



from the PRESIDENT

Let's Be Balanced with Pro Forma Earnings

Pro forma earnings can be analytically useful in describing company performance. Historically, the major use of pro forma results was to more comparably present two periods after there had been a major acquisition or refinancing. But over the last few years, the practice has been abused at the edges and is coming under increasing criticism from the press and regulators. The SEC's chief accountant calls it "earnings before bad stuff." *The Washington Post* reported that it looked up "pro forma" in the dictionary and found "hypothetical." *The Post* then suggested a change of all labels to "hypothetical earnings."

I think some companies got on a slippery slope in presenting pro forma results. Originally well-intentioned and encouraged by an analyst community interested in recurring earnings before unusual items like restructuring charges, the practice has drifted into a more confusing state. Today, pro forma earnings have widely different communication objectives.

Some companies are trying to present earnings before one-time, unusual items. Other companies are trying to present a form of cash-based earnings. The differing practices and objectives are clearly confusing the less sophisticated reader (you are welcome to read "media" into this sentence), but helping the large fund managers and analysts. Companies usually construct the pro forma

Companies Using Pro Forma Earnings

By annual revenue

Under \$100 million	11%
\$100 million-\$499 million	14%
\$500 million-\$999 million	31%
\$1 billion-\$4.9 billion	29%
\$5 billion and over	50%

Source: FEI/Duke survey

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investors' needs. Then we could work on a good definition of operating cash flow per share. With these changes, the need for pro forma presentations will greatly diminish.

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The complete text of the earnings guidelines is available on our Web site, www.fei.org.

calculation based on many, many questions from key thought leaders in their investor base.

For all these reasons, FEI got it right when our Committee on Corporate Reporting published best practice guidelines for earnings releases that include pro forma results. We encourage companies to clearly present and reconcile the differences between the pro forma and GAAP-based results. We have suggested a tabular presentation of that reconciliation.

Consistency of that presentation between comparable periods is critical to the credibility of the presentation as well. Earnings press releases are important communications vehicles, and a good balance between the positive and negative factors impacting the results is needed.

First and foremost, our members must strive to enable investors to understand the implications and true meaning of the reported results. My hope is that the new FASB business combinations accounting standard will bring GAAP closer to