

1. A present value of a dollar amount to be received or paid in the future is the value of that amount in current dollars, arrived at by discounting the future dollar amount at some interest rate. Algebraically:  $PV = FV / (1+r)^n$  where PV = present value, FV = Future value, n = number of periods, and r = discount rate.

2. Estimates of future operating cash flows normally begin with an estimate of future income which, in turn, begin with sales forecasts.

3. The changes in current asset and current liability accounts must be included in estimated future cash flows because income is expressed on the accrual basis, where an item may be included in revenue or expense which has not yet resulted in a cash flow (accruals) or an item may result in a cash flow which has not yet been recorded as revenue or expense (unearned revenues and prepaid expenses). Thus, the change in current asset and current liability accounts converts the accrual based income statement into the future cash flow projections.

4. Coldwater Creek is a retailer of women's apparel, jewelry, gifts, and soft home accessories, primarily marketing its merchandise through targeted catalog mailings.

5. Coldwater Creek's balance sheet contains current and long-term assets called "deferred catalog costs," along with "executive loans" which might be considered unusual accounts.

6. Depreciation expense was found in the Statement of Cash Flows. This is needed to correctly project the capital expenditures required to support Coldwater's earnings process.

7. The indirect cash flow statement backs into the free cash flow available by projecting the cash flow from operations using projected income and adjusting for non-cash charges and changes in current assets and current liabilities. It then deducts cash flows for projected investments and the required increase in cash to determine the free cash flow.

8. Projected cash flows for the next five years were computed. Then, a second computation was made projecting the cash flows beyond the fifth year.

9. Projected cash flows beyond the forecast horizon contributed more than projected cash flows over the forecast horizon. Because the cash flows over the forecast horizon occur earlier, discounting leads them to have a higher present value, dollar for dollar, than cash flows received beyond the forecast horizon. Therefore, it must be the case that more cash flow is received beyond the forecast horizon than over it. There are two reasons that this is the case. First, the forecast horizon is short (five years), so only a few years' cash flows are included in it. Second, Coldwater is growing over the forecast horizon, and that growth saps cash flow. Beyond the forecast horizon, Coldwater is in steady-state, and its cash flows per year are higher relative to those in the forecast horizon.

10. The auditor's report tells the investor that the financial statements are reliable and are prepared in accordance with generally accepted accounting principles.

11. A benchmark is a quantitative comparative statistic that can be used to judge the performance of a company. A time-series benchmark is based on the past performance of the company, and is used to compare the company to itself at different points in time.

12. Cross-sectional analysis compares a company's results at the same point in time to the results of comparable companies. Cross-sectional benchmarks are the comparison points in this analysis.

13. Time-series analysis provides information about the relative performance of the company compared to itself. Cross-sectional analysis allows a comparison with similar companies to determine if the company has performed well or poorly relative to other companies in the same industry.

14. The current ratio provides information about liquidity.

15. The quick ratio is a more conservative look at liquidity. It only includes highly liquid current assets in the computation, leaving out the less liquid assets such as inventory and prepaid expenses.

16. SIC stands for "Standard Industrial Classification." SIC codes put firms in groups using criteria relating to the businesses in which the firms operate.

17. By using SIC codes, the analyst is able to find companies in the same industry as the company being analyzed. Comparative cross-sectional data and ratio analysis are more meaningful if being compared to companies in the same industry.

18. Growth is important, since most predictions of income statement items depend on projected sales. Growth will affect future net income, free cash flows, and ultimately, the valuation of the company.