies | 600 | 600 | 600 | 600 |

Extraordinary item**Charming Shoppes, Inc. and Subsidiaries****February 2, 2008 10-K REPORT**

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Prior Period Adjustments

FASB Statement #16

Limited to

- ☛ corrections of errors in financial statement of a prior year
- ☛ adjustments that result from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries

Description of accounting errors in prior financial statements

- ☛ mathematical mistakes
- ☛ a change from an unacceptable accounting principle to an accounting principle that is acceptable
- ☛ changes in estimate that occur because the estimates are not prepared in good faith
- ☛ an oversight such as the failure to accrue or defer certain assets and liabilities at the end of the period
- ☛ a misuse of facts such as the failure to use salvage value in computing the depreciation base for the straight-line approach
- ☛ the incorrect classification of a cost as an expense instead of an asset and vice versa

Reporting

- ☛ prior period adjustment to the opening retained earnings balance
- ☛ restate prior comparative financial statements

Accounting Changes

FASB Statement #154 – Accounting Changes and Error Corrections

Change in Accounting Estimate

- ☛ the effect of a change in accounting estimate should be accounted for in
 - the period of change if the change affects that period only, e.g. change in estimate of uncollectible accounts receivable
 - the period of change and future periods if the change affects both, e.g., change in estimated useful life of depreciable asset
- ☛ should not restate amounts reported in financial statements of prior periods
- ☛ estimates that recur annually (e.g., bad debt and inventory obsolescence estimation) do not require special disclosure. If effects in a given year are material, a separate line income statement disclosure may be desirable.

Changes in Accounting Principle

a change from one generally accepted accounting principle to another generally accepted accounting principle

- ☛ retrospective application to extent possible
- ☛ corresponding adjustment to opening retained earnings
- ☛ if retrospective application is impracticable, then apply prospectively
- ☛ Example: ABC Corp., which began business five years ago, changed its inventory method from weighted average to FIFO on January 1 of year five. Since ABC reports comparative financial statements for three years, it would have to restate years four and three to report the inventory on the FIFO basis with the corresponding effects on taxes, net income and retained earnings. The cumulative effect of the change on the years not reported (years 1 & 2) would be shown as adjustments to the January 1 Year 3 balances in inventory, taxes and retained earnings. Year five would be reported on the FIFO method.

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 is a replacement of APB No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting and reporting of a change in accounting principle. This statement establishes that, unless impracticable, retrospective application is the required method for reporting of a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle.

a change in the method of depreciation

- ☛ to be treated as a change in estimate due to a change in accounting principle
- ☛ does not include the initial adoption of a principle to account for events that have occurred for the first time
- ☛ does not include a change from an improper accounting method to a proper method
- ☛ example: A change from the declining balance method of depreciation to the straight-line method would be accounted for as a change in accounting estimate and would affect only current and future periods. There would not be any retrospective application of the cumulative effect of the change.

SFAS 154 requires that a change in depreciation method be accounted for as a change in estimate, not as a change in accounting principle as previously required by APB 20. However, a change in depreciation methods must continue to be justified by its preferability and related disclosures must be provided.

Examples of accounting changes

| | 2006 | 2005 | 2004 | 2003 |
|---|------|------|------|------|
| Stock based compensation | 437 | 36 | 16 | 122 |
| Defined benefit pension and postretirement plans | 304 | N/C | N/C | N/C |
| Asset retirement obligation | 29 | 93 | 9 | 125 |
| Prior period financial statement Misstatements | 18 | N/C | N/C | N/C |
| Inventories | 8 | 7 | 4 | 3 |
| Goodwill and other intangibles .. | 5 | 2 | 1 | 57 |
| Lease/rental costs | 5 | N/C | N/C | N/C |
| Servicing of financial assets | 4 | N/C | N/C | N/C |
| Exchange of nonmonetary assets | 2 | 24 | N/C | N/C |
| Impairment or disposal of long-lived assets | 2 | 3 | 4 | 68 |
| Postretirement prescription drug benefit | 1 | 12 | 92 | N/C |
| Consolidation of variable interest entities | --- | 5 | 176 | N/C |
| Other | 26 | 83 | 107 | 232 |

N/C = Not Compiled

Accounting for Income Taxes

Tax allocation

Intraperiod tax allocation - tax allocation within a period

Interperiod tax allocation - tax allocation between periods

Intraperiod tax allocation

General rule -- the taxes should follow the location of income/loss

Wherever the profit and loss (P&L) item is shown, the tax effects should also be shown

- ☛ ordinary income
- ☛ extraordinary items
- ☛ cumulative effect of change in accounting principle
- ☛ prior period adjustments

Example

| | |
|--|---------------|
| Income before taxes and extraordinary items | \$100,000 |
| Less: Applicable income taxes | <u>41,500</u> |
| Income before extraordinary items | \$ 58,500 |
| Extraordinary loss (see note 12), less applicable income tax effect of \$14,400 | <u>15,600</u> |
| Net income | \$ 42,900 |

Interperiod tax allocation

- ☛ the objective in accounting for income taxes on an accrual basis is to recognize the amount of current and deferred taxes payable or refundable at the date of the financial statements.

Income Statement Format

Multiple Step

Name of Company
Income Statement
For the Year Ended December 31, 20x2

| | | | |
|---|-----------|-----------|-----------|
| Sales | | \$ XX | |
| Cost of goods sold | | <u>XX</u> | |
| Gross margin | | XX | |
| Selling expenses | | XX | |
| Administrative expenses | | <u>XX</u> | |
| Income from operations | | XX | |
| Other income and expenses | | | |
| Interest income | \$ XX | | |
| Interest expense | XX | | |
| Dividend income | XX | | |
| Infrequent or unusual gains | XX | | |
| Infrequent or unusual losses | <u>XX</u> | | <u>XX</u> |
| Income before income taxes, extraordinary and other items | | | XX |
| Income taxes | | | <u>XX</u> |
| Income before extraordinary and other items | | | XX |
| Extraordinary item (net of tax) | | | XX |
| Cumulative effect in prior years of retroactive application of accounting change (net of tax) | | | <u>XX</u> |
| Net income | | | \$ XX |

Earnings per share disclosures

Single Step

Name of Company
Income Statement
For the Year Ended December 31, 20x2

| | |
|---|-----------|
| Sales | \$ XX |
| Interest income | XX |
| Dividend income | XX |
| Infrequent or unusual gains | <u>XX</u> |
| Total revenues | <u>XX</u> |
| Cost of goods sold | XX |
| Selling expenses | XX |
| Administrative expenses | <u>XX</u> |
| Interest expense | XX |
| Infrequent or unusual losses | <u>XX</u> |
| Total expenses | XX |
| Income before income taxes, extraordinary and other items | XX |
| Income taxes | <u>XX</u> |
| Income before extraordinary and other items | XX |
| Extraordinary item (net of tax) | XX |
| Cumulative effect in prior years of retroactive application of accounting change (net of tax) | <u>XX</u> |
| Net income | \$ XX |

Earnings per share disclosures

Frequency of Different Income Statement Formats

| | 2006 | 2005 | 2004 | 2003 |
|--------------------------|------|------|------|------|
| Single-step Form | 82 | 105 | 110 | 133 |
| Multiple-step Form | 518 | 495 | 490 | 467 |
| Total Companies | 600 | 600 | 600 | 600 |

AMERICAN BRANDS, INC.**1996 ANNUAL REPORT****Consolidated Statement of Income**

| <i>For years ended December 31 (In millions, except per share amounts)</i> | 1996 | 1995 | 1994 |
|--|-----------------|-----------------|-----------------|
| Net Sales | \$11,579.3 | \$11,367.1 | \$13,146.5 |
| Cost of products sold | 2,882.2 | 3,109.9 | 3,765.1 |
| Excise taxes on products sold | 5,803.0 | 5,462.2 | 5,656.8 |
| Advertising, selling, general and administrative expenses | 1,698.5 | 1,665.3 | 2,385.8 |
| Amortization of intangibles | 107.4 | 95.1 | 96.3 |
| Restructuring charges | 88.8 | 17.8 | --- |
| Interest and related expense | 178.7 | 159.8 | 212.1 |
| Other (income) expenses, net | (3.6) | (16.8) | 12.1 |
| Gain on disposal of businesses, net | --- | <u>20.0</u> | <u>332.9</u> |
| Income from continuing operations before income taxes | 824.3 | 893.8 | 1,351.2 |
| Income taxes | <u>327.5</u> | <u>350.7</u> | <u>466.1</u> |
| Income from continuing operations | 496.8 | 543.1 | 885.1 |
| Loss from discontinued operations | --- | --- | (151.0) |
| Extraordinary items | <u>(10.3)</u> | <u>(2.7)</u> | --- |
| Net income | <u>\$ 486.5</u> | <u>\$ 540.4</u> | <u>\$ 734.1</u> |

AMERICAN BRANDS, INC.**1995 ANNUAL REPORT****Consolidated Statement of Income**

| <i>For years ended December 31 (In millions, except per share amounts)</i> | 1995 | 1994 | 1993 |
|---|----------------|----------------|----------------|
| Net Sales | \$11,367.1 | \$13,146.5 | \$12,630.5 |
| Cost of products sold | 3,109.9 | 3,765.1 | 3,587.6 |
| Excise taxes on products sold | <u>5,462.2</u> | <u>5,656.8</u> | <u>5,413.9</u> |
| | 8,572.1 | 9,421.9 | 9,001.5 |
| Gross Profit | 2,795.0 | 3,724.6 | 3,629.0 |
| Advertising, selling, general and administrative expenses | 1,589.1 | 2,315.9 | 2,315.2 |
| Amortization of intangibles | 95.1 | 96.3 | 92.4 |
| Restructuring charges | <u>17.8</u> | <u>---</u> | <u>40.8</u> |
| | 1,702.0 | 2,412.2 | 2,448.4 |
| Operating Income | 1,093.0 | 1,312.4 | 1,180.6 |
| Interest and related expense | 159.8 | 212.1 | 227.6 |
| Corporate administrative expenses | 76.2 | 69.9 | 78.1 |
| Other (income) expenses, net | <u>(16.8)</u> | <u>12.1</u> | <u>(0.5)</u> |
| | 219.2 | 294.1 | 305.2 |
| | 873.8 | 1,018.3 | 875.4 |
| Gain on disposal of businesses, net | 20.0 | 332.9 | --- |
| Income from continuing operations before income taxes | 893.8 | 1,351.2 | 875.4 |
| Income taxes | <u>350.7</u> | <u>466.1</u> | <u>334.2</u> |
| Income From Continuing Operations Before Extraordinary Item and Cumulative Effect of Accounting Changes | 543.1 | 885.1 | 541.2 |
| Income (loss) from discontinued operations | --- | (151.0) | 127.0 |
| Extraordinary item | (2.7) | --- | --- |
| Cumulative effect of accounting changes | <u>---</u> | <u>---</u> | <u>(198.4)</u> |
| Net Income | \$ 540.4 | \$ 734.1 | \$ 469.8 |

Earnings Per Share (EPS)

EPS relates only to common stock

Basic Earnings Per Share Calculation

$$\text{EPS} = \text{Income} / \text{Weighted average number of common shares outstanding}$$

EPS amounts required to be shown either on face of income statement or in footnotes

- ☛ income before extraordinary and other items
- ☛ gain or loss on extraordinary items
- ☛ gain or loss from cumulative effect of an accounting change
- ☛ net income

Example

| | |
|---|---------------|
| Income before extraordinary items | \$100,000 |
| Extraordinary loss (net of taxes) | <u>20,000</u> |
| Net income | \$ 80,000 |

| | |
|---|---------------|
| Shares of common stock outstanding | |
| January through March | 10,000 shares |
| Sold 5,000 shares of common stock on April 1 | |
| April through December | 15,000 shares |

Calculate required EPS disclosures

DEERE & COMPANY

October 31, 2008 10-K Report

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock Split in Form of Dividend

On November 14, 2007, a special meeting of stockholders was held authorizing a two-for-one stock split effected in the form of a 100 percent stock dividend to holders of record on November 26, 2007, distributed on December 3, 2007. All share and per share data (except par value) have been adjusted to reflect the effect of the stock split for all periods presented. The number of shares of common stock issuable upon exercise of outstanding stock options, vesting of other stock awards, and the number of shares reserved for issuance under various employee benefit plans were proportionately increased in accordance with terms of the respective plans.

HEWLETT PACKARD CO.

October 31, 2008 10-K Report

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

| | For the fiscal years ended October 31 | | |
|---|---------------------------------------|-----------------|-----------------|
| | 2008 | 2007 | 2006 |
| | In millions, except per share amounts | | |
| Net revenue: | | | |
| Products | \$ 91,697 | \$ 84,229 | \$ 73,557 |
| Services | 26,297 | 19,699 | 17,773 |
| Financing income | 370 | 358 | 328 |
| Total net revenue | <u>118,364</u> | <u>104,286</u> | <u>91,658</u> |
| Costs and expenses: | | | |
| Cost of products | 69,342 | 63,435 | 55,248 |
| Cost of services | 20,250 | 15,163 | 13,930 |
| Financing interest | 329 | 289 | 249 |
| Research and development | 3,543 | 3,611 | 3,591 |
| Selling, general and administrative | 13,104 | 12,226 | 11,266 |
| Amortization of purchased intangible assets | 967 | 783 | 604 |
| In-process research and development charges | 45 | 190 | 52 |
| Restructuring charges | 270 | 387 | 158 |
| Acquisition-related charges | 41 | — | — |
| Pension curtailments and pension settlements, net | — | (517) | — |
| Total operating expenses | <u>107,891</u> | <u>95,567</u> | <u>85,098</u> |
| Earnings from operations | <u>10,473</u> | <u>8,719</u> | <u>6,560</u> |
| Interest and other, net | — | 458 | 631 |
| Earnings before taxes | <u>10,473</u> | <u>9,177</u> | <u>7,191</u> |
| Provision for taxes | <u>2,144</u> | <u>1,913</u> | <u>993</u> |
| Net earnings | <u>\$ 8,329</u> | <u>\$ 7,264</u> | <u>\$ 6,198</u> |
| Net earnings per share: | | | |
| Basic | <u>\$ 3.35</u> | <u>\$ 2.76</u> | <u>\$ 2.23</u> |
| Diluted | <u>\$ 3.25</u> | <u>\$ 2.68</u> | <u>\$ 2.18</u> |
| Weighted-average shares used to compute net earnings per share: | | | |
| Basic | <u>2,483</u> | <u>2,630</u> | <u>2,782</u> |
| Diluted | <u>2,567</u> | <u>2,716</u> | <u>2,852</u> |

The accompanying notes are an integral part of these Consolidated Financial Statements.