

### Self-Study Quiz 3

#### Equity Valuation - Finance 70610

1. (13 points) You are valuing a large telecom firm and have decided to capitalize the firm's R&D expenses. The firm's R&D expenses for the past five years are listed below.

Year	R&D Expense (\$ millions)
2001	976
2002	1,050
2003	1,204
2004	1,490
2005	1,720

- a) (9 points) Calculate the unamortized value of R&D as of year-end 2005 AND the amount of R&D amortization for 2005 assuming a four-year life for R&D.
- b) (4 points) The firm had net income of \$2,100 million in 2005. Calculate the adjusted value of net income after accounting for the capitalization of R&D.

2. (12 points) The table below lists financial information from the most recent 10K for Cisco Systems. Use this information to answer the questions below.

	2005 value (millions)
EBIT	\$ 7,416
Net Income	5,580
Capital Expenditures	4,014
Depreciation	1,009
Acquisition Expenditures	911
Change in Working Capital	-420
Tax Rate	29.0%
Debt-to-Capital Ratio	20.6%

- a) (6 points) Calculate the free cash flow to the firm (FCFF) for Cisco in 2005.

- b) (6 points) Calculate free cash flow to equity (FCFE) for Cisco in 2005.