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S&P 500: Untaxed Foreign Earnings in 2015 Kept Growing

Untaxed foreign earnings are full of paradoxes. A single untaxed dollar is worth more to net income than one-and-a-half times a dollar that's taxed. They can be a tremendous source of earnings power for a company, yet for all of their importance to earnings and their continued growth, there's scarcely a mention of them in the financial statements. They can account for all of the earnings of a firm, but you can only read about them if you read between the lines of the footnotes. The Management's Discussion & Analysis, with its focus on presenting a firm's performance, resources, and liquidity "through the eyes of management," is no more helpful than the basic financial statement package.

Despite the lack of robust disclosures, some information is available from 10-Ks. In 2015, the total amount of cumulative untaxed, undistributed foreign earnings at 312 S&P 500 firms reached \$2.246 trillion – about the same size as India's GDP. The total dollar amount of untaxed earnings created in 2015 equaled that of 2014, but it mattered more in 2015 because total earnings declined.

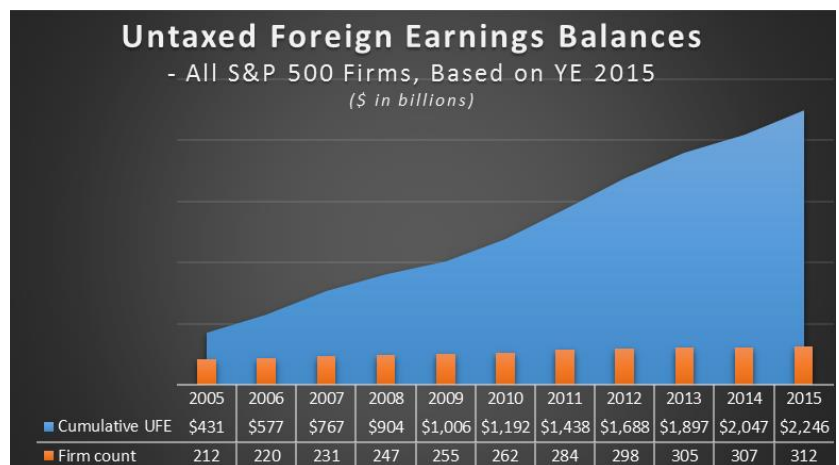
Investors have become complacent on the subject, but the Treasury Department might give them a wake-up call. If a proposed change becomes law, it might make current cash management practices much more difficult to accomplish without triggering tax liabilities. Intentions to "indefinitely reinvest" might not be enough to escape liability.

I. Going Global

"Indefinitely reinvested earnings," or untaxed foreign earnings (UFE), hasn't garnered the same kind of attention in the financial media as in the past. Two possible reasons: there's an election coming up, in case you hadn't heard; and just plain old topic fatigue. After all, the presence of untaxed foreign earnings hasn't made any company's stock crater; and while the subject smacks of legal edginess and unfairness, it's not illegal. The nuances of the subject don't make it any more vibrant: most news stories ruin the distinction between "earnings" and "cash balances." Maybe it's a good thing the press isn't all over it.

With an election, however, untaxed foreign earnings just might become a hot topic once again, if "populist" candidates decide to use it as a campaign tool. Just don't expect them to address real tax code reform - the only real fix.

The graph at right shows the dollar count of the *balances* of untaxed foreign earnings for the last eleven years – emphasis on "balances." The main dollar disclosure required by accounting standards is the cumulative amount of untaxed foreign earnings. The dollar amount of net income contribution ascribed to no-tax earnings for every year presented would interest investors, but it's not required.



The graph also shows the count of companies with these earnings balances, with a much less-striking trend.

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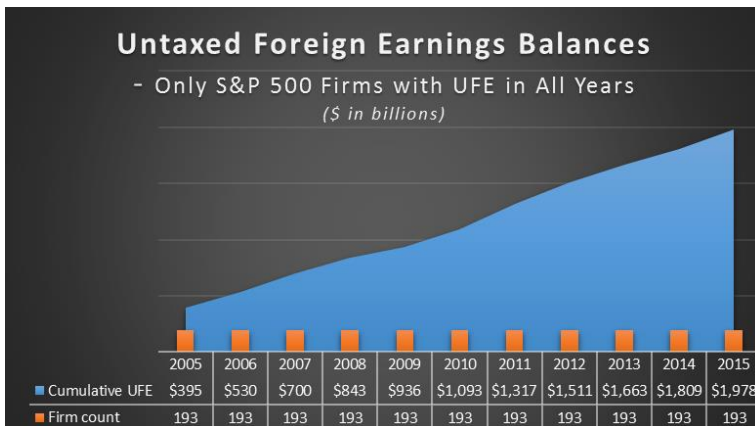
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Executive Summary

- Untaxed foreign earnings have existed for years. The minimal disclosures surrounding them make them one of the best kept secrets of multinational firms.
- For 312 firms in the S&P 500, the cumulative untaxed earnings amounted to \$2.246 trillion at the end of 2015. The amount grew by about \$179.5 billion in 2015.
- Firms in the information technology and health care sectors are the ones most likely to take advantage of the “indefinite reinvestment assumption” which allows them to forgo accruing deferred taxes on certain foreign earnings.
- Firms have indefinitely reinvested earnings that eventually turn into cash, but cannot take them out of a particular country as a distribution, lest they trigger a tax liability. To avoid this, they’ll frequently move cash within a company as intra-company loans. The Treasury Department has proposed regulations that would severely restrict these actions.
- If 325 firms had fully taxed their earnings in 2015, it could have reduced the S&P’s earnings by over 8%.
- There are no current FASB plans in the works to change the recognition or measurement of untaxed foreign earnings; however, incremental disclosures are in the works.



You might think that the trend in accumulated untaxed earnings balances is being driven by the increasing number of companies. That’s only partially correct. Take a look at the graph at left: it shows the accumulated untaxed foreign earnings balances for *only* the 193 companies showing such balances in all 11 years.

It’s scarcely different from the first graph, hinting that this is a big issue for only big companies. Between the two measures, the 2015 ending difference is only \$268 million, out of \$2.2 trillion dollars.

The point: cumulative untaxed foreign earnings is still growing – and anything growing is worth examining.

The Difference Between Cumulative Undistributed/Untaxed Earnings and Cash

Before examining them more closely, however, it’s the right time to distinguish between “untaxed foreign earnings” and “foreign cash holdings.” An illustration with an excerpt from the Management’s Discussion & Analysis contained in **Oracle Corporation’s** 10-K will help:

Cash, cash equivalents and marketable securities included \$42.7 billion held by our foreign subsidiaries as of May 31, 2015. We consider \$38.0 billion of our undistributed earnings as indefinitely reinvested in our foreign operations outside the United States. These undistributed earnings would be subject to U.S. income tax if repatriated to the United States. Assuming a full utilization of the foreign tax credits, the potential deferred tax liability associated with these undistributed earnings would be approximately \$11.8 billion as of May 31, 2015 should the amounts be repatriated to the United States. The amount of cash, cash equivalents and marketable securities that we report in U.S. Dollars for a significant portion of the cash, cash equivalents and marketable securities balances held by our foreign subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period...

Unpack that statement a bit at a time. There are \$38.0 billion of undistributed foreign earnings – earnings that have built up over time, and have not been taxed. As long as they’re not distributed, and remain indefinitely reinvested in the foreign operations, they remain untaxed. Remember: They’re not a cash balance, any more than the retained earnings figure in the balance sheet is a cash balance. Any untaxed, indefinitely reinvested earnings should turn into cash eventually: receivables get collected, deposits get released, payables get paid, and so on – but there’s no way to link the changes from accumulated earnings into cash balances. It would be as foolish as trying to make a correlation between the amount of retained earnings and cash balances.

Now consider the cash balances: the foreign subsidiaries hold \$42.7 billion of cash and quasi-cash at the end of last May. When the foreign cash information is presented immediately near the accumulated untaxed earnings figures, it might be natural to see them as cause and effect – even though they’re not directly related. “\$42.7 billion held by our foreign subsidiaries” is not the same thing as \$42.7 billion of cash generated by those foreign subsidiaries. The cash held by the foreign subsidiaries might have been grown in the United States and transferred to foreign subsidiaries for any number of reasons. Further clouding the issue: the effect of foreign exchange rates on cash.¹ The translation adjustment for foreign currency exchange rates can change the value of those holdings significantly – whether they evolved from indefinitely reinvested foreign earnings or whether they resulted from a U.S. wire transfer. The balances as of the last day of the year could also change in the blink of an eye the very next day. There is simply no valuable information contained in the foreign cash holdings figure at the end of the year.

¹ For more on the dollar’s effect on balance sheets, see Volume 24, No. 4, “S&P 500: The Silent Havoc From The Almighty Dollar,” March 2015, and Volume 24, No. 7, “S&P 500: How The Dollar Ate Equity In 1Q15,” June 2015.

The table below shows how the balances have been building up over the last decade, by sector. The green shading indicates sectors with above-average balances; the red shading indicates below average balances. Notice that over time, the large amounts of accumulated untaxed foreign earnings has become more concentrated in the information technology, health care, industrial, and consumer staples sectors, and more dispersed everywhere else. In particular, the information technology sector has mushroomed from less than 13% of the 2006 total balances to over 30% in 2015. Notice as well that the average balance is nearly three times as much in 2015 as it was in 2006. As companies have grown, so have their undistributed, untaxed foreign earnings balances. At the end of 2015, the S&P 500 included 312 firms sitting on earnings (not cash!) amounting to \$2.25 trillion – nearly 10% growth from 2014.

S&P 500: Year End Balance of Accumulated Foreign Earnings

(\$ in billions)	Firms		% of											% of Total
	(2015)	2015	Total	2014	2013	2012	2011	2010	2009	2008	2007	2006		
Information Technology	57	\$680.7	30.3%	\$584.1	\$501.4	\$417.3	\$331.2	\$250.9	\$191.1	\$150.7	\$111.9	\$72.9	12.6%	
Health Care	43	460.9	20.5%	411.0	388.3	359.5	305.6	262.2	223.0	210.2	174.0	124.0	21.5%	
Industrials	47	268.9	12.0%	266.3	247.6	225.8	183.1	158.7	139.6	124.3	104.2	74.0	12.8%	
Consumer Staples	30	229.3	10.2%	221.1	202.6	187.6	168.9	141.7	123.0	101.5	85.0	68.5	11.9%	
Financials	36	213.5	9.5%	195.9	181.8	166.3	147.2	128.4	108.3	84.6	81.0	59.4	10.3%	
Energy	15	153.5	6.8%	146.9	161.9	142.5	133.8	116.2	109.1	132.4	122.4	104.1	18.0%	
Consumer Discretionary	56	133.8	6.0%	125.8	124.5	108.4	95.3	70.8	55.3	47.6	39.5	31.5	5.5%	
Materials	24	95.0	4.2%	87.9	78.4	72.0	66.0	58.0	52.8	48.9	45.5	37.8	6.5%	
Utilities	3	8.8	0.4%	6.5	8.7	7.0	5.6	3.9	3.1	3.0	2.5	2.1	0.4%	
Telecom	1	1.8	0.1%	1.3	2.1	1.8	1.5	1.2	1.1	0.8	0.9	3.0	0.5%	
Total	312	\$2,246.1	100.0%	\$2,046.9	\$1,897.4	\$1,688.3	\$1,438.2	\$1,192.0	\$1,006.3	\$904.1	\$766.8	\$577.2	100.0%	
YTY change:		9.7%		7.9%	12.4%	17.4%	20.7%	18.5%	11.3%	17.9%	32.8%	33.9%		
Firm count		312		307	305	298	284	262	255	247	231	220		
Average UFE balance:		\$7.20		\$6.67	\$6.22	\$5.67	\$5.06	\$4.55	\$3.95	\$3.66	\$3.32	\$2.62		

It's not the same thing as cash awaiting taxation if the firms bring it back to the United States as a distribution, like a dividend to the U.S. parent. It's actually more valuable than that: because it represents earnings, and because it's intended to be reinvested indefinitely, it can be used as a tool for shaping earnings and earnings expectations. An intention to indefinitely reinvest foreign earnings is not a zero-sum game: a firm's managers can indefinitely reinvest a portion of accumulated foreign earnings while remitting a portion of those earnings, or accruing deferred tax liabilities for a future distribution of earnings. By changing intentions about the amount of foreign earnings to be reinvested, a firm can affect its current tax rate. If overseas profits come in ahead of plans, they can intend to invest less of the earnings and accrue deferred income taxes on some or all of those profits – and if there's a need for profits later, they can change their intentions again. On a stock selling at say, 25 times earnings, the ability to manage the tax rate skillfully is very valuable – and especially so, if the management has a lot of equity-based compensation.

Estimating the Untaxed/Undistributed Foreign Earnings by Year

The table below presents the estimated earnings by discrete years. It's estimated, because, it's only the difference between the ending balance for a given year with the previous year balance subtracted from it. Assuming no dividends, acquisitions, or sales, this amount represents the amount of untaxed foreign earnings for the year.

Estimated Untaxed Foreign Earnings

(\$ in billions)	2015		% of		2014	2013	2012	2011	2010	2009	2008	2007	2006	% of Total
	Total	% Change	Total	% Change										
Information Technology	\$94.3	52.6%	5.5%	\$89.4	\$82.8	\$84.9	\$76.5	\$59.7	\$38.1	\$35.9	\$35.5	\$16.7	13.3%	
Health Care	35.2	19.6%	71.6%	20.5	26.5	32.2	22.1	26.3	26.6	26.8	24.8	25.4	20.3%	
Financials	15.9	8.8%	8.7%	14.6	15.5	17.0	18.6	18.2	23.6	21.7	21.6	14.3	11.4%	
Industrials	12.2	6.8%	-34.1%	18.5	21.0	21.5	22.6	17.9	14.4	20.0	23.1	18.1	14.4%	
Consumer Discretionary	8.1	4.5%	47.7%	5.5	15.0	12.2	12.2	6.8	7.6	6.0	8.0	5.6	4.5%	
Energy	7.2	4.0%	-6.7%	7.8	22.5	8.7	13.4	0.8	(21.9)	12.9	16.0	22.1	17.6%	
Consumer Staples	3.5	1.9%	-78.6%	16.1	13.9	15.7	24.7	16.1	20.0	14.0	14.5	17.9	14.2%	
Utilities	2.0	1.1%	566.7%	0.3	1.7	1.4	1.6	0.9	0.1	0.5	0.3	0.4	0.3%	
Materials	0.7	0.4%	-91.1%	7.6	6.4	6.0	7.3	5.2	3.9	3.2	7.7	5.0	4.0%	
Telecom	0.5	0.3%	162.5%	(0.8)	0.3	0.3	0.3	0.1	0.3	(0.1)	(2.1)	0.0	0.0%	
Total untaxed foreign earnings	\$179.5	100.0%	0.0%	\$179.5	\$205.6	\$199.9	\$199.1	\$151.8	\$112.8	\$140.9	\$149.6	\$125.5	100.0%	
Total S&P 500 earnings	\$791.4		-14.0%	\$920.3	\$889.8	\$783.1	\$706.6	\$566.9	\$259.7	\$619.6	\$651.9			
% of total earnings from UFE	22.7%			19.5%	23.1%	25.5%	24.4%	21.5%	19.9%	54.3%	24.1%	19.3%		
YTY change:	-14.0%			-12.7%	2.8%	0.4%	31.1%	34.5%	-19.9%	-5.8%	19.2%			

The table omits the companies involved in spinner/spinnee transactions. Both the current and prior years' cumulative untaxed foreign earnings balances is required to estimate a given year's untaxed earnings, and there are not two years of balance amounts available for either company when a spinoff occurs. The 21 excluded companies are Abbott Labs/AbbVie (both are R.G. Associates, Inc. holdings – see back page); Baxalta/Baxter International; Columbia Pipeline Group/NISource; Conoco Phillips/Phillips 66; Ebay/PayPal Holdings; Expedia/TripAdvisor; Kraft Heinz/Mondelez; Marathon Oil/Marathon Petroleum; Navient; News Corp./Twenty-First Century Fox; and Pfizer/Zoetis. Again, green shading indicates sectors with above-average estimated UFE; the red shading indicates below average UFE.

Again, the information technology and health care sectors have greater and growing shares of the estimated untaxed earnings than the other sectors. While the estimated untaxed earnings were completely flat compared to 2014, S&P 500 net earnings decreased 14%. The untaxed foreign earnings were important for total earnings: 22.7% of all earnings. A dollar of untaxed earnings is equivalent to \$1.54 of earnings taxed at 35%, so to achieve the same level of diminished profits, the firms would have had to generate \$276.43 billion more taxed profits – no mean feat.

Where Did The “Indefinite Reinvestment Assumption” Come From?

Sometimes called the “APB 23 indefinite reinvestment assumption” after APB Opinion 23 was issued in 1972, this accounting gift has really been around since 1959, with the issuance of Accounting Research Bulletin No. 51. From its paragraph 16:

... Where it is reasonable to assume that a part or all of the undistributed earnings of a subsidiary will be transferred to the parent in a taxable distribution, provision for related income taxes should be made on an estimated basis at the time the earnings are included in consolidated income, unless these taxes are immaterial in amount when effect is given, for example, to dividend-received deductions or foreign-tax credits. There is no need to provide for income tax to the parent company in cases where the income has been, or there is evidence that it will be, permanently invested by the subsidiaries, or where the only likely distribution would be in the form of a tax-free liquidation. Emphasis added: notice that firms are not required to take this route. There is simply no need to provide for income tax. A firm could just as legitimately choose to accrue deferred taxes on such earnings.

Codified at least since 1959, carried forward in 1972, and carried forward in standards again in 1992 when FASB overhauled taxes with Statement 109, the “intention” of managers in their tax planning has always held a sacred status in the tax accounting literature. In 2004, as part of the convergence projects between the FASB and the IASB, revocation of the assumption was studied because the IASB tax accounting standard did not have a similar exception. Finally, the IASB standard was modified to conform more closely to the APB 23 exception. Convergence, however unintended, was achieved.

How Untaxed Foreign Earnings Compares to Reported Earnings

By their definition, untaxed/undistributed foreign earnings have a different character than what is usually understood to be net income. Because they must be “indefinitely reinvested” in another country, they are unavailable to shareholders when they are earned. In fact, if earnings of a certain amount are unavailable to shareholders, then it might be argued that they aren’t earnings after all – another entity has a claim on them ahead of shareholders. They’re not available for distribution to shareholders until taxes are accrued or paid on them.

It makes sense, then, to find the degree to which companies depend on the high-octane untaxed foreign earnings. The table below shows, by sector, the significance of the estimated untaxed/undistributed foreign earnings to overall reported net income. The red shading indicates sectors where the UFE is more than 10% of the net income.

Where Untaxed Foreign Earnings (UFE) Matter to Reported Earnings, By Sector

(\$ in billions)	2015				2014				2013				2012				2011			
	Firms 2015	Est. UFE	Net Income	% of Net	Est. UFE	Net Income	% of Net	Est. UFE	Net Income	% of Net	Est. UFE	Net Income	% of Net	Est. UFE	Net Income	% of Net	Est. UFE	Net Income	% of Net	
Utilities	2	\$2.0	\$3.1	65.6%	\$0.3	\$2.8	10.5%	\$1.7	\$5.2	32.6%	\$1.4	\$4.5	31.2%	\$1.6	\$4.6	33.8%				
Information Technology	53	\$94.3	173.5	54.4%	\$89.4	182.6	48.9%	82.8	168.2	49.2%	84.9	142.6	59.6%	76.5	148.9	51.4%				
Health Care	36	35.2	78.6	44.7%	20.5	78.0	26.3%	26.5	55.3	47.9%	32.2	43.1	74.6%	22.1	47.8	46.2%				
Industrials	46	12.2	64.8	18.8%	18.5	83.4	22.2%	21.0	73.1	28.7%	21.5	60.4	35.6%	22.6	61.0	37.0%				
Consumer Discretionary	52	8.1	84.5	9.6%	5.5	71.0	7.7%	15.0	66.4	22.5%	12.2	62.1	19.6%	12.2	72.2	16.9%				
Financials	35	15.9	173.3	9.2%	14.6	142.8	10.2%	15.5	135.0	11.5%	17.0	107.1	15.9%	18.6	104.1	17.9%				
Consumer Staples	28	3.5	66.7	5.2%	16.1	72.5	22.2%	13.9	77.6	18.0%	15.7	70.0	22.5%	24.7	70.4	35.1%				
Materials	22	0.7	23.3	2.9%	7.6	23.1	33.0%	6.4	21.6	29.8%	6.0	18.3	32.7%	7.3	20.4	35.7%				
Telecom Services	1	0.5	18.4	2.7%	(0.8)	12.0	-6.7%	0.3	23.5	1.3%	0.3	10.6	2.8%	0.3	10.2	2.9%				
Energy	13	7.2	(6.0)	-120.3%	7.8	72.2	10.8%	22.5	81.7	27.5%	8.7	96.6	9.0%	13.4	95.6	14.0%				
Total	288	\$179.5	\$680.0	26.4%	\$179.5	\$740.5	24.2%	\$205.6	\$707.6	29.1%	\$199.9	\$615.3	32.5%	\$199.1	\$635.3	31.3%				
Company count		288			284			282			270			252						

As usual, the information technology and health care sectors consistently show the greatest estimated contribution to reported earnings from untaxed/undistributed foreign earnings. While consistently above 10% of total earnings, the industrials sector has lessened its contribution from them. Though the utilities sector appears to be a serious UFE practitioner, it’s a fluke: the concentration is in just two companies, Sempra Energy and PPL Corp.

How Untaxed Foreign Earnings Compares to Non-GAAP Earnings

The U.S. markets are effectively operating on a two-basis reporting system: GAAP for SEC filings, and non-GAAP when companies communicate with investors. For non-GAAP earnings reporters with untaxed foreign earnings, the red shading in the table below again indicates an untaxed earnings presence greater than 10% in non-GAAP earnings.

Where Untaxed Foreign Earnings (UFE) Matter to Non-GAAP Earnings, By Sector

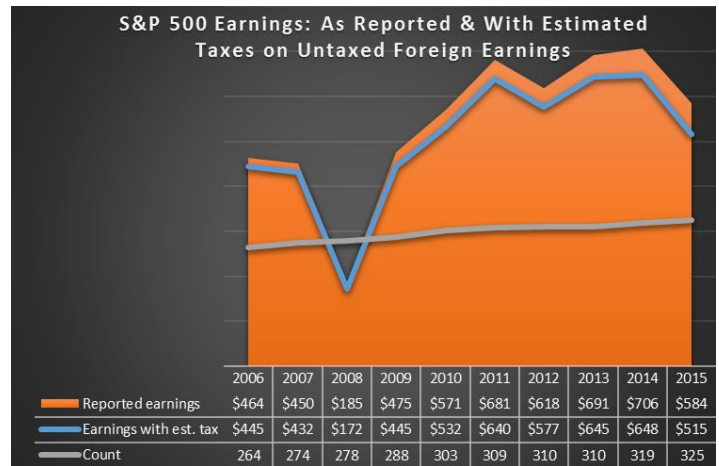
(\$ in billions)	2015				2014				2013				2012				2011			
	Firms 2015	Est. UFE	N-G Earnings	% of Total	Est. UFE	N-G Earnings	% of Total	Est. UFE	N-G Earnings	% of Total	Est. UFE	N-G Earnings	% of Total	Est. UFE	N-G Earnings	% of Total	Est. UFE	N-G Earnings	% of Total	
Utilities	2	\$2.0	\$2.8	71.5%	\$0.3	\$2.5	11.9%	\$1.7	\$6.0	28.2%	\$1.4	\$5.3	26.6%	\$1.6	\$4.5	34.7%				
Information Technology	45	67.3	139.7	48.2%	\$68.9	139.8	49.3%	\$62.1	130.0	47.8%	65.6	141.8	46.2%	64.3	136.3	47.2%				
Health Care	36	35.2	106.4	33.0%	20.3	86.6	23.5%	25.8	68.0	38.0%	32.0	63.3	50.6%	21.8	60.5	36.0%				
Industrials	35	10.5	58.4	17.9%	17.6	62.7	28.1%	13.1	52.7	25.0%	13.8	46.4	29.8%	19.0	47.6	40.0%				
Financials	26	10.3	93.8	11.0%	7.4	62.3	11.8%	9.3	66.3	14.0%	12.1	53.6	22.5%	14.5	47.5	30.5%				
Consumer Discretionary	41	7.7	70.3	11.0%	4.9	54.7	8.9%	8.4	48.5	17.4%	7.6	39.0	19.4%	7.7	34.3	22.4%				
Consumer Staples	26	3.4	77.5	4.4%	15.9	76.8	20.7%	14.3	59.8	23.9%	12.7	55.6	22.8%	22.9	65.9	34.7%				
Materials	20	0.8	23.3	3.4%	7.4	22.5	32.7%	6.7	20.8	32.2%	5.1	16.9	30.0%	6.8	16.7	40.8%				
Telecom Services	1	0.5	16.3	3.1%	(0.8)	13.4	-6.0%	0.3	8.1	3.7%	0.3	6.4	4.7%	0.3	7.9	3.8%				
Energy	11	(2.5)	9.1	-27.0%	(0.6)	22.6	-2.8%	13.5	26.1	51.6%	10.7	21.9	48.7%	(4.7)	19.7	-23.7%				
Total	243	\$135.2	\$597.7	22.6%	\$141.2	\$543.9	26.0%	\$155.3	\$486.3	31.9%	\$161.2	\$450.1	35.8%	\$154.2	\$441.0	35.0%				
		243			226			217			204			189						

You would expect that untaxed foreign earnings would matter less to non-GAAP earnings, because they usually exceed reported earnings by excluding expenses. Surprisingly, it matters as much: not all firms report non-GAAP earnings, but those that do so are heavily steeped in untaxed foreign earnings.

If Untaxed Foreign Earnings Were Taxed Like Other Earnings

The “indefinite reinvestment assumption” is based on the flimsiest of evidence in the realm of financial accounting: intent. It all comes down to what management intends to do with its lower-taxed foreign profits. Remove that flexibility from the accounting standards, accrue deferred tax liabilities on income as it’s earned anywhere in the world, and net income would really mean net income available for shareholders.

The effect of the estimated amount of incremental tax expense is shown in the table below, and compared to the actual reported earnings. (An example of how to make the estimate is shown later.) The total estimated taxes avoided over the last decade: \$374.4 billion. Had the taxes been recognized, they would have decreased earnings in each year between 4.0% and 11.9% - a material difference.



S&P 500 Earnings: If Untaxed Foreign Earnings Were Like All Others

(\$ in billions)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Earnings with estimated tax	\$515.0	\$647.7	\$644.7	\$576.9	\$640.4	\$531.6	\$445.2	\$172.5	\$432.1	\$445.5
Earnings as reported, without tax	584.3	706.2	691.3	617.8	681.1	571.0	475.3	184.6	450.3	464.1
\$ difference	(\$69.3)	(\$58.4)	(\$46.6)	(\$40.8)	(\$40.7)	(\$39.4)	(\$30.2)	(\$12.1)	(\$18.3)	(\$18.6)
% difference	-11.9%	-8.3%	-6.7%	-6.6%	-6.0%	-6.9%	-6.3%	-6.5%	-4.1%	-4.0%
Accumulated taxes avoided	\$374.4	\$305.1	\$246.7	\$200.1	\$159.2	\$118.5	\$79.1	\$49.0	\$36.9	\$18.6
* Count	325	319	310	310	309	303	288	278	274	264

* Number of S&P 500 firms reporting enough information for estimation.

Effects Applied to All 500 Firms:

Earnings as reported, without tax	\$830.5	\$960.1	\$943.2	\$829.7	\$869.4	\$750.0	\$594.1	\$268.8	\$656.1	\$696.2
\$ difference from avoided taxes (from above)	(\$69.3)	(\$58.5)	(\$46.6)	(\$40.8)	(\$40.7)	(\$39.4)	(\$30.2)	(\$12.1)	(\$18.3)	(\$18.6)
% difference	-8.3%	-6.1%	-4.9%	-4.9%	-4.7%	-5.2%	-5.1%	-4.5%	-2.8%	-2.7%

Those differences were just for the companies where the calculation could be made. The bottom part of the panel shows the effect for those companies applied to the earnings of the entire S&P 500 for each year – and it’s still significant, ranging from a decrease in earnings of 2.7% to a high of 8.3%.

* * * * *

For investors, the whole problem with the untaxed foreign earnings isn’t a question of patriotism or fairness, although those aspects certainly belong in the debate over tax policy. It’s also not that lower earnings are “better” or “more conservative.” The problem is a question of character: the net income figure isn’t just a single dollar amount where each dollar within it has the same characteristics as all the other dollars. Investors look at the net income number – then use it to invent other non-GAAP measures – assuming all the while that the net income number means one thing: net income to be put to use for shareholders. The reality is that much of it is not available for them to use.

The net income unavailable to shareholders is not transparent at all – another problem with the untaxed foreign earnings. If an investor wants to learn about the source of a company’s earnings – and investors really do want to know what makes a company’s earnings grow – they have to dig deep into the tax notes and make a lot of assumptions about the nature of the earnings.

Companies like the flexibility of untaxed foreign earnings, naturally. It’s not just that it improves their earnings, making every point in a P/E ratio worth more; it also makes it possible for them to shape their earnings more precisely as discussed earlier. They might defend the practice of intending to reinvest indefinitely – remember, this is an elective practice – because they might do intracompany *lending* of cash, with repayment every 90 days, then immediately renewing it after repaying the loan. That way, the transaction is not a distribution, and triggers no tax liability; essentially, such a maneuver converts a cash balance into a cash flow.

It comes back to transparency, though. This kind of activity doesn’t show up in the financial statements anywhere, yet it’s a common practice. From a management standpoint, it’s making use of a strategy to save taxes by cleverly working around the edges of tax laws. Yet it also makes for a lot of activity that could carry regulatory risk, that is simply invisible to investors.

II. Narrowing Things Down

If you want something done, you've got to do it yourself. At least, that's the rule when it comes to figuring out the tax that would be incurred on the untaxed foreign earnings. That's something an investor might want to do as a way of testing a firm's dependency on low tax rates to sustain its earnings, or if trading partners somehow get their act together and stop undercutting each other's tax rates.

One can jury-rig an estimate that's at least better than accepting "zero" tax liability as an answer. Firms are required to disclose the amount of foreign pretax income, and also their foreign current and deferred income tax provisions. Based with these data points, the incremental deferred taxes on untaxed foreign earnings can be estimated. **Oracle Corporation** provides an example of how to estimate deferred taxes in the table below.

How it works: Start with the total foreign tax provision from the income tax footnote, and divide it by the foreign pretax income to determine an overall *foreign* tax rate. That calculated foreign tax rate is then subtracted from the 35% U.S. tax rate, leaving the incremental tax rate needed to tax all of a company's foreign GAAP income at the U.S. rate.

The incremental tax rate is then multiplied by the foreign pretax income, resulting in the incremental taxes that would be accrued if all foreign earnings were taxed at the U.S. statutory rate.

It's not perfect: there could be permanent differences between the GAAP foreign pretax income and the taxable income that would actually be reported on a tax basis. There's no way of knowing if these differences exist, so the necessary and simplifying assumption that they're about the same needs to be made. Still, it's better than choosing to ignore the possibility.

There's a much easier, and more accurate way to determine the incremental tax liability: firms are required to disclose the total incremental taxes that would be incurred if they repatriated the entire amount of the untaxed/undistributed foreign earnings – *if practicable*. Most companies avail themselves of that exception: out of all 312 firms disclosing an untaxed/undistributed foreign earnings balance in 2015, only 55 of them reported the incremental tax liability. When the firm provides the total incremental taxes each year, the change between the two balances is the amount of taxes that would have been recognized in the current year. In the Oracle example, the difference between the \$11.8 billion 2015 liability and the \$10.0 billion 2014 liability is \$1.8 billion - right on target with the 2015 estimate above, but the only year out of the five where it was close. The technique underestimated the unrecognized tax liability in the other four years, when compared to the disclosed potential liability change method.

Estimating Oracle's Deferred Income Tax Provision

(\$ in millions)	2015	2014	2013	2012	2011
<i>Foreign tax provision:</i>					
Current	\$981.0	\$1,047.0	\$1,116.0	\$1,104.0	\$1,037.0
Deferred	(\$94.0)	(\$80.0)	(\$20.0)	(\$272.0)	(\$88.0)
Total foreign tax provision	\$887.0	\$1,745.0	\$1,947.0	\$1,602.0	\$1,701.0
÷ Foreign pretax income	\$7,698.0	\$8,307.0	\$7,284.0	\$6,678.0	\$5,033.0
Foreign effective tax rate	11.5%	21.0%	26.7%	24.0%	33.8%
US statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%
Less foreign effective tax rate	-11.5%	-21.0%	-26.7%	-24.0%	-33.8%
Incremental deferred tax rate	23.5%	14.0%	8.3%	11.0%	1.2%
Applied to foreign PTI:					
Incremental deferred taxes	\$1,807.3	\$1,162.5	\$602.4	\$735.3	\$60.5

Source: S&P Research Insight database. Calculations by R.G. Associates, Inc.

Oracle: Reported Earnings Vs. (Estimated) Fully Taxed Earnings

(\$ in millions)	2015	2014	2013	2012	2011
Earnings as reported	\$10,051.0	\$11,053.0	\$11,037.0	\$10,100.0	\$8,644.0
Earnings with incremental deferred tax	\$8,242.0	\$9,109.2	\$9,580.2	\$8,597.5	\$7,833.7
% difference	-18.0%	-17.6%	-13.2%	-14.9%	-9.4%

Source: S&P Research Insight database. Calculations by R.G. Associates, Inc.

Even with an underestimated tax liability, the effect on the bottom line is still significant. The table at left shows the difference between Oracle's reported earnings and earnings with a full tax load.

The billion-dollar question: would the stock have traded at a higher multiple on lower earnings or traded lower at the same multiple? A corollary: if management had been required to accrue all income taxes as they were earned, would they have taken other capital allocation actions that would have improved the lot of shareholders in other ways? No answers exist – but this is no mere academic exercise in doodling with numbers. Investors should take an interest in which companies have the most sensitivity to losing the indefinite reinvestment birthright.

Why? Because of one certainty: governments are slowly but surely waking up to the loss of revenues from now-famous "inversions" and other earnings-stripping international maneuvers. The Treasury Department issued proposed regulations in early April that could put an end to intra-company loans as a means of moving cash around the world via loans by deeming them to be equity.² If that proposal became law, then the cash being moved around the world would be considered distributions – and that would trigger tax liabilities. Knowing which companies would be most affected might be very handy information for investors to know.

The table on the next page shows the 78 S&P 500 firms with a greater than 16% difference between reported net income and net income adjusted for an estimated full tax provision.

² For a short summary of the proposal, see <https://www.treasury.gov/press-center/press-releases/Pages/jl0404.aspx>

Greatest Difference Between Reported Earnings Vs. (Estimated) Fully Taxed Earnings

(\$ in millions)	2015 Foreign Income Tax			Foreign			Net Income			% Diff. in Net Income		
	Current	Deferred	Total	Pretax Income	Effective Tax Rate	35% Minus Foreign ETR	Incremental Deferred Taxes	Reported	Fully Loaded	2015	2014	2013
Pfizer	\$1,951.0	(\$284.0)	\$1,667.0	\$15,774.0	10.6%	24.4%	\$3,853.9	\$6,975.0	\$3,121.1	55.3%	41.4%	34.3%
Autodesk	69.5	(8.4)	61.1	302.5	20.2%	14.8%	44.8	81.8	37.0	54.7%	30.8%	33.3%
AbbVie *	313.0	11.0	324.0	7,683.0	4.2%	30.8%	2,365.1	5,144.0	2,779.0	46.0%	96.0%	42.9%
Zimmer Biomet Holdings	96.3	(23.4)	72.9	399.4	18.3%	16.7%	66.9	146.2	79.3	45.8%	13.5%	28.0%
Bristol-Myers Squibb	456.0	47.0	503.0	3,406.0	14.8%	20.2%	689.1	1,631.0	941.9	42.3%	26.3%	28.4%
PayPal Holdings	104.0	0.0	104.0	1,741.0	6.0%	29.0%	505.4	1,228.0	722.7	41.2%	0.0%	0.0%
Eaton	350.0	(195.0)	155.0	2,753.0	5.6%	29.4%	808.6	1,981.0	1,172.5	40.8%	42.3%	32.1%
Wynn Resorts	2.0	(1.1)	0.9	311.1	0.3%	34.7%	108.0	281.5	173.6	38.3%	30.1%	34.5%
Willis Towers Watson	66.0	(113.0)	(47.0)	275.0	-17.1%	52.1%	143.3	384.0	240.8	37.3%	5.7%	-0.3%
Expedia	69.4	(16.9)	52.4	901.6	5.8%	29.2%	263.1	722.7	459.6	36.4%	23.2%	28.7%
St. Jude Medical	56.0	0.0	56.0	1,035.0	5.4%	29.6%	306.3	866.0	559.8	35.4%	29.3%	24.9%
Corning	33.0	(120.0)	(87.0)	1,060.0	-8.2%	43.2%	458.0	1,339.0	881.0	34.2%	-8.5%	4.3%
Thermo Fisher Scientific	8.5	(288.2)	(279.7)	1,084.7	-25.8%	60.8%	659.3	1,980.3	1,321.0	33.3%	31.1%	8.6%
Xilinx	9.4	(1.1)	8.3	629.2	1.3%	33.7%	211.9	648.2	436.3	32.7%	33.6%	35.0%
Western Union	78.9	(7.1)	71.8	968.8	7.4%	27.6%	267.3	837.8	570.5	31.9%	32.0%	36.4%
HanesBrands	32.1	(10.2)	21.8	447.3	4.9%	30.1%	134.7	428.9	294.1	31.4%	27.8%	26.4%
Western Digital	54.0	12.0	66.0	1,501.0	4.4%	30.6%	459.4	1,465.0	1,005.7	31.4%	33.3%	26.0%
First Solar	23.2	(56.2)	(32.9)	392.9	-8.4%	43.4%	170.4	546.4	376.0	31.2%	24.6%	32.9%
Microchip Technology	16.6	(8.6)	8.0	346.9	2.3%	32.7%	113.4	365.3	251.9	31.0%	30.6%	59.9%
Kraft Heinz	234.0	(74.0)	160.0	1,026.0	15.6%	19.4%	199.1	647.0	447.9	30.8%	24.7%	0.0%
Goodyear Tire	(1.0)	0.0	(1.0)	324.0	-0.3%	35.3%	114.4	376.0	261.6	30.4%	2.0%	0.9%
Mondelez	707.0	(163.0)	544.0	7,841.0	6.9%	28.1%	2,200.4	7,291.0	5,090.7	30.2%	23.7%	28.2%
NVIDIA	17.4	(1.3)	16.1	581.0	2.8%	32.2%	187.2	630.6	443.3	29.7%	30.5%	31.4%
XL Group	67.8	(0.8)	67.0	1,300.1	5.2%	29.8%	388.0	1,313.3	925.3	29.5%	1.9%	29.1%
PVH	15.5	28.1	43.6	494.8	8.8%	26.2%	129.6	438.9	309.3	29.5%	-11.5%	18.6%
FMC Technologies	82.5	0.0	82.5	568.6	14.5%	20.5%	116.5	394.8	278.3	29.5%	2.8%	9.4%
Ebay	106.0	23.0	129.0	2,010.0	6.4%	28.6%	574.5	1,947.0	1,372.5	29.5%	2226.7%	29.5%
DENTSPLY Int'l	50.9	(17.2)	33.7	302.9	11.1%	23.9%	72.3	251.1	178.8	28.8%	15.1%	13.0%
Facebook	123.0	5.0	128.0	3,392.0	3.8%	31.2%	1,059.2	3,688.0	2,628.8	28.7%	-3.3%	-14.7%
Celgene	71.1	(4.7)	66.4	1,498.7	4.4%	30.6%	458.1	1,602.0	1,143.9	28.6%	28.1%	35.0%
LAM Research	61.6	(6.7)	54.8	668.1	8.2%	26.8%	179.0	655.6	476.6	27.3%	28.4%	19.8%
Becton Dickinson	253.0	(37.0)	216.0	1,147.0	18.8%	16.2%	185.5	695.0	509.6	26.7%	13.9%	13.4%
Apple	4,744.0	(1,806.0)	2,938.0	47,600.0	6.2%	28.8%	13,722.0	53,394.0	39,672.0	25.7%	26.0%	25.8%
Gilead Sciences	212.0	(51.0)	161.0	13,706.0	1.2%	33.8%	4,636.1	18,106.0	13,469.9	25.6%	23.3%	7.6%
Waters	48.6	0.0	48.6	475.2	10.2%	24.8%	117.7	469.1	351.3	25.1%	26.6%	21.2%
Electronic Arts	21.0	2.0	23.0	693.0	3.3%	31.7%	219.6	875.0	655.5	25.1%	531.9%	19.3%
Constellation Brands	49.0	(10.1)	38.9	698.0	5.6%	29.4%	205.4	836.2	630.8	24.6%	1.0%	5.0%
Activision Blizzard	40.0	9.0	49.0	766.0	6.4%	28.6%	219.1	892.0	672.9	24.6%	30.0%	17.1%
Analog Devices	98.8	(24.8)	74.0	699.4	10.6%	24.4%	170.8	696.9	526.1	24.5%	26.1%	25.6%
Edwards Lifesciences	33.5	(0.7)	32.8	439.6	7.5%	27.5%	121.1	494.9	373.8	24.5%	12.4%	17.9%
Chubb Ltd.	304.0	158.0	462.0	3,296.0	14.0%	21.0%	691.6	2,834.0	2,142.4	24.4%	20.6%	0.0%
Cisco Systems	530.0	(46.0)	484.0	7,631.0	6.3%	28.7%	2,186.9	8,981.0	6,794.2	24.3%	25.2%	22.7%
Abbott Labs *	220.0	(20.0)	200.0	2,394.0	8.4%	26.6%	637.9	2,623.0	1,985.1	24.3%	15.7%	11.2%
Agilent Technologies	62.0	(27.0)	35.0	403.0	8.7%	26.3%	106.1	438.0	332.0	24.2%	24.6%	32.3%
Mohawk Industries	32.0	(29.1)	2.9	424.7	0.7%	34.3%	145.7	617.0	471.3	23.6%	23.8%	19.2%
NetApp	40.3	(7.4)	32.9	459.9	7.2%	27.8%	128.1	559.9	431.8	22.9%	28.4%	36.5%
Xylem	34.0	(11.0)	23.0	287.0	8.0%	27.0%	77.5	340.0	262.6	22.8%	17.5%	21.6%
Priceline	526.1	(17.8)	508.3	3,092.9	16.4%	18.6%	574.3	2,551.4	1,977.1	22.5%	21.7%	21.5%
TripAdvisor	22.0	(6.0)	16.0	172.0	9.3%	25.7%	44.2	198.0	153.8	22.3%	26.4%	18.9%
Lauder, Estee	251.2	2.1	253.3	1,420.0	17.8%	17.2%	243.7	1,093.4	849.7	22.3%	19.7%	22.2%
Baxter Int'l.	345.0	(24.0)	321.0	1,166.0	27.5%	7.5%	87.1	393.0	305.9	22.2%	22.5%	18.7%
PerkinElmer	40.3	(2.3)	38.0	240.9	15.8%	19.2%	46.3	212.7	166.4	21.8%	26.9%	38.8%
Citrix Systems	43.8	(2.7)	41.1	315.2	13.0%	22.0%	69.3	319.4	250.1	21.7%	15.1%	16.9%
Hasbro	71.1	(4.7)	66.3	448.8	14.8%	20.2%	90.7	446.9	356.1	20.3%	12.8%	13.9%
KLA-Tencor	25.4	(2.3)	23.2	276.9	8.4%	26.6%	73.7	366.2	292.4	20.1%	14.3%	12.3%
Alphabet	723.0	(17.0)	706.0	11,380.0	6.2%	28.8%	3,277.0	16,348.0	13,071.0	20.0%	18.2%	18.8%
Coca-Cola	1,386.0	(92.0)	1,294.0	7,804.0	16.6%	18.4%	1,437.4	7,366.0	5,928.6	19.5%	18.9%	17.0%
AON	447.0	(184.0)	263.0	1,540.0	17.1%	17.9%	276.0	1,422.0	1,146.0	19.4%	14.1%	12.2%
Int'l Flavors & Fragr.	99.0	(1.7)	97.2	509.3	19.1%	15.9%	81.0	419.2	338.2	19.3%	17.8%	14.4%
Garmin	55.7	(1.6)	54.1	403.2	13.4%	21.6%	87.0	456.2	369.2	19.1%	-32.6%	20.7%
Intuitive Surgical	7.6	(3.0)	4.6	333.4	1.4%	33.6%	112.1	588.8	476.7	19.0%	15.4%	12.9%
Amgen	272.0	(34.0)	238.0	4,400.0	5.4%	29.6%	1,302.0	6,939.0	5,637.0	18.8%	25.0%	22.1%
EMC	206.0	(24.0)	182.0	1,682.0	10.8%	24.2%	406.7	2,172.0	1,765.3	18.7%	14.1%	19.9%
Chevron	2,997.0	(1,172.0)	1,825.0	7,719.0	23.6%	11.4%	876.7	4,710.0	3,833.4	18.6%	-3.8%	-9.4%
Johnson & Johnson	1,309.0	(307.0)	1,002.0	11,017.0	9.1%	25.9%	2,854.0	15,409.0	12,555.1	18.5%	15.5%	19.0%
FLIR Systems	19.9	(9.0)	10.9	158.5	6.8%	28.2%	44.6	241.7	197.1	18.5%	17.0%	16.3%
Illumina	46.4	(1.6)	44.8	365.5	12.2%	22.8%	83.2	457.4	374.2	18.2%	18.4%	34.7%
Walgreens Boots	128.0	0.0	128.0	2,586.0	4.9%	30.1%	777.1	4,279.0	3,501.9	18.2%	1.5%	5.3%
Oracle	981.0	(94.0)	887.0	7,698.0	11.5%	23.5%	1,807.3	10,051.0	8,243.7	18.0%	17.6%	13.2%
Linear Technology	4.6	0.3	4.8	278.8	1.7%	33.3%	92.7	521.0	428.2	17.8%	17.1%	15.5%
Stryker	108.0	77.0	185.0	1,260.0	14.7%	20.3%	256.0	1,439.0	1,183.0	17.8%	-25.5%	20.1%
Baxalta	52.0	(13.0)	39.0	580.0	6.7%	28.3%	164.0	928.0	764.0	17.7%	19.8%	16.9%
VeriSign	17.2	0.5	17.7	238.7	7.4%	27.6%	65.8	375.2	309.4	17.5%	12.1%	9.0%
Mead Johnson Nutrition	130.1	(4.2)	125.9	687.6	18.3%	16.7%	114.8	655.3	540.5	17.5%	19.6%	17.3%
Mattel	89.8	10.1	100.0	467.4	21.4%	13.6%	63.6	369.4	305.8	17.2%	21.4%	20.2%
Coca-Cola Enterprises	159.0	0.0	159.0	744.0	21.4%	13.6%	101.4	596.0	494.6	17.0%	24.2%	23.8%
Jacobs Engineering	43.3	(46.8)	(3.5)	146.6	-2.4%	37.4%	54.8	328.9	274.1	16.7%	8.6%	5.9%
Ball	75.7	(19.8)	55.9	299.1	18.7%	16.3%	48.8	302.9	254.1	16.1%	10.9%	11.1%

* R.G. Associates, Inc. holding. See note on back page.

Source of data: S&P Research Insight database. Calculations by R.G. Associates, Inc.

The previous analysis focused on what *might* happen to earnings if the Treasury Department has its way. Below, a look at what has been going into earnings already: a list of the 64 firms that have estimated untaxed foreign earnings in excess of \$700 million in 2015. The untaxed earnings in those 64 firms account for over half of their collective reported net income.

S&P 500's Largest Untaxed Foreign Earnings

(\$ in millions)	Cumulative UFE		Estimated Annual UFE		UFE % Change	2015 Net Income		Cash From Operations		Retained Earnings	
	2015	2014	2015	2014		Reported	UFE %	2015	2015	2015	UFE %
Apple	\$91,500.0	\$69,700.0	\$21,800.0	\$15,300.0	42.5%	\$53,394.0	40.8%	\$81,266.0	26.8%	\$92,284.0	99.2%
Microsoft *	108,300.0	92,900.0	15,400.0	16,500.0	-6.7%	12,193.0	126.3%	29,080.0	53.0%	9,096.0	1190.6%
Gilead Sciences	28,500.0	15,600.0	12,900.0	7,050.0	83.0%	18,106.0	71.2%	20,329.0	63.5%	18,001.0	158.3%
Danaher	23,500.0	11,800.0	11,700.0	1,200.0	875.0%	2,598.7	450.2%	3,801.8	307.7%	21,012.3	111.8%
Alphabet	58,300.0	47,400.0	10,900.0	8,500.0	28.2%	16,348.0	66.7%	26,024.0	41.9%	89,223.0	65.3%
Chevron	45,400.0	35,700.0	9,700.0	4,400.0	120.5%	4,710.0	205.9%	19,456.0	49.9%	181,578.0	25.0%
Medtronic	27,837.0	20,529.0	7,308.0	2,406.0	203.7%	2,675.0	273.2%	4,902.0	149.1%	54,414.0	51.2%
Int'l Business Machines	68,100.0	61,400.0	6,700.0	9,100.0	-26.4%	13,356.0	50.2%	17,008.0	39.4%	146,124.0	46.6%
Oracle	38,000.0	32,400.0	5,600.0	6,200.0	-9.7%	10,051.0	55.7%	14,336.0	39.1%	26,503.0	143.4%
Cisco Systems	58,000.0	52,700.0	5,300.0	4,700.0	12.8%	8,981.0	59.0%	12,552.0	42.2%	16,045.0	361.5%
Johnson & Johnson	58,000.0	53,400.0	4,600.0	2,500.0	84.0%	15,409.0	29.9%	19,279.0	23.9%	103,879.0	55.8%
HP Inc.	47,200.0	42,900.0	4,300.0	4,700.0	-8.5%	4,554.0	94.4%	6,490.0	66.3%	8,289.0	147.1%
Goldman Sachs	28,550.0	24,880.0	3,670.0	2,340.0	56.8%	6,083.0	60.3%	6,961.0	52.7%	83,386.0	34.2%
Intel	26,900.0	23,300.0	3,600.0	3,300.0	9.1%	11,420.0	31.5%	19,017.0	18.9%	37,614.0	71.5%
JPMorgan Chase & Co	34,600.0	31,100.0	3,500.0	2,600.0	34.6%	24,442.0	14.3%	73,466.0	4.8%	146,420.0	23.6%
Amgen	32,600.0	29,300.0	3,300.0	3,800.0	-13.2%	6,939.0	47.6%	9,077.0	36.4%	(2,086.0)	-1562.8%
Qualcomm	28,800.0	25,700.0	3,100.0	4,100.0	-24.4%	5,268.0	58.8%	5,506.0	56.3%	31,226.0	92.2%
Morgan Stanley	10,209.0	7,364.0	2,845.0	689.0	312.9%	6,295.0	45.2%	3,674.0	77.4%	49,204.0	20.7%
Priceline	9,900.0	7,300.0	2,600.0	2,400.0	8.3%	2,551.4	101.9%	3,102.2	83.8%	9,191.9	107.7%
Eaton	15,100.0	12,500.0	2,600.0	2,000.0	30.0%	1,981.0	131.2%	2,371.0	109.7%	7,346.0	205.6%
Becton Dickinson	7,500.0	4,900.0	2,600.0	500.0	420.0%	695.0	374.1%	1,730.0	150.3%	12,313.0	60.9%
PepsiCo *	40,200.0	37,800.0	2,400.0	3,700.0	-35.1%	5,501.0	43.6%	10,580.0	22.7%	50,472.0	79.6%
National Oilwell Varco	8,187.0	5,874.0	2,313.0	(171.0)	1452.6%	(767.0)	-301.6%	1,332.0	173.6%	9,927.0	82.5%
Celgene	9,667.0	7,541.0	2,126.0	1,412.0	50.6%	1,602.0	132.7%	2,483.9	85.6%	8,074.4	119.7%
Micron Technology	6,960.0	4,910.0	2,050.0	3,110.0	-34.1%	2,899.0	70.7%	5,208.0	39.4%	5,588.0	124.6%
Wal-Mart Stores	23,300.0	21,400.0	1,900.0	2,200.0	-13.6%	16,814.0	11.3%	28,564.0	6.7%	85,777.0	27.2%
Nike	8,300.0	6,600.0	1,700.0	(100.0)	1800.0%	3,273.0	51.9%	4,680.0	36.3%	4,685.0	177.2%
Broadcom Limited	1,854.0	198.0	1,656.0	95.0	1643.2%	1,391.0	119.1%	2,318.0	71.4%	2,240.0	82.8%
Illinois Tool Works	8,700.0	7,100.0	1,600.0	(1,900.0)	184.2%	1,899.0	84.3%	2,299.0	69.6%	18,316.0	47.5%
Honeywell	16,600.0	15,000.0	1,600.0	1,500.0	6.7%	4,847.0	33.0%	5,454.0	29.3%	26,147.0	63.5%
Citigroup	45,200.0	43,800.0	1,400.0	--	NA	17,386.0	8.1%	39,737.0	3.5%	133,841.0	33.8%
Biogen	6,000.0	4,600.0	1,400.0	800.0	75.0%	3,593.2	39.0%	3,716.1	37.7%	12,208.4	49.1%
Visa	6,400.0	5,000.0	1,400.0	1,200.0	16.7%	6,328.0	22.1%	6,584.0	21.3%	11,843.0	54.0%
Applied Materials	4,100.0	2,700.0	1,400.0	500.0	180.0%	1,377.0	101.7%	1,163.0	120.4%	13,967.0	29.4%
Cognizant Technology Solutions	7,495.0	6,121.0	1,374.0	1,293.5	6.2%	1,623.6	84.6%	2,153.3	63.8%	8,925.2	84.0%
Stryker	7,166.0	5,878.0	1,288.0	(1,145.0)	212.5%	1,439.0	89.5%	899.0	143.3%	7,792.0	92.0%
Ford Motor	5,500.0	4,300.0	1,200.0	(3,200.0)	137.5%	7,371.0	16.3%	16,170.0	7.4%	14,414.0	38.2%
Boston Scientific	8,900.0	7,700.0	1,200.0	(4,202.0)	128.6%	(239.0)	-502.1%	600.0	200.0%	(8,927.0)	-99.7%
Western Digital	9,400.0	8,200.0	1,200.0	1,400.0	-14.3%	1,465.0	81.9%	2,242.0	53.5%	9,107.0	103.2%
Sempra Energy	3,900.0	2,800.0	1,100.0	(500.0)	320.0%	1,448.0	76.0%	2,905.0	37.9%	9,994.0	39.0%
Perrigo	3,400.0	2,300.0	1,100.0	1,660.0	-33.7%	128.0	859.4%	1,198.3	91.8%	1,938.3	175.4%
TE Connectivity	19,000.0	18,000.0	1,000.0	--	NA	1,238.0	80.8%	1,913.0	52.3%	6,673.0	284.7%
Archer Daniels Midland	9,600.0	8,600.0	1,000.0	1,100.0	-9.1%	1,846.0	54.2%	2,481.0	40.3%	16,865.0	56.9%
United Technologies	29,000.0	28,000.0	1,000.0	3,000.0	-66.7%	4,356.0	23.0%	6,326.0	15.8%	49,956.0	58.1%
Procter & Gamble	45,000.0	44,000.0	1,000.0	2,000.0	-50.0%	8,930.0	11.2%	14,608.0	6.8%	84,807.0	53.1%
Bristol-Myers Squibb	25,000.0	24,000.0	1,000.0	--	NA	1,631.0	61.3%	1,832.0	54.6%	31,613.0	79.1%
PPL	4,600.0	3,700.0	900.0	800.0	12.5%	1,603.0	56.1%	2,967.0	30.3%	2,953.0	155.8%
St. Jude Medical	5,100.0	4,200.0	900.0	600.0	50.0%	866.0	103.9%	1,039.0	86.6%	4,211.0	121.1%
Allergan	2,087.6	1,204.9	882.7	(53.5)	1749.9%	(2,868.3)	-30.8%	4,530.0	19.5%	3,647.5	57.2%
BlackRock	4,734.0	3,871.0	863.0	797.0	8.3%	3,352.0	25.7%	3,004.0	28.7%	12,033.0	39.3%
Activision Blizzard	4,084.0	3,262.0	822.0	669.0	22.9%	892.0	92.2%	1,192.0	69.0%	4,096.0	99.7%
Prudential Financial	3,215.0	2,396.0	819.0	423.0	93.6%	5,712.0	14.3%	13,895.0	5.9%	18,931.0	17.0%
Endo Int'l	915.4	111.8	803.6	14.0	5640.0%	(304.0)	-267.5%	61.0	1316.8%	(2,341.2)	-39.1%
IntercontinentalExchange	3,000.0	2,200.0	800.0	600.0	33.3%	1,295.0	61.8%	1,311.0	61.0%	4,148.0	72.3%
Bank Of America	18,000.0	17,200.0	800.0	200.0	300.0%	15,888.0	5.0%	27,730.0	2.9%	88,564.0	20.3%
Lilly, Eli & Co.	26,500.0	25,700.0	800.0	1,960.0	-59.2%	2,408.4	33.2%	2,772.8	28.9%	16,011.8	165.5%
Disney (Walt)	2,700.0	1,900.0	800.0	400.0	100.0%	8,852.0	9.0%	10,909.0	7.3%	59,028.0	4.6%
3M *	12,000.0	11,200.0	800.0	1,500.0	-46.7%	4,841.0	16.5%	6,420.0	12.5%	36,575.0	32.8%
Dow Chemical	18,773.0	18,037.0	736.0	1,898.0	-61.2%	7,783.0	9.5%	7,516.0	9.8%	28,425.0	66.0%
McKesson	4,916.0	4,200.0	716.0	400.0	79.0%	1,842.0	38.9%	3,112.0	23.0%	12,705.0	38.7%
Mylan Laboratories	1,400.0	693.0	707.0	383.0	84.6%	847.7	83.4%	2,008.5	35.2%	4,462.1	31.4%
State Street	4,900.0	4,200.0	700.0	700.0	0.0%	1,980.0	35.4%	(1,403.0)	-49.9%	16,049.0	30.5%
MetLife	4,900.0	4,200.0	700.0	900.0	-22.2%	5,322.0	13.2%	14,129.0	5.0%	35,519.0	13.8%
Corning	11,000.0	10,300.0	700.0	(2,100.0)	133.3%	1,339.0	52.3%	2,809.0	24.9%	13,832.0	79.5%

* R.G. Associates, Inc. holding. See note on back page. Source: Cumulative UFE from company 10-K's, accessed using Calcbench.

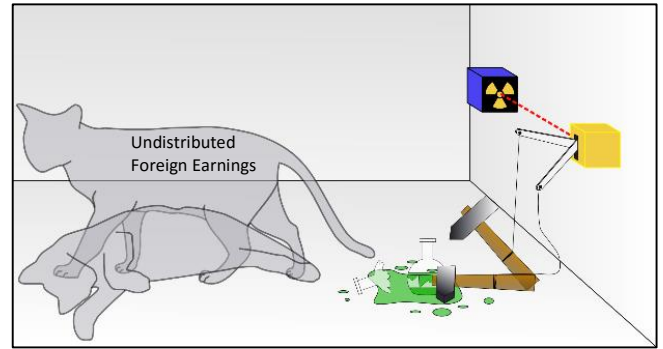
Net income, cash from operations, and retained earnings from S&P Research Insight.

Notable: 18 of the firms saw 2015 estimated untaxed foreign earnings decline from 2014, denoted by the red shading above. The 47 firms with green shading are estimated to have more than 25% of 2015 earnings backed by untaxed foreign earnings; 44 firms had 25% or more of their cash from operations backed by untaxed foreign earnings, which means they have to expend effort to move the cash around the world. The yellow shading indicates the 55 firms with more than 25% of their entire retained earnings balance backed by the cumulative balance of untaxed foreign earnings – and 17 of them have their balance exceeded by the cumulative balance implying that there are no domestic retained earnings – only losses.

III. Schrödinger's Net Income

In 1935, the Austrian physicist Erwin Schrödinger devised a thought experiment illustrating a particular interpretation of quantum mechanics that came to be known as “Schrödinger’s cat.” In his theoretical scenario, a cat, a flask of poison, and a radioactive source are all put into a box, which is then sealed. If an internal monitor detects radioactivity, the poison is released and the cat dies. One interpretation of quantum mechanics – the Copenhagen interpretation - implies that after a while, the cat is simultaneously alive and dead. If one looks in the box, however, the cat is either alive or dead, but not both alive and dead, raising the question of when exactly quantum superposition ends and reality collapses into one possibility or the other.³

And so it is with another paradox, untaxed foreign earnings. They’re either available for shareholders - or they’re not available, thanks to management intentions to indefinitely reinvest them. Just as in the Copenhagen interpretation of Schrödinger’s cat, the cat is simultaneously alive and dead, untaxed foreign earnings are both available for shareholders when they’re printed in the income statement, but not available when you read the fine print in the tax footnotes. Just as the observer looks in the box and sees a live cat or a dead cat, an investor sees income available for shareholders or sees restrictions on the income available for shareholders - depending on where they look in the box – the financial statements.



No quantum mechanics needed here – just a management intention to do something. Don’t expect any changes from the accounting standard setters. There will be a proposed revision of income tax disclosures coming later this year from the FASB, possibly before the end of the summer. Within it, there may be amplification of the information about untaxed foreign earnings, but no change in their measurement and recognition.

More on that proposal when it arrives. While it won’t change the game, it could certainly go a long way to improve clarity and transparency in financial reporting. Even though investors crave earnings growth, they also want to assess its sources and their sustainability. Currently, there’s nothing transparent about untaxed foreign earnings other than one figure about their cumulative balance. It’s shameful that investors must perform accounting gymnastics with that single number just to assess the effect of untaxed foreign earnings on overall performance. Hopefully, the FASB will remedy this disclosure shortfall.

Companies like to complain about “disclosure overload.” It’s pretty hard to make that argument in this area.

³ Adapted from Wikipedia entry “Schrödinger’s cat.” Illustration adapted from same entry. Just remember: accounting is an art, not a science.

Appendix – Companies with 2015 Accumulated Untaxed Foreign Earnings

(\$ in millions)	Accumulated UFE			Estimated Annual UFE				Accumulated UFE			Estimated Annual UFE		
	2015	2014	2013	2015	2014	2013		2015	2014	2013	2015	2014	2013
3M *	\$12,000	\$11,200	\$9,700	\$800	\$1,500	\$1,100	CSRA Inc.	\$16	-	-	-	-	-
Abbott Labs *	22,400	23,000	24,000	-	-	-	Cummins	3,300	\$3,800	\$3,100	(\$500)	\$700	\$800
AbbVie *	25,000	23,000	21,000	-	-	-	Danaher	23,500	11,800	10,600	11,700	1,200	1,300
Activision Blizzard	4,084	3,262	2,593	822	669	615	Deere	5,282	4,677	4,297	605	380	1,088
Adobe Systems	3,700	3,300	3,100	400	200	200	DENTSPLY International	1,200	1,300	1,300	(100)	0	200
ADT	193	220	-	(27)	-	-	Devon Energy (a)	1,163	1,778	1,500	(615)	278	300
Advance Auto Parts	114	108	-	6	-	-	Diamond Offshore Drilling	2,000	2,400	2,400	(400)	0	400
Affiliated Managers	188	139	48	49	92	22	Discovery Communications	495	329	278	166	51	106
Agilent Technologies	5,000	5,700	6,100	(700)	(400)	900	Disney (Walt)	2,700	1,900	1,500	800	400	934
Air Products & Chemicals	6,361	5,894	5,525	467	369	247	Dover	1,100	1,300	2,100	(200)	(800)	300
Airgas	99	106	97	(7)	9	21	Dow Chemical	18,773	18,037	16,139	736	1,898	1,635
Akamai Technologies	350	224	167	126	57	25	Dr. Pepper Snapple Group	371	354	291	17	63	(2)
Alcoa	4,000	4,600	5,200	(600)	(600)	(2,800)	Duke Energy (a)	250	-	2,400	-	-	400
Alexion Pharmaceuticals (a)	1,012	359	-	653	-	-	Dun & Bradstreet (a)	598	753	832	(23)	(79)	149
Alliance Data Systems	125	55	-	70	-	-	DuPont	16,053	17,226	15,978	(1,173)	1,248	2,799
Alphabet	58,300	47,400	38,900	10,900	8,500	5,600	Eastman Chemical	1,900	1,600	835	300	765	258
Amazon.com	1,500	2,500	2,500	(1,000)	0	400	Ebay (a)	6,000	7,900	14,000	-	-	-
American Express	9,900	9,700	9,600	200	100	1,100	Ecolab	1,800	1,800	1,600	0	200	200
American Int'l. Group	1,800	-	-	-	-	-	Edwards Lifesciences	1,790	1,653	1,369	137	284	233
American Tower	491	391	279	100	113	178	Electronic Arts (a)	752	150	1,381	602	(531)	(34)
Ameriprise Financial	272	180	120	92	60	35	EMC	11,800	11,800	10,200	0	1,600	2,100
AmerisourceBergen	413	217	126	196	91	33	Emerson Electric	6,400	7,100	7,100	(700)	0	800
Ametek	1,075	993	855	82	138	189	Equifax	86	86	86	0	0	0
Amgen	32,600	29,300	25,500	3,300	3,800	3,300	Expedia	1,500	916	794	-	-	-
Amphenol	3,699	3,337	2,600	362	737	365	Express Scripts	104	96	82	8	14	17
Analog Devices	4,400	4,300	3,762	100	538	541	ExxonMobil *	51,000	51,000	47,000	0	4,000	4,000
Apple	91,500	69,700	54,400	21,800	15,300	14,000	F5 Networks	78	28	23	51	5	(1)
Applied Materials	4,100	2,700	2,200	1,400	500	600	Fastenal	140	113	85	27	28	-
Archer Daniels Midland	9,600	8,600	7,500	1,000	1,100	(200)	FedEx	1,900	1,600	1,300	300	300	300
Assurant	198	163	144	36	19	7	Fidelity Nat'l Info. Services	674	-	-	-	-	-
Autodesk	1,809	1,690	1,490	119	200	200	First Solar	2,900	2,400	2,100	500	300	59
Automatic Data Processing	418	1,032	910	(614)	121	(22)	FLIR Systems	722	886	799	(164)	87	119
AutoZone	432	345	260	87	85	64	Flowserve	1,500	1,700	1,700	(200)	0	100
Avery Dennison	1,900	2,200	2,100	(300)	100	700	FMC Corp	1,787	1,638	1,393	149	245	198
Baker Hughes	5,600	6,100	5,900	(500)	200	3,300	FMC Technologies	1,949	1,619	1,524	329	95	245
Ball	2,022	1,799	-	222	-	-	Foot Locker	999	890	835	109	55	64
Bank of America	18,000	17,200	17,000	800	200	(200)	Ford Motor	5,500	4,300	7,500	1,200	(3,200)	900
Bank of New York Mellon	6,200	6,000	5,300	200	700	1,000	Franklin Resources	7,900	7,300	6,400	600	900	800
Bard (C.R.)	2,000	2,100	1,800	(100)	300	200	Freepoint McMoran	1,300	-	-	-	-	-
Baxalta	6,400	-	-	-	-	-	GameStop	595	542	493	53	50	(143)
Baxter Int'l.	8,500	7,900	12,200	-	-	-	Gap (a)	581	1,600	1,700	(546)	(100)	200
Becton Dickinson	7,500	4,900	4,400	2,600	500	0	General Dynamics	2,000	1,900	1,700	100	200	100
Berkshire Hathaway *	10,400	10,000	9,300	400	700	1,400	General Electric (a)	104,000	119,000	110,000	(5,000)	9,000	2,000
Best Buy	770	1,400	2,532	(630)	(1,132)	300	General Mills (a)	1,900	2,800	2,700	(294)	100	(100)
Biogen	6,000	4,600	3,800	1,400	800	500	General Motors	6,900	7,100	6,700	(200)	400	1,200
BlackRock	4,734	3,871	3,074	863	797	949	Genuine Parts	623	712	552	(89)	160	170
Boeing	700	800	775	(100)	25	-	Gilead Sciences	28,500	15,600	8,550	12,900	7,050	1,300
BorgWarner	3,300	2,700	2,300	600	400	200	Goldman Sachs	28,550	24,880	22,540	3,670	2,340	850
Boston Scientific	8,900	7,700	11,902	1,200	(4,202)	861	Goodyear Tire & Rubber	1,400	2,600	3,800	(1,200)	(1,200)	100
Bristol-Myers Squibb	25,000	24,000	24,000	1,000	0	3,000	Grainger	468	464	386	4	78	60
Brown-Forman	803	797	641	6	156	99	Halliburton	6,900	6,700	6,100	200	600	1,700
CA	2,759	2,349	2,220	410	129	221	HanesBrands	2,700	2,400	1,900	300	500	300
Campbell Soup	770	740	714	30	26	153	Harman International	1,300	895	717	405	178	88
Capital One	1,500	1,400	1,300	100	100	300	Harris	232	267	325	(35)	(58)	(18)
Cardinal Health	1,900	1,700	1,800	200	(100)	300	Hasbro	2,219	2,023	1,861	196	162	278
Caterpillar	17,000	18,000	17,000	(1,000)	1,000	2,000	Henry Schein	945	826	694	119	132	130
CBRE Group (a)	1,400	1,300	1,100	100	200	196	Hershey	239	196	121	43	75	(1)
CBS	4,150	3,990	4,080	160	(90)	540	Hess Corporation	7,700	8,300	7,500	(600)	800	800
Celgene	9,667	7,541	6,129	2,126	1,412	1,829	Hologic	61	62	33	(1)	29	(17)
Centene	8	-	-	-	-	-	Home Depot	3,400	3,100	2,700	300	400	300
Cerner	108	99	107	9	(8)	25	Honeywell	16,600	15,000	13,500	1,600	1,500	1,900
CF Industries	830	900	1,000	(70)	(100)	85	Hormel Foods	109	88	69	21	19	4
Chevron	45,400	35,700	31,300	9,700	4,400	4,773	HP Inc.	47,200	42,900	38,200	4,300	4,700	4,800
Church & Dwight (a)	136	315	272	(87)	44	30	Illinois Tool Works	8,700	7,100	9,000	1,600	(1,900)	700
CIGNA	2,200	1,800	1,100	400	700	-	Illumina	512	396	235	116	161	50
Cintas	147	173	194	(26)	(21)	53	Intel	26,900	23,300	20,000	3,600	3,300	2,500
Cisco Systems	58,000	52,700	48,000	5,300	4,700	6,700	IntercontinentalExchange	3,000	2,200	1,600	800	600	200
Citigroup	45,200	43,800	43,800	1,400	0	1,200	International Paper	5,700	5,200	5,100	500	100	400
Citrix Systems	2,330	2,090	1,238	240	852	(287)	Interpublic Group of Cos	2,592	2,214	1,960	378	254	(150)
Clorox	204	186	158	18	28	12	Int'l Business Machines	68,100	61,400	52,300	6,700	9,100	7,900
Coach	2,090	2,034	1,602	56	432	398	Int'l Flavors & Fragrances	1,600	1,500	1,452	100	48	306
Coca-Cola	31,900	33,300	30,600	(1,400)	2,700	3,700	Intuitive Surgical	1,159	856	708	304	148	286
Coca-Cola Enterprises (a)	1,800	1,800	1,800	0	450	750	Jacobs Engineering	26	26	26	0	0	0
Cognizant Tech. Solutions	7,495	6,121	4,828	1,374	1,294	1,074	Johnson & Johnson	58,000	53,400	50,900	4,600	2,500	1,900
Colgate-Palmolive *	4,600	4,900	4,700	(300)	200	400	Johnson Controls	8,060	8,100	7,600	(40)	500	1,200
ConAgra	660	560	460	100	100	60	JPMorgan Chase & Co	34,600	31,100	28,500	3,500	2,600	3,400
Conoco Phillips	3,300	293	3,222	-	-	-	Juniper Networks	2,200	1,900	1,500	300	400	(109)
Corning	11,000	10,300	12,400	700	(2,100)	500	Kansas City	1,884	1,594	1,330	290	264	142
Costco	2,845	3,619	3,619	(774)	0	457	Kellogg	2,000	2,200	2,200	(200)	0	500

(\$ in millions)	Accumulated UFE			Estimated Annual UFE			Accumulated UFE			Estimated Annual UFE			
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	
Kimberly-Clark	\$8,800	\$8,600	\$9,800	\$200	(\$1,200)	\$300	Ralph Lauren	\$2,515	\$2,176	\$1,899	\$339	\$277	\$536
KLA-Tencor	1,700	1,500	1,200	200	300	287	Raytheon	688	384	509	304	(125)	89
Kraft Heinz	3,600	4,200	2,200	-	-	-	Red Hat	420	296	201	124	96	109
L Brands	216	113	-	103	-	-	Republic Services	49	49	41	0	8	1
L-3 Communications	661	331	325	330	6	(21)	Reynolds American	82	81	81	1	0	22
Laboratory Corp of America	662	30	18	633	12	-	Robert Half Int'l	6	4	3	2	1	1
LAM Research	3,300	2,900	2,100	400	800	200	Rockwell Automation	3,059	2,781	2,427	278	354	346
Lauder, Estee	2,918	2,403	1,980	515	423	362	Rockwell Collins	539	511	427	28	84	31
Leggett & Platt (a)	616	486	375	130	111	94	Roper Industries	1,250	1,100	939	150	161	(111)
Leucadia National	205	171	134	34	37	-	Ryder	712	658	600	54	58	56
Lilly, Eli & Co.	26,500	25,700	23,740	800	1,960	2,760	SanDisk	1,260	969	752	291	217	169
Linear Technology	1,003	852	723	151	129	111	Scripps Networks Interactive	106	75	50	30	26	14
Lockheed Martin	353	291	222	62	69	11	Sealed Air	5,100	-	-	-	-	-
Loews	2,000	2,400	2,400	(400)	0	400	Sempra Energy	3,900	2,800	3,300	1,100	(500)	400
Lowe's Companies	112	51	36	61	15	-	Skyworks Solutions	1,176	740	591	436	149	220
Marriott Intl	1,109	894	739	215	155	136	Smucker, JM	249	245	250	4	(5)	50
Marsh & McLennan	3,400	6,300	5,200	(2,900)	1,100	900	Snap-On	624	619	556	5	63	64
Martin Marietta Materials	32	29	27	3	2	4	Spectra Energy	1,500	1,800	2,100	(300)	(300)	0
MasterCard	3,500	3,300	3,500	200	(200)	900	St. Jude Medical	5,100	4,200	3,600	900	600	800
Mattel	6,800	6,400	5,900	400	500	700	Stanley Black & Decker	4,391	4,773	4,439	(382)	335	537
McCormick	1,430	1,250	1,100	180	150	132	Staples (a)	835	604	902	358	(298)	5
McDonald's *	14,900	15,400	16,100	(500)	(700)	1,300	Starbucks	2,800	2,200	1,900	600	300	400
McGraw-Hill Financial	1,573	1,239	930	334	309	168	Starwood Hotels & Resorts	3,600	3,500	3,300	100	200	400
McKesson	4,916	4,200	3,800	716	400	500	State Street	4,900	4,200	3,500	700	700	800
Mead Johnson Nutrition	2,300	2,000	1,400	300	600	579	Stericycle	582	421	373	161	48	214
Merck	59,200	60,000	57,100	(800)	2,900	3,700	Stryker	7,166	5,878	7,023	1,288	(1,145)	791
MetLife	4,900	4,200	3,300	700	900	900	Symantec	3,600	3,200	2,800	400	400	400
Microchip Technology	2,800	2,400	1,800	400	600	(100)	Synchrony Financial	29	23	20	6	3	-
Micron Technology	6,960	4,910	1,800	2,050	3,110	700	Sysco	1,100	1,104	1,052	(4)	52	141
Microsoft *	108,300	92,900	76,400	15,400	16,500	15,600	Target	328	64	52	264	12	(248)
Mohawk Industries	1,680	1,385	1,200	295	185	414	Teradata	1,200	1,000	1,000	200	0	119
Molson Coors Brewing	20	981	886	(961)	95	(20)	Texas Instruments	8,350	7,670	6,870	680	800	1,330
Mondelez	19,200	13,200	12,400	-	-	-	Textron	1,200	995	778	205	217	174
Monsanto	4,700	4,400	3,300	300	1,100	200	Thermo Fisher Scientific	8,640	8,440	5,970	200	2,470	550
Moody's	2,368	2,032	1,575	336	457	349	Tiffany & Co	612	542	474	70	68	71
Morgan Stanley	10,209	7,364	6,675	2,845	689	(516)	Time Warner	1,100	1,100	1,000	0	100	(900)
Mosaic	2,100	2,200	1,900	(100)	300	(300)	TJX Companies	567	528	385	38	143	39
Motorola Solutions	1,400	1,500	1,400	(100)	100	400	Total System Services	84	90	79	(6)	11	9
Murphy Oil	2,866	6,045	6,677	(3,179)	(632)	655	Travelers	383	647	714	(264)	(67)	(41)
NASDAQ OMX	121	118	167	3	(49)	86	TripAdvisor	759	630	481	-	-	-
National Oilwell Varco	8,187	5,874	6,045	2,313	(171)	1,425	Twenty-First Century Fox	975	851	700	-	-	-
NetApp	3,300	3,000	2,500	300	500	656	Tyson Foods	139	403	351	(264)	52	121
Netflix	65	29	10	36	20	8	Under Armour	299	177	103	122	74	2
Newell Rubbermaid	658	602	660	56	(58)	(34)	United Parcel Service	4,954	4,683	4,130	271	553	555
News Corp.	3,500	3,800	8,600	-	-	-	United Rental	651	595	465	56	130	118
Nike	8,300	6,600	6,700	1,700	(100)	1,200	United Technologies	29,000	28,000	25,000	1,000	3,000	3,000
Northern Trust	1,400	1,100	956	300	144	141	UnitedHealth Group	459	391	359	68	32	265
Northrop Grumman	560	-	-	-	-	-	Universal Health Services	53	10	-	43	-	-
Nucor	170	194	222	(24)	(28)	46	Unum Group	1,000	1,000	1,000	0	0	8
NVIDIA	2,270	1,960	1,680	310	280	390	Urban Outfitters	241	204	167	36	38	37
Occidental Petroleum	9,900	9,900	10,600	0	(700)	2,500	Valero Energy	3,200	2,900	3,500	300	(600)	0
Omnicom	2,100	1,800	1,500	300	300	100	Varian Medical Systems	1,635	1,538	1,412	97	125	361
Oracle	38,000	32,400	26,200	5,600	6,200	5,300	VeriSign (a)	667	447	153	220	294	201
Owens-Illinois	2,500	2,900	3,200	(400)	(300)	700	Verisk Analytics	103	12	8	90	4	1
Paccar	4,100	4,100	4,400	0	(300)	500	Verizon	1,800	1,300	2,100	500	(800)	300
Parker-Hannifin	3,000	2,800	2,700	200	100	2,031	VF Corp. *	3,657	3,297	2,533	360	764	594
Patterson Companies	269	255	252	15	2	24	Viacom	1,800	2,500	2,100	(700)	400	420
PayPal Holdings	3,500	-	-	-	-	-	Visa	6,400	5,000	3,800	1,400	1,200	1,200
PepsiCo *	40,200	37,800	34,100	2,400	3,700	1,900	Vulcan Materials	76	56	-	20	-	-
PerkinElmer	859	675	607	184	68	135	Wal-Mart Stores	23,300	21,400	19,200	1,900	2,200	(500)
Pfizer	80,000	74,000	69,000	-	-	-	Waste Management	825	750	800	75	(50)	(50)
Philip Morris International	23,000	23,000	20,000	0	3,000	2,000	Waters	3,000	3,000	3,000	0	0	1,000
Phillips 66	2,800	2,000	1,700	-	-	-	Wells Fargo	2,000	1,800	1,600	200	200	300
Pitney Bowes	860	830	700	30	130	(50)	Western Digital	9,400	8,200	6,800	1,200	1,400	500
PNC Financial	110	77	46	33	31	-	Western Union	6,100	5,600	5,000	500	600	600
PPG Industries	5,000	5,000	3,900	0	1,100	424	WestRock	198	240	158	(42)	82	35
PPL	4,600	3,700	2,900	900	800	900	Weyerhaeuser	34	27	23	7	4	1
Praxair	11,000	10,400	9,300	600	1,100	1,300	Whirlpool	4,200	4,900	3,500	(700)	1,400	200
Price (T. Rowe) *	345	326	271	19	55	59	Wyndham Worldwide	809	760	700	49	60	131
Priceline	9,900	7,300	4,900	2,600	2,400	1,700	Wynn Resorts	336	412	388	(76)	24	55
Principal Financial	1,005	825	694	180	131	143	Xerox	9,000	8,500	8,000	500	500	(300)
Procter & Gamble	45,000	44,000	42,000	1,000	2,000	3,000	Xilinx	2,800	2,400	1,990	400	410	320
Prudential Financial	3,215	2,396	1,973	819	423	226	Xylem	1,900	1,900	1,900	0	0	300
PVH	2,100	1,724	377	377	1,347	129	Yahoo!	3,300	2,900	2,600	400	300	600
Qorvo	454	226	211	227	15	18	Yum Brands	2,300	2,000	2,600	300	(600)	0
Qualcomm	28,800	25,700	21,600	3,100	4,100	5,200	Zimmer Biomet Holdings	3,853	3,204	3,354	649	(150)	564
Quanta Services	270	345	218	(75)	127	113	Zoetis	1,700	1,400	1,200	-	-	-

(a) Company changed assertion on, or repatriated, accumulated UFE in one or more of the years 2013-2015. Source: Accumulated UFE from company 10-Ks, sourced using Calcbench.

* R.G. Associates, Inc. holding. See note on back page.

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