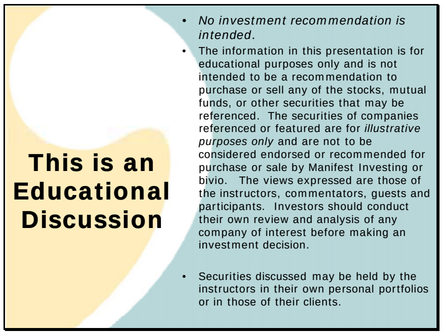
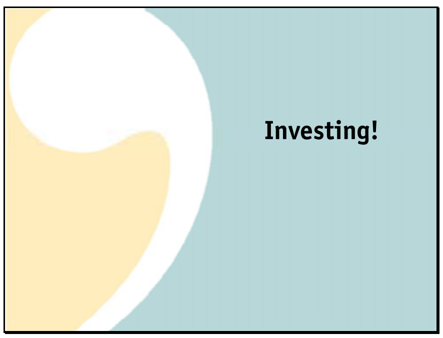
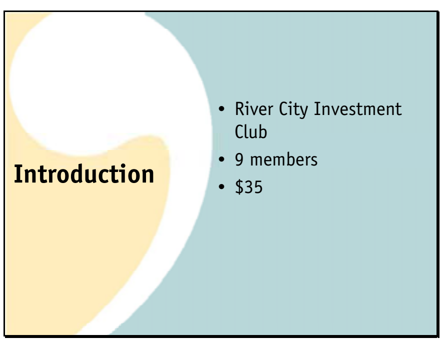




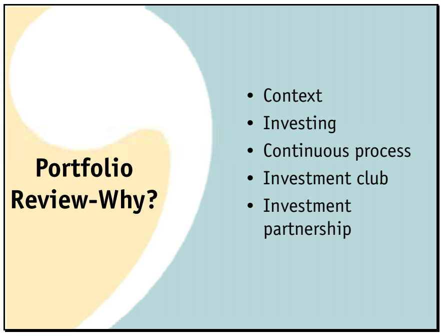
Since investing is the focus of your club meetings, we usually start these presentations with a discussion of how to do a portfolio review and a demonstration using an actual club portfolio. I always like to encourage you to imagine your club meeting is actually a group of analysts, sitting around a nice conference table in a nice office building somewhere. Imagine your group is managing a mutual fund. Imagine how your meeting would be structured and the types of discussions you would have.



We are lucky enough to have the portfolio from the River City Investment Club from California to use for our demonstration tonight.

They've shared with me that they have had as many as 18 members which they actually found a bit unwieldy.
They now have 9 members whom they describe as very motivated and engaged.

They invest a minimum of $35 a month. They set $5 of that aside each month for club expenses.



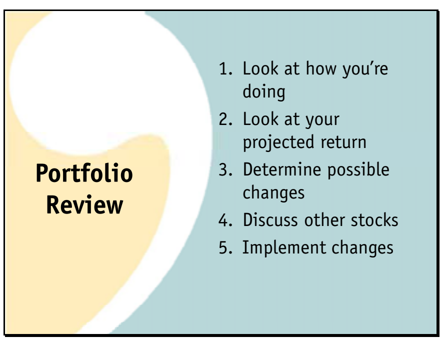
It’s important to start your investing discussion with a portfolio review. Looking at your stocks in the context of overall portfolio return will help focus and guide your investing activities.

Investing is not just about buying stocks. It’s about managing a portfolio of investments to try and achieve the highest possible rate of return. We’ve been taught to go shopping and pick new stocks but that’s only part of what you need to understand to make money. Letting go of stocks whose projected return has diminished is as important as buying good stocks in the first place.

Maintaining a club portfolio is a continuous monitoring and improvement process.

Your club is probably a group of friends with a common interest.

But it is also important to think of yourselves as an investment partnership which is managing a portfolio for maximum return. Remember the visual I asked you to create at the beginning of this section? Think of yourselves as a business, managing a mutual fund. Each one of you is an analyst researching companies. As a group, you are putting together all the pieces to develop the best portfolio you can.



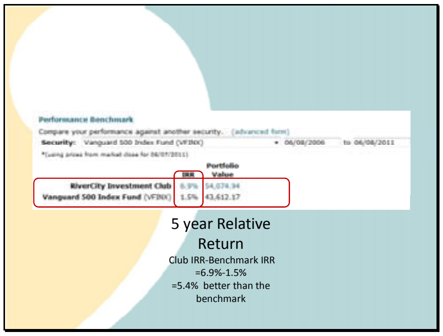
These are the steps you should follow to structure your portfolio review

- Look at how you’re doing
- Look at how your portfolio is projected to perform
- Determine possible changes
- Study other stocks
- Implement Changes

Step one is a very important step. For some reason, (perhaps fear), we don’t do this often enough. But you need to be able to measure to determine if you are making progress.

The place to go in bivio to see how you’re doing is called the Performance Benchmark Report.

You get to it from the reports page.



This report is called a performance benchmark report because it compares your rate of return to another investment . You select the investment you want to compare to and the time period over which you want to make the comparison

In this case we are comparing the club results to the same investment in the Vanguard Index 500 fund. You can compare to almost anything that has a ticker symbol. We choose the Vanguard Index 500 fund because it is a middle of the road investment, commonly recommended to those who are not actively trying to choose investments.

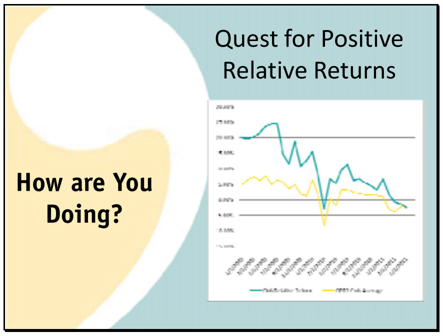
The report provides you with a value for IRR or Annualized Internal rate of return. One way I think of this value is to think of it as a CD rate. Each time money was invested in your club during the time period the report covers, you achieved the same return that you would have if you had invested it into a CD paying the IRR interest rate.

What’s interesting is to track “relative Return”

this is the difference between the return you achieved by your club investment management efforts and the return you would have received if you had done a lot less work and just purchased shares of your benchmark investment.

The longer the time frame you are using to evaluate Relative return, the harder it is to come up with a positive value.

The relative return for this club for the past 5 year period is +5.4%. This is excellent. It is not easy to accomplish.



It's interesting to keep an eye on the trend in your club's relative return.

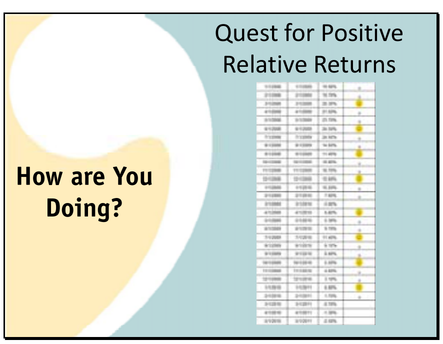
Here's a graph for the same club for successive 12 month periods since the beginning of 2008. At bivio, we are encouraging clubs to join our Quest for Positive Relative Returns. If you'd like to participate, we'll make a graph like this for your club and add a link to your club pages to see it. Just email us at support@bivio.com to let us know you'd like one.

You'll notice that the trend in relative return for this club recently has been downward but still positive. It would be extremely difficult to maintain the level of relative returns that is seen in the earlier time periods on this graph. It is interesting to look at your trend and think about what investing decisions you were making during different time periods and what was going on in general in the stock market.

One thing I've noticed when making lots of these graphs, is that many clubs performed better than the market when it was doing badly in late 2008 but have had a harder time beating the current market which is doing much better. Different types of stocks will do well in different market situations.

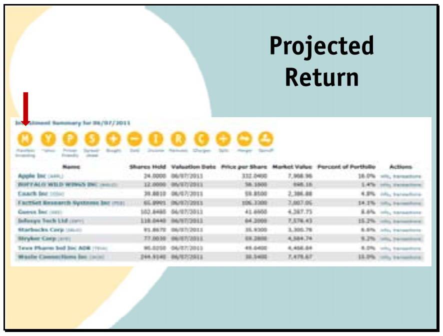
While their trend in relative return is a little down lately, it's not necessarily because their stocks haven't been doing well. It's probably more because the market is particularly hard to beat at this point. Different types of investments will do well in different types of markets.

If you'd like to get a sense of how your club is doing compared to other clubs, I've added a line on these graphs that shows the average relative returns for all the clubs participating in the Quest for Positive relative returns. So far, it looks like this club is soundly ahead of the pack.



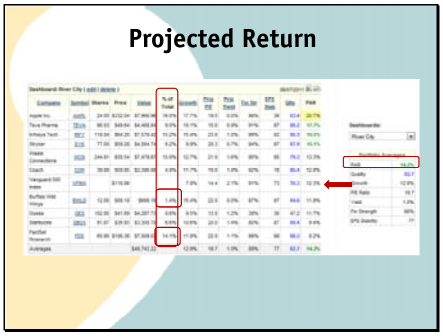
In addition to the graph,

we're having some fun by rewarding you bivio "friends" when ever you meet certain benchmark goals. You have the potential to earn a green friend for every 4 yellow friends. Green friends earn you bivio bucks toward your subscription renewal. If you'd like to participate, just email support@bivio.com



Once you know how your club has done so far, you'll go on to step 2 of the portfolio review process. How is your portfolio projected to do in the future? One of the ways you can do that is by looking at a list of your club holdings in a ManifestInvesting dashboard.

You can access this using the Manifest button on the Accounting>Investments page.



During this step, it’s interesting to compare the projected return of your portfolio to the projected return of the benchmark. This is a ManifestInvesting dashboard. ManifestInvesting compiles analysts projections about company fundamentals to come up with a projected return for each of the stocks you own.   When combined and weighted by the amounts you own of each,

A Projected Annual Return or PAR is calculated for your entire portfolio.   To beat the benchmark, you want your portolio projected return to be

greater than the projected return for the benchmark. You can see that is the case for this club, despite the fact that some of their individual stocks have a slightly lower projected return than the benchmark.

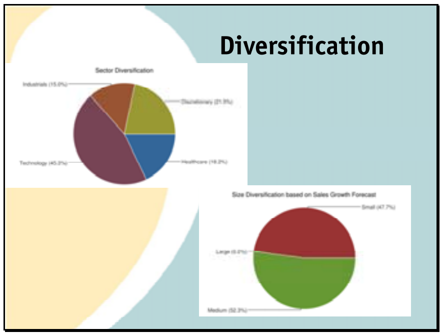
This club has the same question many clubs have which is how do you decide when it’s time to sell a stock. If you want to look for candidates to sell, you might start with whether you need to sell anything. The projected return for this portfolio looks pretty good. If that is not the case, you might look at those with projected returns significantly lower than the benchmark. If you want to look for those to buy, you might start with holdings you already have with the highest projected returns or holdings with a good projected return that you don’t have enough of.

The percentage of Buffalo Wild Wings shown here is pretty small compared to the other stocks and it still shows a good potential return projection.

The percentage of FDS, (whose PAR is still good but is the lowest in this portfolio), is a bit high. Probably because FDS has done really well lately. Perhaps this is showing them an opportunity to rebalance things.

This column shows the percentage of each holding that you have in your portfolio. Don’t forget the rule of 5 when you own stocks. Out of every 5 stocks you own, one will probably do better than you expect, one will probably do worse and the remaining 3 will probably perform as you expected. It’s important to keep the size of each holding large enough that it will have an impact if it works out but not so large that it will decimate your portfolio if it doesn’t. It’s also important that you not have more stocks than you can do a good job following.

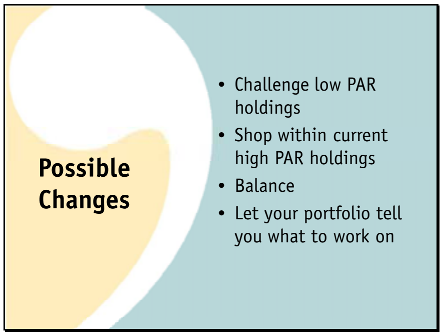
Don’t forget that if you’re looking for stocks to buy, it might make more sense to buy some more of a company you are already familiar with than to add an entirely new company to your portfolio.



Of course, when managing a portfolio, it also helps to keep an eye on your diversification. When you pull up your club portfolio in Manifest, you will also see diversification charts.

Here's the River City sector diversification. It's good to keep somewhat diversified by sector since at different times, different sectors will be "in favor". Sector diversification often happens naturally if you are picking stocks based on projected return. As sectors rotate out of favor for whatever economic reason, the projected returns of many of the companies in them increase. It's often a good time to buy so that you can take advantage of the increase in prices as the economy changes and the sector rotates back into favor.

It's also good to have a balance of steady growing, reliable, "core" stocks that will provide stability and consistency to your portfolio along with companies that are growing much faster and may have higher potential for return but whose business activities are probably a bit more volatile. The faster growing stocks might require a bit more sophisticated monitoring and attention each quarter to make sure you can still count on them to provide a benefit, but they do have a place and will help to "juice" up your return when it gets harder to beat the broader market.



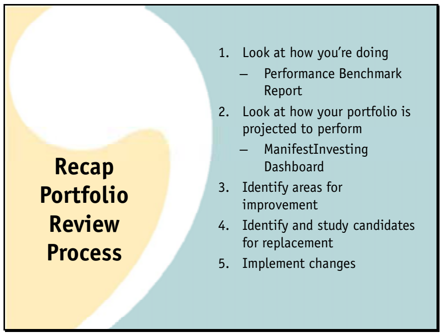
Once you've determined where your portfolio stands, you will have a better idea of your problem areas which will give you some direction to decide what stocks to study.

Do you need to increase the growth projections for your portfolio by replacing lower growth potential stocks with higher quality alternatives? What stocks might be dragging your projected return down? Possible sell candidates!

What higher potential return stocks might you add to your portfolio? These are your stock study candidates. Don't be afraid to add to holdings you already own. You are familiar with following those companies already so adding additional shares doesn't create an additional stock watcher burden.

Keep an eye on trying to stay nicely diversified by holding percentage, industry and growth rate
Are you over/underweighted in any stocks, sectors or growth potential categories? Don't stress about this too much but keep an eye on how things stand. This thought process might also lead you to possible sell candidates or help guide your search efforts for new stocks.

In general, look for companies that will fill in holes in your portfolio. Let your portfolio tell you what you need to focus on. Don't look for companies first and then just stuff them into the mix.

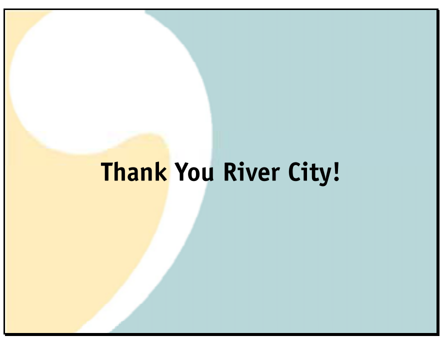


In summary, that is the portfolio review process.

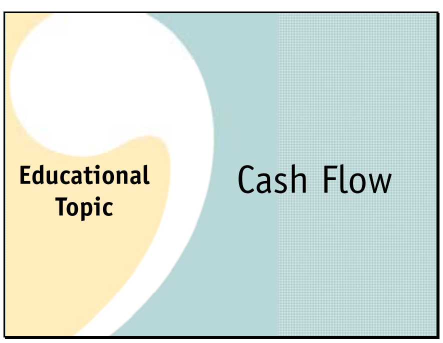
- Look at how you're doing
  Performance Benchmark Report
- Look at how your portfolio is projected to perform
  ManifestInvesting Dashboard
- Identify areas for improvement
- Identify and study candidates for replacement
- Implement changes

Keep the visual of you all around the big conference table in the room surrounded by windows in the fancy high rise office building. You want to manage your fund (aka your club portfolio) to achieve maximum return for your investors (aka The members of your club)

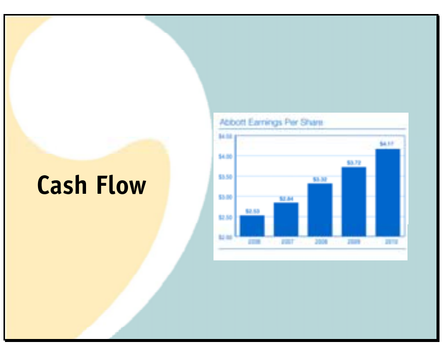
Structure your thought process and your stock selection process around a portfolio review and you should find that your portfolio will tell you when to buy and sell and what to buy and sell.



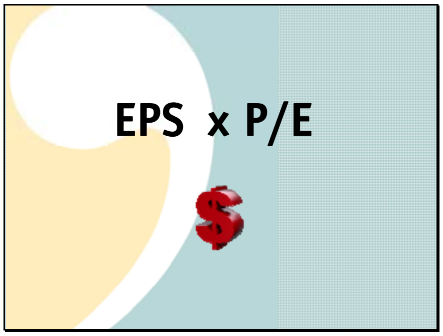
Thank you River City investment club for letting us use your portfolio for tonights demonstration.



For tonights educational topic we'll be discussing cash flow. What it is and how you might use it to help you follow your stocks.



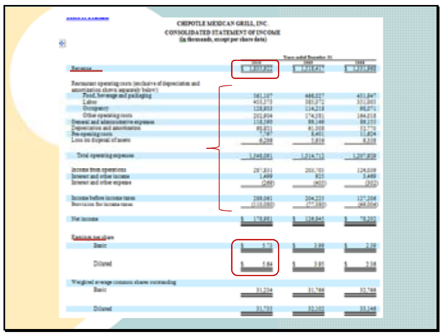
So what do we mean when we talk about cash flow? To begin to understand, lets talk about Earnings.



We use earnings per share to make our investing decisions. We make a judgment about how we think earnings will grow in the future

and then we multiply the future earnings per share times our judgment about the future Price to Earnings ratio to get a

Prediction of future stock price. By comparing this with the current price, we decide whether we'll make money purchasing a stock at todays price.

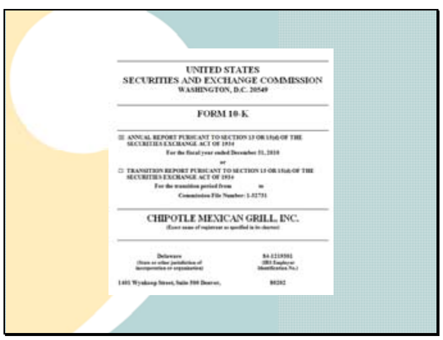


Earnings per share is the

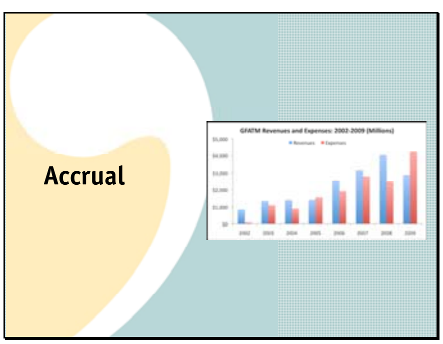
final value you find on an one of the four basic financial reports called an Income statement. It is the amount that is left after

all the expenses for the period are subtracted from the

sales or revenue, shown at the top.

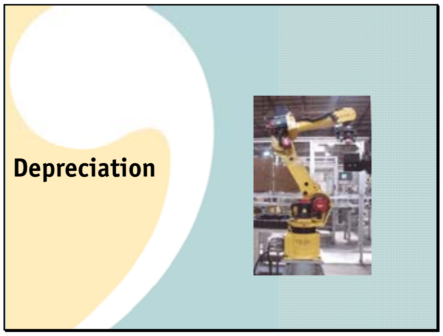


Earnings are reported each quarter by publicly traded companies in their financial reports and quarterly conference calls.



An income statement is prepared using what is called accrual accounting.

In accrual accounting, expenses are matched with revenues. That means they are subtracted during the time period the revenue they generate occurs, not necessarily when the expenses are actually paid. This sometimes requires the use of accounting estimates and judgments. Since you are making projections about the future using the earnings number it is important to have a feel for the "quality" of the number being reported.



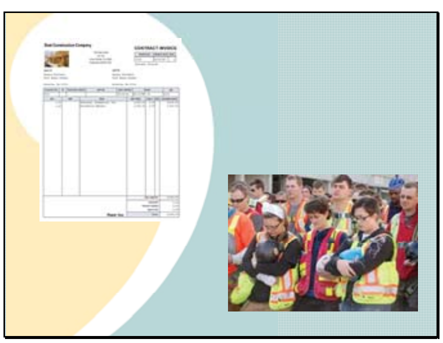
For example, if I purchase a piece of equipment to operate my business, I will pay for it today, but I may use it to produce income for months or years to come.
Rather than deducting the entire expense for the machine on the day I pay it, I deduct a little bit of it's cost, during each time period I use it to produce revenue. This type of expense is called depreciation. Determining how much to expense requires the use of accounting estimates. I need to estimate what the life of the equipment will be and what it's salvage value will be when I eventually get rid of it. I also need to estimate how long it will be useful.

Another example of accounting for an expense using the accrual method is accounting for the expense of a product I am selling. I do not deduct the cost of all inventory I purchase when I purchase it. I only deduct the value of the inventory sold during the time period the financial report covers.

Using accrual accounting also means that I record income when a customer receives a service or product, not necessarily when I receive payment. Some of the sales reported on an income statement may have been made on

credit rather than

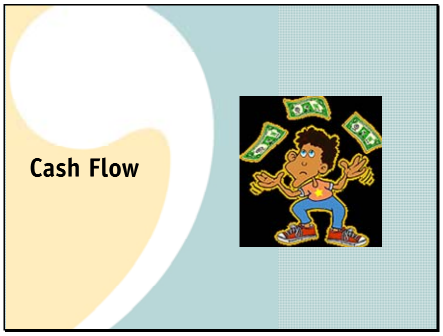
cash.



So net income is useful for telling me whether my expenses are less than my revenues and my business is profitable, but it does not tell me if I have enough cash to pay my expenses when they arise.

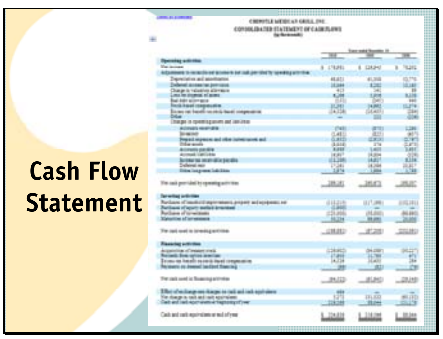
If you've ever given someone an invoice, you might have been in a situation where you had earned money performing work but you weren't going to be paid right away. On an accrual based income statement the revenue would be reported as soon as you had completed the work. So would the expenses for any employees who helped you complete the job.

But in real life, all you might have is an invoice and no cash in your checking account.
This might make it difficult for you to cover your daily expenses such as payroll. You might even have to borrow money to keep your operations going.

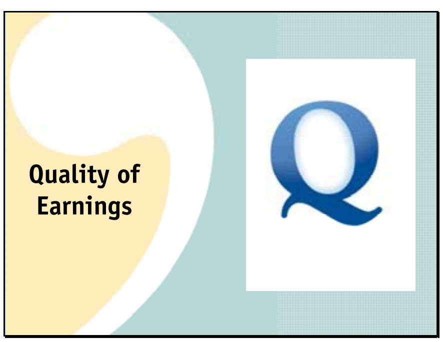


Managing cash flow is one of the most important tasks management needs to accomplish. Just as important as making sure that revenues exceed expenses.

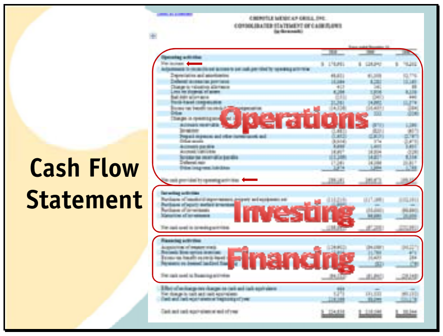
A company's earnings only tell us part of the story about the state of a company's finances. This is why, in addition to how much accrual based income they earn, companies must show us how much cash their business is generating and how it is being used. This is important information that can give us further insight into the state of their finances and help us make better predictions about what their earnings might be in the future.



Companies need to make sure their actual cash inflows are keeping up with their outflows. An analysis of a companys cash position is reported on the cash flow statement. It is one of the four financial statements required in quarterly reports. Many of the numbers reported on an income statement are based on estimates and accounting judgments. Because the cash flow statement shows the movement of actual cash, it is not as easy to manipulate.



Many feel that cash is a more "real" number than accrual based income and the cash flow statement gives valuable insight into what many refer to as the "quality" of the reported earnings. Quality might be thought of as the ability to use the reported earnings to base future earnings projections on.



The cash flow statement is divided into three parts.

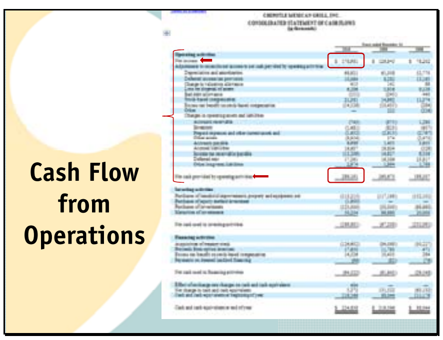
The first section shows Cash flow from operations. This is where the

accrual based net income number is adjusted to show the

actual cash produced from operations. This is done by adding back non cash expenses such as depreciation and subtracting additional uses of cash such as inventory increases in excess of amounts sold during the period.

The second section shows Cash flow from investing-These are cash inflows and outflows from acquiring and selling investments and other capital items such as property, plant and equipment. It also shows cash received from lending money and collecting loans.

The final section shows cash flow from financing- This is the cash flow related to financing activities such as issuing and repaying debt, issuing and repurchasing stock and returning equity to shareholders by paying dividends.



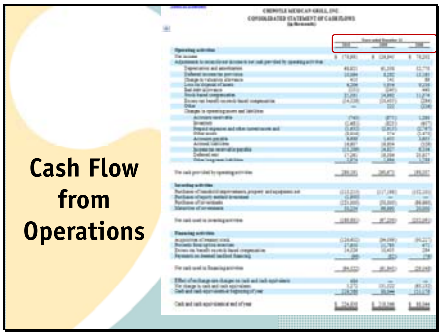
In the Cash flow from operations section you find out how much of the

net income reported on the income statement ,

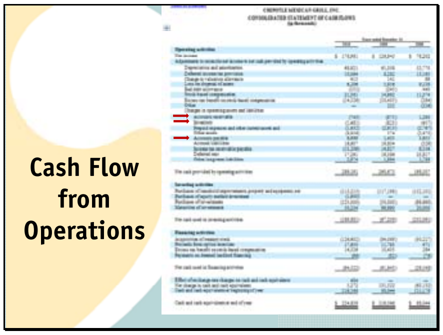
was actually cash that the company could use to cover it's day to day cash needs. Ideally, you want the

amount of cash flow from operations to be equal to or greater than the

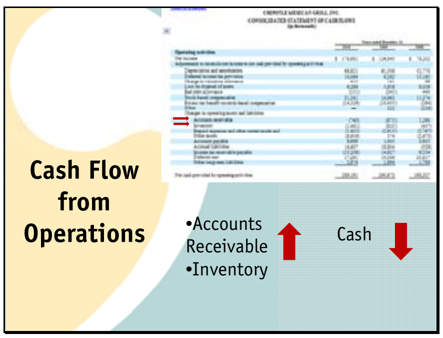
amount of net income. This is a cash flow statement for Chipotle from their 2010 annual report. You can see that they have a very healthy amount of cash being generated by their regular operations. For every dollar in accrual based net income they are reporting, they are actually generating $1.61 in cash. This is because some of the expenses they needed to report on the income statement such as depreciation did not involve a cash outflow during the period being reported.



You will always be given cash flow information for the same time period for previous years for comparision. A good quick check is to compare the line items for the different years. If you see significant differences, it is usually valuable to understand why. They will usually be explained in the notes in the financial reports and sometimes even in the earnings conference calls.



Three interesting lines to keep an eye on in this section are the change in Accounts Receivable, Inventory and Accounts payable.

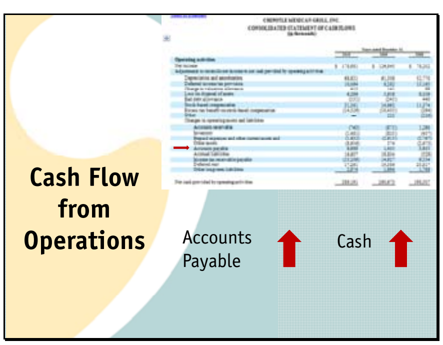


When Accounts Receivable and Inventory go up,

cash goes down.

So, if you see a negative amount for these items, it means they have increased during the reported time period. If you see big changes, or the changes seem a lot different from previous years, it's important to understand why. It is reasonable that these amounts would go up by a similar percentage to any increase in sales. But if Accounts Receivable is growing faster than sales, it may mean the company is generating sales by offering more generous credit terms. This can sometimes be an indication of trouble. It's important to research this further.

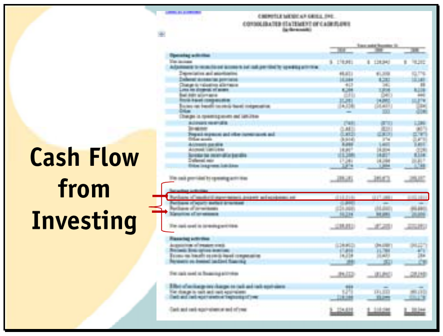
Inventory growing faster than sales is also a bad sign. A company may have misjudged future sales. Excess inventory may mean future earnings will be impacted by inventory writedowns or a decrease in sales due to pricing adjustments.



When Accounts Payable go up,

cash increases because you are taking longer to pay bills.

A large positive amount on this line may also be a red flag. A company that needs cash may delay paying it's suppliers. This is not a healthy sign. Again, it's important to understand why this is happening.

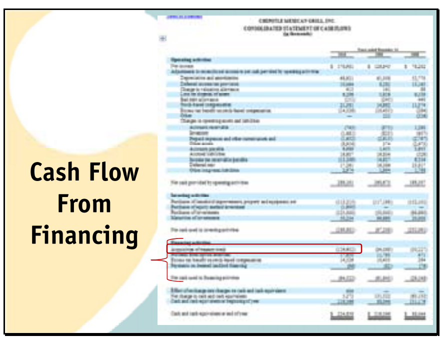


The second part of a cash flow statement shows the cash flow from investing activities, which generally include purchases or sales of long-term assets, such as property, plant and equipment, as well as investment securities.

If a company buys a piece of machinery, the cash flow statement shows this as a cash outflow from investing activities because it uses cash.

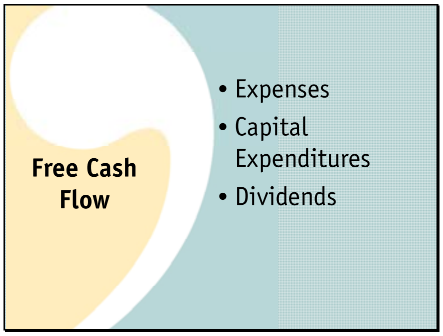
If a company has invested in bonds, they will have a cash inflow when they mature.

We can see here that Chipotle is making regular investments in capital improvements. Probably the extra cash being generated from their operations is allowing them to do so. This is a good sign. It's a bad sign if cash flow from operations is less than net income and you see that a company appears to be selling investments or capital equipment to generate enough cash to cover it's operating requirements.



The third part of a cash flow statement shows the cash flow from financing activities. In this section you can find out if a company is issuing new shares of stock and changing their long term debt by issuing or repaying bonds. You can also find how much cash they are using to pay dividends.

If a company is buying back it's own shares, it is also shown here. The repurchased shares are called Treasury stock. We can see here that Chipotle is using some of it's cash to buy back shares. This is something that may be a good sign for you as an investor since they do not pay a dividend. But it may also mean that they need shares to distribute to employees as stock options. If there is no net decrease in shares over time, you do not get much benefit from stock repurchases.
In this section, if you see a company is taking on debt or issuing shares of stock and it looks like it is doing so to cover it's operating cash flow, this might be a warning sign.

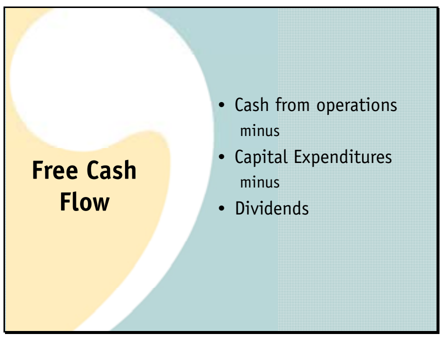


The more cash a company generates, the more flexibility it has to expand and to reward it's investors. As investors, we like to know that a company is generating enough cash to

cover it's daily expenses.

We also like to see it making smart capital investments to grow and we

really like to see we are going to be regularly rewarded with a dividend.



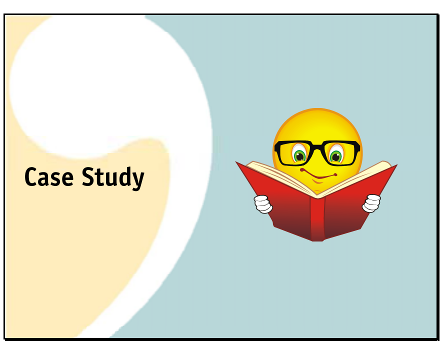
A simple calculation you can do to see how easily a company might accomplish these goals is called free cash flow.

One common definition of free cash flow is Cash from operations

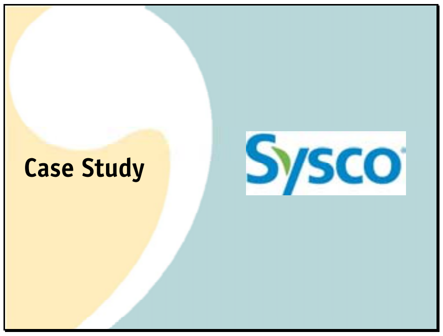
Minus Capital Expenditures. The value for cash from operations is found as the bottom line in the first section of the cash flow report. The value for capital expenditures is found in the second section, the investing section.

If a company pays a dividend, that is also often seen as a commitment that must be covered by cash before it is put to other uses so this is also

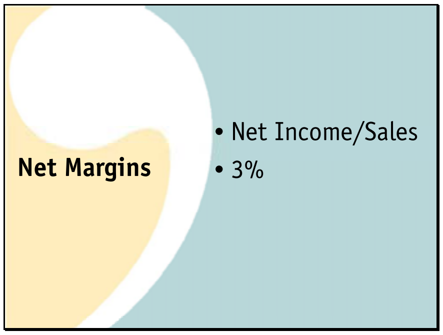
sometimes subtracted to get the true free cash.
If the free cash flow is positive, you know you own a company that has a lot of flexibility to do things like pay down debt, make acquisitions or repurchase shares.



If you understand some basics, financial statements can tell you a story. You might even find that a cash flow statement will tell you a completely different story from the income statement.

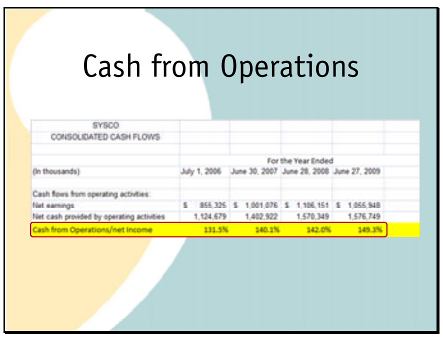


Here's a recent story told by the Sysco cash flow statements. Many of you may be familiar with Sysco. They provide food and supplies to restaurants and institutional food service establishments. Sysco is known to be a very well managed company with a reliable and attractive dividend. Because of this, Sysco shares have historically commanded a premium in valuation. For a 10 year average earnings per share growth of 11.58, Sysco currently sells at a P/E of 15.9. Compare this to Apple with a 10 year average earnings per share growth of 30.11 which is only selling at a slightly higher current P/E of 16.5.



The restaurant supply business is not a high margin one.

Sysco's net margins are only around 3%. But it has historically been able to generate a lot of cash, allowing it to grow it's business by acquisition and pay the attractive dividend mentioned earlier.

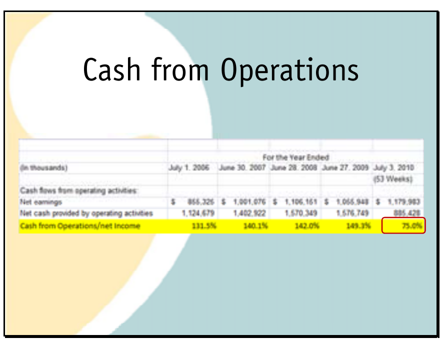


SYSCO
CONSOLIDATED CASH FLOWS

	For the Year Ended			
(In thousands)	July 1, 2006	June 30, 2007	June 28, 2008	June 27, 2009
Cash flows from operating activities:				
Net earnings	$ 855,325	$ 1,001,076	$ 1,106,151	$ 1,055,948
Net cash provided by operating activities	1,124,679	1,402,922	1,570,349	1,576,749
Cash from Operations/net Income	131.5%	140.1%	142.0%	149.3%

From the first section on their cash flow statement, for their fiscal years 2006-2009,

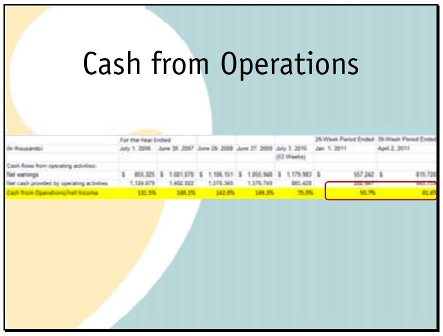
we can see by doing the simple calculation mentioned earlier to compare cash from operations to net income, that Sysco has historically been able to generate an excess of cash from their operations. This has allowed them to make acquisitions, invest in capital improvements and pay a nice dividend.



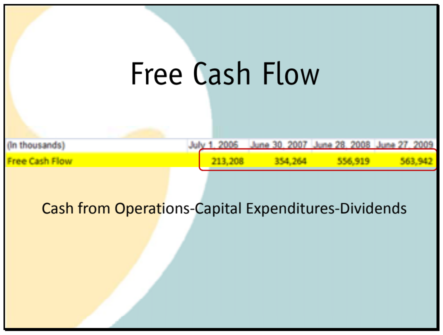
	For the Year Ended				
(In thousands)	July 1, 2006	June 30, 2007	June 28, 2008	June 27, 2009	July 3, 2010 (53 Weeks)
Cash flows from operating activities:					
Net earnings	$ 855,325	$ 1,001,076	$ 1,106,151	$ 1,055,948	$ 1,179,983
Net cash provided by operating activities	1,124,679	1,402,922	1,570,349	1,576,749	885,428
Cash from Operations/net Income	131.5%	140.1%	142.0%	149.3%	75.0%

But it turns out some of the reason they had had the extra cash was because they had taken a tax position that taxes on income from one of their divisions set up as a cooperative could be deferred. Unfortunately, in 2010, they received an unfavorable ruling from the IRS disallowing this treatment. Not only did they have to stop deferring taxes, they owed substantial back taxes, fines and penalties. In 2010, they had to pay the first portion of their settlement with the IRS. This is continuing in 2011 and 2012.

As you can see, in 2010, this cut their cash being generated from their operations to almost half the percentage it had been historically.

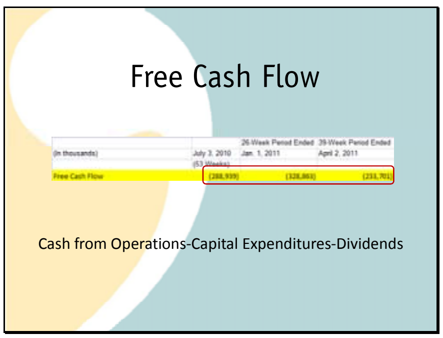


A similar trend has continued in the first 3 quarters of the current fiscal year.



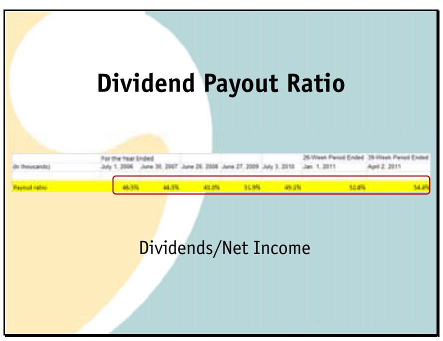
If we look at their free cash flow we can see that historically,

their cash from operations allowed them to fund their capital expenditures and pay their dividend with cash left over.



But for 2011, their

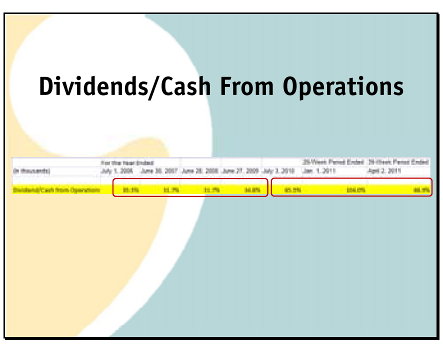
free cash flow has been negative.   Meaning that funding their dividend has meant they have had to use cash reserves and even take on some extra debt.



The dividend issue is not seen as dramatically in the more common fundamental used to keep an eye on whether dividends are safe, called the Payout ratio.

Payout ratio is defined as Dividends paid divided by net income

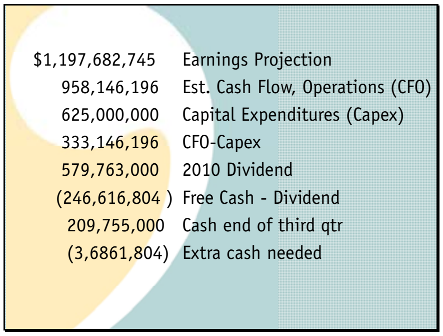
As you can see here, it has crept up, but not to alarming levels.



But if we look at dividends paid compared to cash from operations,

The story looks a bit more disturbing. You can see that prior to the 2011 fiscal year, this percentage has been around 35%.

It has been much higher than that this year.



$1,197,682,745	Earnings Projection
958,146,196	Est. Cash Flow, Operations (CFO)
625,000,000	Capital Expenditures (Capex)
333,146,196	CFO-Capex
579,763,000	2010 Dividend
(246,616,804)	Free Cash - Dividend
209,755,000	Cash end of third qtr
(3,6861,804)	Extra cash needed

Let's try and assimilate some of this information to try get a sense of what might be coming. Analysts have recently revised Sysco fiscal year earnings projections upward to 1.5% higher than last year. This would mean earnings would be:

$1,197,682,745

If cash flow from operations holds at the 80% level, it will end up as: $958,146,196

In their recent third quarter earnings conference call they indicated they have decreased their capital expenditures projection to 625000000-650000000.

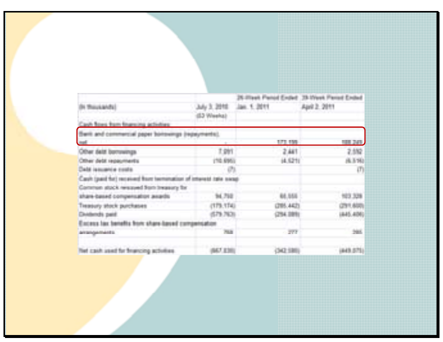
Subtracting the low end of this range would leave $333,146,196.

Their dividend payout for the 2010 fiscal year was $579,763,000.

Meaning they would be short $246,616,804 and would have to draw from their cash reserves to cover it.

At the end of the third quarter their cash reserves stood at $209,755,000.

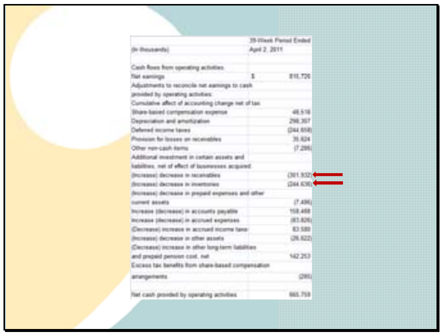
Meaning they would still be short almost $4 million dollars needed to cover the dividend, let alone have any cash available for making acquisitions and repurchasing shares.



(In thousands)	July 3, 2010 (53 Weeks)	26-Week Period Ended Jan. 1, 2011	39-Week Period Ended April 2, 2011
Cash flows from financing activities:			
Bank and commercial paper borrowings (repayments), net	-	173,155	188,249
Other debt borrowings	7,091	2,441	2,592
Other debt repayments	(10,695)	(4,521)	(6,316)
Debt issuance costs	(7)		(7)
Cash (paid for) received from termination of interest rate swap			
Common stock reissued from treasury for share-based compensation awards	94,750	60,555	103,328
Treasury stock purchases	(179,174)	(285,442)	(291,600)
Dividends paid	(579,763)	(294,089)	(445,406)
Excess tax benefits from share-based compensation arrangements	768	277	285
Net cash used for financing activities	(667,835)	(342,585)	(449,075)

In the financing section of the cash flow statement

we can already see that there has been an increase in long term debt borrowings this year.

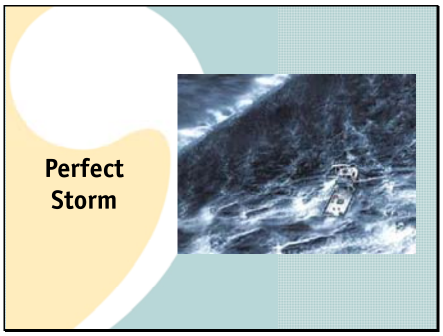


(In thousands)	39-Week Period Ended April 2, 2011	
Cash flows from operating activities:		
Net earnings	$	815,726
Adjustments to reconcile net earnings to cash provided by operating activities:		
Cumulative affect of accounting change net of tax		
Share-based compensation expense		48,518
Depreciation and amortization		298,307
Deferred income taxes		(244,658)
Provision for losses on receivables		35,824
Other non-cash items		(7,299)
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) decrease in receivables		(301,932)
(Increase) decrease in inventories		(244,636)
(Increase) decrease in prepaid expenses and other current assets		(7,496)
Increase (decrease) in accounts payable		158,488
Increase (decrease) in accrued expenses		(63,826)
(Decrease) increase in accrued income taxes		83,589
(Increase) decrease in other assets		(26,822)
(Decrease) increase in other long-term liabilities and prepaid pension cost, net		142,253
Excess tax benefits from share-based compensation arrangements		(295)
Net cash provided by operating activities		665,759

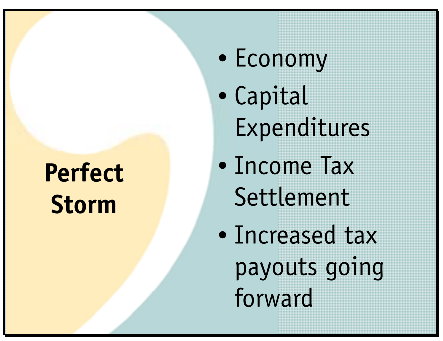
In addition to this information, the cash flow statement shows us that

receivables and

inventory have increased pretty substantially in the first ¾ of the fiscal year. In the most recent quarter, sales increased by 9.1%, but receivables increased by 11% and Inventory increased by 17%. This is something to keep an eye on. An increase in sales due to more extension of credit or an inventory build up are not positive signs.



If nothing else, if you own or are considering a purchase of this stock, I hope this analysis has given you some things to watch out for in subsequent earnings reports. Sysco is a good company but it is up against some tough headwinds.
If you own the stock, the cash flow statement has shown you things are not quite as good as the recent earnings report which showed a 9% increase in sales and a 4.8% increase in earnings. Some of the sales growth may have come from a more generous extension of credit. The earnings growth came about because of a lower tax rate than the previous year. Sysco is facing a perfect storm.



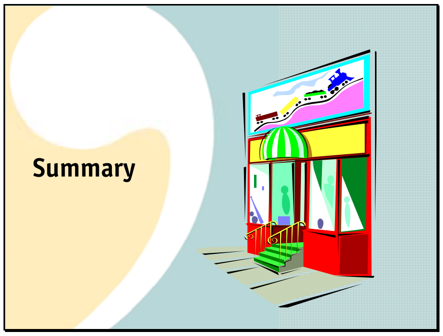
It's a bad time in the economy. The restaurant business is not doing so well and their sales have been pressured.

In addition, they've taken on an ambitious capital improvement plan.

They have large extra income tax settlement payments due this year and next

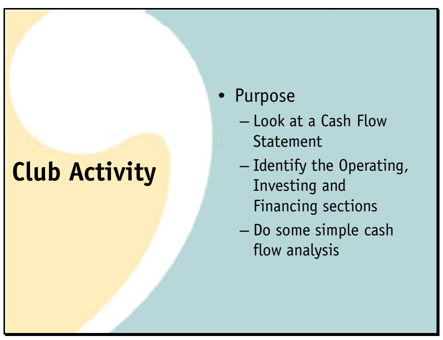
And they will have an increase in taxes payable each year going forward due to the elimination of the tax deferral. It looks like for a while, Sysco is going to have cash flow pressure. This could bring on extra expenses in the form of interest payments on debt.
If sales and margins don't recover soon for Sysco, they will be facing more near term headwinds trying to maintain their net income increases as they have in the past. If things really get tight, the reliability of their dividend may be in question.

Sysco is a very well managed company. Hopefully things will be improving for them soon. They do expect to come out of this eventually. But they have emphasized in online presentations as recently as June 2, that things are the worst they've ever seen and that everyone should expect choppiness for a while. If you own this as an investment, it might mean you won't see much movement in the stock price until the economy picks up and people start going out to eat again like they used to.



The goal of this presentation was not to turn you into an accountant but to give you some more insight into thinking like a business owner when you own a stock. There is information from the cash flow statement that can provide you potential insight into future earnings results. Since earnings drive stock prices, the more you understand the potential changes in a companies revenue and expenses, the better you will get at understanding why a stock price is behaving as it is. If you want to know why a stocks price is stagnating, it might be because others are seeing these things also.

With a little practice, you can start to pick them out and improve your stock picking efforts in the process!



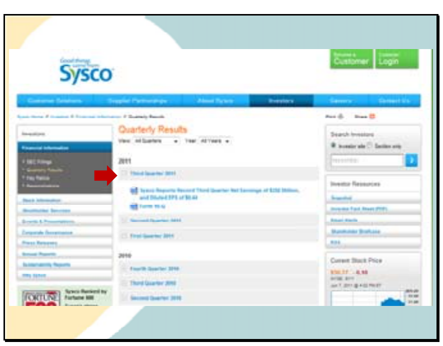
I hope I have at least peaked your interest in looking at a cash flow statement. As I've shown there is lots of good stuff to learn there about the operations of the business you own a piece of. Much of it is very easy to read and understand and all of it will help you to make better investing decisions about a company. So how might you get started? Here's an idea for a club activity.

It's purpose is to help you

Look at a Cash Flow Statement

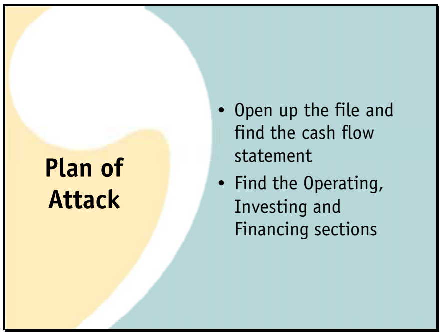
Identify the Operating, Investing and Financing sections

Do some simple cash flow analysis



First of all, I'd suggest you get up your courage by finding the

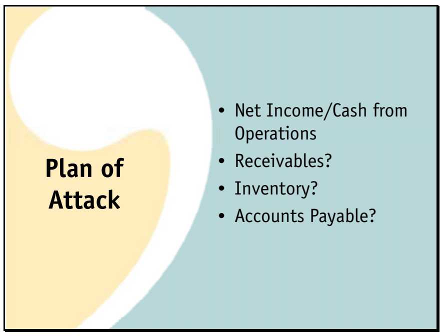
latest annual or quarterly report with the latest cash flow statement in it for a company your club owns. I find that the nicest versions of these can be found on the company websites in their investor relations sections.



To get your momentum going,

open up the file and find the cash flow statement,

Find the Operating, Investing and Financing sections



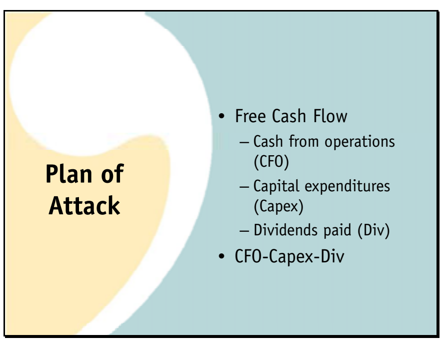
Compare the

net income at the top of the operating section to the Cash from operations at the bottom of that section. Are the companies operations producing or consuming cash? What are the major items that appear to be influencing this?

Are their receivables or

inventory increasing (negative amounts)?

How about their accounts payable? (positive amount).
If anything looks out of line, what does management say about it in the report or in their earnings conference call?



See if you can calculate the free cash flow.

Start with the cash from operations at the bottom of the first section.

See if you can find the capital expenditures in the second section, the investing section. It might be called something like Additions to plant and equipment. If there is also a line for sales of plant and equipment, you should net the two amounts.

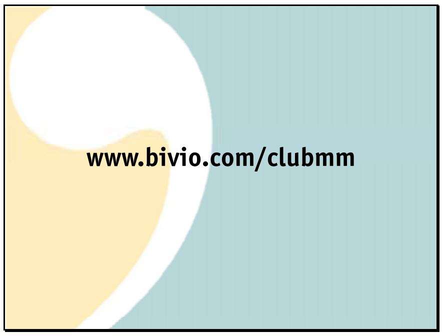
Finally, if your company pays a dividend, you'll find a line for dividends paid in the third section, the financing section.

Subtract the three amounts. Is there still cash left over? If not, do you see in the financing section where additional debt or shares of stock are being issued? What is company management saying about that? Does this create any concerns for you about how their earnings will be growing in the future?

And that’s it.

Pat yourselves on the back. You’ve taken another step into understanding more about the business of a company you own. You’re positioning yourself better to understand what might be coming for their future earnings and therefore what might be happening

to their stock price going forward!



Thank you for coming tonight. Just a reminder that you can find this presentation already posted as a PDF file on the clubMM website at this address. We’ll also post the recording as soon as we’re able to get it edited.

Questions?