International Research Journal of Applied Finance ISSN 2229 – 6891
Vol. VII Issue – 7 July, 2016 www.irjaf.com
DOI: 10.0707/article-2

Corporate Reporting of Non-GAAP Earnings and SEC Compliance

Charles W. Mulford* **Alex Pfeffer**

Abstract

We examine non-GAAP earnings for the S&P 100. Our objectives are to determine whether companies follow guidelines from the Securities and Exchange Commission (SEC) and to learn how non-GAAP adjustments impact earnings. Of the 75 companies in our sample to report non-GAAP earnings during 2013, 61 companies present non-GAAP earnings in accordance with SEC guidance. Fourteen companies violate SEC guidance by either giving non-GAAP income greater prominence than GAAP income, using a name for non-GAAP income that is confusingly similar to the name of the comparable GAAP figure, or by a combination of the two violations. Fifty six of 75 companies report non-GAAP income that is greater than GAAP income, with a mean non-GAAP income of 112.31% of the value of GAAP income. Our analysis also finds that 15 sample companies make adjustments for non-GAAP items that are recurring in nature, which could be misleading to financial statement readers.

Key Words: Non-GAAP earnings; SEC compliance; adjustments for non-recurring items

I. Introduction

GAAP income refers to net income measured in accordance with generally accepted accounting principles. Non-GAAP income is GAAP income adjusted to exclude discretionary items viewed by management as being non-recurring or not representative of the company's underlying performance for a reporting period. Weil (2013) highlights Tesla Motors' struggles and is critical of the company's questionable financial reporting of its non-GAAP income. Tesla's 2013 3rd quarter earnings release touted non-GAAP net income of US$16 million. It continued to focus on this non-GAAP figure for the first three pages of the release and did not mention a true GAAP loss of US$38 million until page four. The article goes on to say that the act of highlighting good news in the form of non-GAAP values while downplaying negative GAAP values violates Securities and Exchange Commission (SEC) guidance, which requires companies to give equal or greater prominence to GAAP values when presenting financial information. Tesla's alleged violation of SEC guidance of non-GAAP reporting raises an important question. How do other companies report non-GAAP financial measures in relation to SEC guidance?

In addition to matters of SEC compliance, there are questions about the methods and reasons for calculating non-GAAP income. Morgenson (2013) is critical of non-GAAP earnings as reporting 'Earnings, but Without the Bad Stuff.' The article claims that companies report non-GAAP earnings as a way to artificially inflate earnings by removing unfavorable expenses.

Academic research also examines the reporting of non-GAAP income. Several studies find that companies "opportunistically" select favorable non-GAAP adjustments for use in order to inflate earnings. Specifically, Doyle et al. (2013) find that companies often increase non-GAAP earnings by excluding expenses from GAAP income in order to meet or exceed analyst earnings expectations. In another study, Frankel et al. (2011) find that the value of non-GAAP earnings increases as the independence level of a company's Board of Directors decreases. While these studies find that non-GAAP earnings increase due to certain circumstances, our interest focuses on non-GAAP earnings relative to GAAP earnings levels regardless of circumstance. Further, other studies have not examined the extent to which firms reporting non-GAAP income comply with guidance from the SEC.

For a sample consisting of the 100 firms comprising the S&P 100 we evaluate the earnings releases for the fourth quarter of 2013, including disclosures of GAAP and non-GAAP earnings. We look to see whether companies comply with SEC guidance by reviewing the presentation of their earnings release titles, introductory paragraphs, names used for GAAP and non-GAAP income, and reconciliations between GAAP and non-GAAP values. In reviewing these earnings releases, we find that 81% of the companies comply with all SEC guidance for reporting non-GAAP earnings. We also review the reconciliations between GAAP and non-GAAP values in order to understand the impact of the adjustments on non-GAAP earnings. In comparing GAAP values to non-GAAP values, we find that 75% of the companies using non-GAAP earnings report a non-GAAP value greater than its GAAP counterpart, with median non-GAAP income, after all adjustments, amounting to 111.21% of GAAP income.

I.1 SEC Guidance on Non-GAAP Reporting

The SEC defines non-GAAP financial measures as numerical measures of a registrant's historical or future financial performance, financial position or cash flows that include or exclude adjustments to the most directly comparable measure calculated and presented in accordance with GAAP.[1] SEC guidelines for non-GAAP disclosures are set forth in Regulation G, which applies to public entities required to file reports pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, excluding registered investments companies.[2] The Regulation applies whenever such companies publicly disclose or release material information that includes non-GAAP financial measures. [3]

Regulation G has two particularly important disclosure requirements: the general disclosure requirement and the reconciliation requirement. The general disclosure requirement prevents registrants from reporting non-GAAP financial measures that would be misleading when presented with accompanying measures. This includes information leading to untrue statements of fact or omitting facts that would result in a different conclusion derived from the presented information.[4]

The reconciliation requirement exists to allow readers of financial information to understand the difference between the registrant's GAAP and non-GAAP financial measures. When non-GAAP information is included in a filing, registrants must also present the most directly comparable GAAP value of the same financial measure. This GAAP value must be quantitatively reconciled to the non-GAAP value, disclosing the adjustments between the two figures.[5] Table I presents a reconciliation for the third quarter of 2013 of Tesla's net loss, measured on a GAAP basis, to its net income, measured on a non-GAAP basis.

[1] Financial Reporting Release No. 33-8176, Regulation G, *Conditions for Use of Non-GAAP Financial Measures*, (Washington, DC: Securities and Exchange Commission, March 28, 2003), Topic II.A.2.a. http://www.sec.gov/rules/final/33-8176.htm.
[2] Ibid., Summary.
[3] Ibid., Topic II.A.1.a.
[4] Ibid., Topic II.A.3.a
[5] Ibid., Topic II.A.3.b.

DOI: 10.0707/article-2

Refer Table I

In Table I, it can be seen that Tesla's 2013 third quarter operations resulted in a GAAP net loss of US$38.5 million. Adjusting items, consisting of stock-based compensation expense and non-cash interest expense related to convertible notes of a combined US$25.7 million, were added back to GAAP net income to arrive at a non-GAAP net loss, including lease accounting, of US$12.8 million. Next, an adjustment of US$28.7 million for Model S gross profit deferred due to lease accounting was added, resulting in Tesla's non-GAAP net income of US$15.9 million. As dictated by the reconciliation requirement, the reconciliation clearly includes a directly comparable GAAP figure and shows the adjustments used to arrive at the non-GAAP value mentioned in the earnings release.

In addition to Regulation G, Item 10(e) of Regulation S-K also provides guidance for the disclosure of non-GAAP financial measures. Item 10(e) was enacted in order to prevent registrants from using non-GAAP financial figures as a way to mislead readers about a company's true GAAP performance. Specifically, it requires GAAP values to be presented with equal or greater prominence than any non-GAAP figures.[6] This requirement includes emphasizing GAAP values on the title of press releases, listing GAAP earnings before non-GAAP earnings in the body of releases, and ensuring that the name of the non-GAAP value is not confusingly similar to the name of the comparable GAAP measure. Readers should be able to easily identify the difference between GAAP and non-GAAP figures as well as see that GAAP figures are emphasized in earnings releases. Violations of these guidelines and those in Regulation G can be treated by the SEC as violations of the Exchange Acts, and are subject to SEC enforcement.

Weil (2013) highlights Tesla's lack of reference to its GAAP earnings until page four of the earnings release while frequently referring to non-GAAP earnings in the first three pages. By giving prominence to the non-GAAP earnings figure, it appears that Tesla violated Item 10(e) of Regulation S-K. It followed SEC guidance by clearly labeling non-GAAP values, but the prominence given to non-GAAP earnings remains. Tesla has corrected this issue in the reporting of more recent earnings releases by clearly explaining the reasoning for non-GAAP reporting and providing GAAP values immediately following non-GAAP values. By reporting GAAP values immediately following GAAP values, Tesla at least gives equal prominence to GAAP earnings.

II. Purpose and Design

The purpose of this study is to examine the reporting of non-GAAP earnings. Specifically, we seek to determine whether companies follow SEC guidance for non-GAAP reporting and to analyze companies' adjustments used in arriving at non-GAAP earnings. Our initial sample consists of the 100 companies comprising the S&P 100. This group of firms represents a broad cross-section of major American companies from a number of industries. While companies have discretion in selecting which specific GAAP financial measures are reported in a non-GAAP manner, our focus is on a single GAAP-based financial measure, net income, or that measure of GAAP income that we considered to be most closely aligned with net income. We review

[6] Regulation S-K, Item 10(e), *Conditions for Use of Non-GAAP Financial Measures*, (Washington, DC: Securities and Exchange Commission), Section 229.10.

DOI: 10.0707/article-2

corporate 8-K filings, which is a current report filed with the SEC, for the fourth quarter of fiscal year 2013 for the inclusion of non-GAAP measures of net income for fiscal year 2013. We first review the title of the earnings release and its introductory text to determine whether GAAP income is given equal or greater prominence than non-GAAP income, as prescribed by Item 10(e) of Regulation S-K. For this purpose, we employ responses to the following four questions:

1. Does the title of the annual earnings announcement emphasize GAAP or non-GAAP income? SEC guidance requires that GAAP earnings be given equal or greater prominence to non-GAAP earnings. Earnings titles that emphasize non-GAAP figures would therefore appear to violate SEC guidance.
2. What is reported first in the text of the announcement, GAAP or non-GAAP income? We expect companies giving preference to GAAP earnings would mention GAAP earnings first in the opening text to the earnings report.
3. If non-GAAP income is reported first in the text, does GAAP income follow immediately in the text? An immediate reference to GAAP income would appear to fulfill, at least in spirit, the equal-or-greater prominence requirement.
4. Is the title used for non-GAAP income confusingly similar to the title used for GAAP income? Our focus here is on whether there is a clear distinction made between the title used for non-GAAP and GAAP income.

We seek to answer a fifth question in determining whether our sample companies' reporting of non-GAAP earnings is in accordance with SEC Regulation G:

5. Does the presentation of non-GAAP income include a quantitative reconciliation of non-GAAP income to GAAP income? Although this question does not address the prominence of a GAAP income figure, it ensures that a reconciliation is present in order to assist readers in understanding the difference between a company's GAAP and non-GAAP income.

Collectively, the five questions address our assessment of each reporting company's compliance with SEC guidance for the reporting of non-GAAP income.

In addition to determining whether companies follow SEC guidance in the reporting of non-GAAP income, we examine the non-GAAP measures of income themselves. In particular, we analyze the adjustments made to the GAAP income measures and how they impact non-GAAP income. The following questions are addressed:

1. How many non-GAAP values are greater than their comparable GAAP values vs. how many non-GAAP values are less than their comparable GAAP values? Morgensen (2013) in the professional literature together with Doyle et al. (2013) and Frankel, et al (2011) in the academic literature claim that non-GAAP earnings are used to make income appear better than reported GAAP net earnings. Answering this question will allow us to examine these claims in our own sample.
2. What are the mean, minimum, median, and maximum non-GAAP values? We measure non-GAAP earnings as a percentage of GAAP earnings. The purpose of this question is to determine the extent to which non-GAAP earnings exceed or are exceeded by GAAP earnings.

3. What is the number of companies with adjustments to non-GAAP income for recurring items? From the point of view of an analyst who is interested in determining a firm's sustainable earnings, the adjustment for non-recurring items in deriving non-GAAP earnings is understandable. Expenses incurred during events such as acquisitions or restructurings are unusual and do not represent typical firm operations. While more frequent, even expenses such as non-cash compensation do not represent normal operating expenses and could be argued as an expense that should be removed for the purpose of evaluating non-GAAP earnings. However, some companies not only adjust for these non-recurring items, they also adjust for recurring expenses such as depreciation and amortization. Justification typically centers on the fact that these costs are non-cash. Even so, they are still expenses and should be treated as such. Answering this question will allow us to identify the frequency with which companies exclude expenses from non-GAAP income that are generally recurring in nature.
4. What adjustments for non-GAAP income are employed most often? Our interest is to determine if certain adjustments in calculating non-GAAP earnings are used more often than others.
5. Measured as a percentage of GAAP income, what non-GAAP income adjustments have the largest impact? The purpose of this question is to determine if certain adjustments have a greater impact on non-GAAP earnings than other adjustments.
6. What are the more frequently used measures of non-GAAP income? In particular, is one measure of non-GAAP earnings more popular than another?

III. Results

A. Prevalence of Non-GAAP Reporting

In reviewing the prominence given to GAAP income, we find that of the S&P 100 for fiscal year 2013, 75 companies report non-GAAP income and 25 companies do not report non-GAAP income. A list of companies not reporting non-GAAP income for this reporting period is provided in Table II.

Refer Table II

B. Compliance with SEC Guidance for Non-GAAP Reporting

A summary of our assessment of compliance by sample companies with SEC guidance is provided in Table III. The Table presents responses to each of the five questions that are used to assess compliance with SEC guidance for non-GAAP reporting.

1. Does the title of the annual earnings announcement emphasize GAAP or non-GAAP income? The response is provided as either GAAP or Non-GAAP. Companies given a neutral designation either do not mention earnings in the title to the release or give equal prominence to GAAP by mentioning GAAP earnings closely following the mention of non-GAAP earnings.
2. What is reported first in the text of the announcement, GAAP or non-GAAP income? The response is provided as either GAAP or Non-GAAP. Question 3 is addressed for companies reporting non-GAAP income first in the earnings announcement.
3. If non-GAAP income is reported first in the text of the announcement, does GAAP income follow immediately in the text? A yes or no answer is provided, where yes indicates that GAAP income follows the reporting of non-GAAP income immediately. A yes answer here indicates, at least in spirit, that GAAP income is afforded equal prominence with non-GAAP

DOI: 10.0707/article-2

income. A response of N/A is provided for companies that listed GAAP income first in the text of the announcement (see question #2).

4. Is the title used for non-GAAP income confusingly similar to the title used for GAAP income? The label distinctive indicates that the title used for non-GAAP income is not confusingly similar to the title used for GAAP income. We use the label, confusingly similar, when we find the titles used for non-GAAP income and GAAP income to be difficult to differentiate.
5. Does the presentation of non-GAAP income include a quantitative reconciliation of non-GAAP income to GAAP income? The answer to this question is a simple yes or no, depending on whether the reconciliation of non-GAAP income to GAAP income is present.

Refer Table III

Of the 75 companies reporting non-GAAP earnings, 13 emphasize a GAAP income figure in the title of the release, 52 are neutral, and surprisingly, nine emphasize a non-GAAP figure, suggesting greater prominence for non-GAAP income. One company, JP Morgan Chase, does not provide an earnings title to its release. We therefore find that 65 of the 74 eligible companies afford the GAAP value equal or greater prominence to non-GAAP in the title of the earnings release. In the opening text of the release, 46 companies mention a GAAP income figure first while 28 mention a non-GAAP figure. Again, JP Morgan Chase does not provide an opening text to its earnings release. Of the 28 companies mentioning first a non-GAAP figure, 25 immediately report a GAAP value, indicating the company gives at least equal prominence to the GAAP value. Thus, overall, 71 of 74 sample companies afford the GAAP value equal or greater prominence to the non-GAAP measure in the opening text of the earnings release.

Finally, in terms of the title used for non-GAAP income, we find that three of the 75 companies reporting non-GAAP income employ a title for non-GAAP income that is confusingly similar to the title used for GAAP income. For example, Accenture, PLC, Comcast Corp., and FedEx Corp. use EPS, including certain items to describe their GAAP income measure. They define non-GAAP as EPS, excluding certain items. In observing these titles in isolation, it is difficult to know whether the GAAP measure or the non-GAAP measure includes or excludes the items. For example, "including certain items" could imply that the company has included adjustments for certain items, which would make it a non-GAAP income measure. It would be clearer to simply describe the GAAP income measure as EPS while reserving the title EPS, excluding certain items, as the non-GAAP measure. Several companies employ this approach, including Anadarko Petroleum Corp., Colgate-Palmolive Co., Johnson & Johnson, Mastercard, Inc. A., Morgan Stanley and Walt Disney Co.

Some companies employ the term operating earnings or operating income to describe their non-GAAP measures of income. On the surface, it is difficult to know if such titles refer to GAAP or non-GAAP income. However, the companies do label their GAAP income measures as a measure that is distinctively GAAP, such as net income, in the case of American International Group or GAAP earnings from continuing operations, in the case of DuPont. Thus, we find the titles to be sufficiently distinctive. Other companies employing either operating earnings or operating income to describe non-GAAP earnings are Allstate Corp, Berkshire Hathaway Inc, Ford Motor Co., and General Electric Co.

SEC guidance requires companies who report non-GAAP income to provide a reconciliation of the non-GAAP measure to the closest GAAP income measure. In our sample we find that all 75 companies provide this reconciliation.

Overall, we find that 61 of the 75 companies reporting non-GAAP income follow all SEC guidelines examined by providing equal or greater prominence to their GAAP income figures and by including a reconciliation of their non-GAAP income measures to their GAAP income amounts. Fourteen companies violate at least one guideline in some way, including one company who violated SEC guidance in two ways. In this instance, FedEx Corp. emphasized the non-GAAP value in the title of the release and used a confusing name to describe non-GAAP income.

C. Reconciliations of GAAP Income to Non-GAAP Income

We compile the reconciliations of GAAP income to Non-GAAP income for the 75 companies in our sample who report non-GAAP income into a standardized set of reconciliations that enhances cross-sectional comparability by expressing GAAP income, non-GAAP income and all adjustments as a percentage of 2013 GAAP income. All income measures cover the 2013 fiscal year. The adjustments to GAAP income for non-recurring items are grouped into 12 general categories: acquisition/divestiture charges, asset disposal (gains)/losses, employee separation charges, impairment charges, income tax items, investment (gains)/losses, litigation expenses, non-recurring transaction gains/losses, non-cash compensation, other non-recurring (gains)/losses, pension plan (gains)/losses and restructuring and productivity-related charges. The net effect of these adjustments is added to GAAP income to derive non-GAAP income (after non-recurring adjustments).

While most companies employ a non-GAAP income measure that is GAAP income adjusted for non-recurring items, some companies also exclude the effects of certain recurring items from non-GAAP income, such as depreciation and amortization expense, interest expense, the provision for income taxes, and preferred distributions and dividends. Further, in some instances, non-GAAP income is adjusted to remove income attributable to non-controlling interests resulting in a non-GAAP income measure that is available for controlling shareholders. For these companies, the net of these additional adjustments is added to the non-GAAP income (after non-recurring adjustments) to derive non-GAAP income (after all adjustments). This final non-GAAP income measure is the income amount that is compared with GAAP income.

The individual reconciliations are not presented here but are available separately from the authors as supporting information. In reviewing them we find that 56 of 75 reconciliations result in non-GAAP income measures that exceed their comparable GAAP income figure. Nineteen of the 75 reconciliations result in non-GAAP income measures that are less than their comparable GAAP earnings value. Such results indicate that non-GAAP adjustments are used far more frequently to increase earnings than to reduce them.
Table IV presents descriptive statistics and counts of the individual adjustments used in the reconciliations between GAAP and non-GAAP earnings for our sample.

Refer Table IV

DOI: 10.0707/article-2

Panel A of Table IV shows the sample-wide mean, minimum, median and maximum sample measures, calculated as a percentage of GAAP income, for non-GAAP income and for each of the 12 non-recurring adjustment categories. As presented in the table, mean non-GAAP income (after non-recurring adjustments) is 112.31% of GAAP income and the median value is 107.39%. As noted in the literature, non-GAAP earnings are sometimes used to artificially inflate income. With this in mind, we perform a Student's t-test to measure the difference between GAAP earnings and the mean non-GAAP earnings. The results of this test reject the null hypothesis that non-GAAP earnings are equal to GAAP earnings and accept the alternate hypothesis that non-GAAP earnings are greater than GAAP earnings. While we cannot confirm that companies use non-GAAP earnings to artificially inflate their income, our test results confirm that the use of non-GAAP income has a favorable effect on income.

In reviewing adjustments made by our sample companies in deriving non-GAAP earnings, we note that 15 companies make adjustments for items that could be considered to be recurring in nature. For example, in computing non-GAAP income, 13 companies make adjustments for depreciation and/or amortization expense. Depreciation of property, plant and equipment and amortization of intangibles are both normal operating expenses and on the surface, do not appear to be non-recurring. Some analysts would argue that amortization of intangibles acquired in business acquisitions is a non-recurring item. Of course, the acquiring company is including the results of the acquired entity in revenues and operating profit. Viewed in this light, the cost of the acquisition, including amortization of acquired intangibles, is a recurring expense related to the purchase of those intangibles. Of the 13 firms adjusting non-GAAP earnings for depreciation and/or amortization expense, five firms, Biogen Idec, Cisco Systems Inc, eBay Inc, Gilead Sciences Inc, and Walgreen Co, specifically mention that the adjustment is for amortization of intangibles acquired through business acquisitions.

Non-GAAP adjustments for interest expense and provision for income taxes are each used once in the sample, both by General Motors Company in the non-GAAP calculation of Earnings Before Interest and Taxes (EBIT). The fact that these adjustments are used so infrequently in the sample suggest that most firms consider interest and taxes to be expenses that should be included in both GAAP income and non-GAAP income. We also identify two instances of companies using non-GAAP adjustments for preferred distributions and dividends. In these instances, General Motors Company again uses the adjustment to reconcile from net income attributable to common stockholders to EBIT and Simon Property Group uses the adjustment in its calculation of a specialized version of non-GAAP income for real estate investment trusts, called Funds From Operations (FFO). Finally, two companies, DuPont and Simon Property Group, deduct non-controlling interests from GAAP income in computing non-GAAP income. Under GAAP accounting, net income is income available for both controlling and non-controlling interests. The companies that deduct non-controlling interests in determining non-GAAP income are measuring non-GAAP earnings as earnings available only for controlling shareholders. They take this step even though the net result is a lower measure of non-GAAP income than would have been the case had the adjustment not been made.

The effects of these recurring adjustments, depreciation and/or amortization expense, interest expense, provision for income taxes, preferred distributions and dividends, and adjustments for non-controlling interests, on GAAP income in deriving non-GAAP income are identified separately from non-recurring items in Table 4. Given their recurring quality, these items are inherently different from the non-recurring items that are the subject of most adjustments used to derive non-GAAP income. For this reason, we seek to examine their effects on non-GAAP income separately.

Including the effects of adjustments for recurring items, we see the mean non-GAAP income for our sample rises to 117.20% of GAAP income and the median value increases to 111.21%. Of the companies that include adjustments for recurring items, Simon Property Group has the largest positive aggregate adjustment of such items, with almost 114% in adjustments. The adjustments include over 114% to depreciation and amortization and two slightly negative adjustments to net income attributable to non-controlling interests and preferred distributions and dividends. The median value of all aggregate adjustments for recurring items is 10.21%. Because only one company using adjustments for recurring items had an aggregate negative adjustment, we can see that a vast majority of such adjustments serve to boost non-GAAP earnings. This raises further concerns about their validity in giving a true measure of a company's performance.

Although companies use many different types of adjustments to arrive at non-GAAP earnings, some adjustments are used more frequently than others or have a larger impact on earnings. In reviewing the counts of individual adjustments from Panel A of Table 4, we find that the most commonly used non-recurring adjustment is income tax items, being used in 30 reconciliations. The impact of income tax items ranged from -30.15% to 7.09% as an adjustment of GAAP income, with a median adjustment of -1.45%. Such a spread indicates that the majority of income tax item adjustments result from removing the effects of favorable tax items that were realized during the year. Restructuring and productivity related charges are the second most commonly used adjustment, with 27 uses. These adjustments range from -7.71% to 41.48% of GAAP income and have a median value of 2.43%, indicating that the majority made a moderate to large positive impact on non-GAAP earnings.

Adjustments for non-cash compensation should be noted because, when used, they have the greatest impact on non-GAAP earnings. Non-cash compensation adjustments are always positive, ranging in our sample from 0.39% to 66.60% of GAAP income with a median value of 13.75%. While this adjustment is only used in 10 reconciliations, it has a significantly greater impact than any other single adjustment. Other adjustments to note due to their large ranges are litigation expenses, ranging from -9.29% to 68.79%, investment (gains)/losses, ranging from -36.21% to 63.64%, and acquisition/divestiture expenses, ranging from -3.84% to 95.87%. Depreciation and amortization is the most commonly used adjustment for recurring items, being used 13 times. Such adjustments range from 3.87% to 114.45%, with a median value of 10.21%.

Panel B of Table IV presents descriptive statistics and counts of adjustments for sample companies with net positive non-GAAP adjustments. These are the 56 companies with non-GAAP earnings greater than their reported GAAP income. The largest positive adjustment resulted in non-GAAP income that is 20 739.76% of GAAP income. This extremely large value results from Starbucks' US$1.7 billion litigation expense adjustment. The value is added to a GAAP net income of only US$8.3 million, resulting in an unusually large adjustment. Excluding the Starbucks outlier, the largest positive adjustment results in a non-GAAP income of

DOI: 10.0707/article-2

253.43% of GAAP earnings was for Anadarko Petroleum Corp. Anadarko's large non-GAAP income value primarily results from three large adjustments to acquisition/divestiture expenses, impairment charges, and litigation expenses, combining to add approximately 169% of the value of GAAP income. Anadarko also had an adjustment of -24.47% to investment (gains)/losses.

The median value of all non-GAAP income values greater than its GAAP value is 117.79% and the minimum non-GAAP value greater than GAAP income is 100.29%.

It should also be noted that one company listed in the Panel B sample, Simon Property Group, actually has non-GAAP income (after non-recurring adjustments) of 93.07% of GAAP income, but also has adjustments for recurring items of 113.54%. These recurring adjustments shifted non-GAAP income from being less than GAAP earnings to being greater than GAAP earnings. This is the only instance in our sample where recurring adjustments moved non-GAAP earnings from one side of GAAP earnings to another.

Panel C in Table IV displays the descriptive statistics and counts of adjustments for the 19 companies with non-GAAP earnings values less than their GAAP counterparts. Twenty-First Century Fox has the largest negative adjustment, reducing earnings by 53.36% to arrive at a non-GAAP income of 46.64% of GAAP income. Of the 19 companies with net negative adjustments, non-GAAP values range from 46.64% to 99.86% of GAAP income, with a median value of 85.46%. Exelon Corp is the only company from the sample in Panel C that uses an adjustment for recurring items. Even with a positive adjustment of 15.52% for depreciation and amortization, non-GAAP income remains less than GAAP income due to the large impact of its non-recurring adjustments.

D. Titles Employed for GAAP Income and Non-GAAP Income

In our review of non-GAAP income reporting practices, we note a wide variety of titles used to describe both GAAP income and non-GAAP income. We categorize the titles used for the measures into general groups. Five categories are used to describe GAAP income measures: After-Tax Income From Continuing Operations, Diluted Earnings Per Share, Net Income, Net Income Available for Controlling Interest, and Pre-Tax Operating Income. Non-GAAP income measures are grouped into seven categories: Earnings Before Interest and Taxes, Non-GAAP or Adjusted Diluted Earnings Per Share, Non-GAAP or Adjusted Income From Continuing Operations, Non-GAAP or Adjusted Net Income, Non-GAAP or Adjusted Net Income Available for Controlling Interest, Non-GAAP or Adjusted Operating Earnings, and Non-GAAP or Adjusted Pre-Tax Operating Income. The titles used for both GAAP income and non-GAAP income by each sample company are presented in Table V. Table VI presents the frequency with which each GAAP income and non-GAAP income title is used.

Refer Table V and VI

Diluted Earnings Per Share is used in 44 of the 75 GAAP values mentioned, making it the most commonly used GAAP figure. Net Income is the second most commonly used GAAP title, being mentioned 18 times. The three remaining types of GAAP earnings are only used a combined 13 times, indicating that the vast majority of companies use Diluted EPS or Net Income as their preferred GAAP term for comparing GAAP and non-GAAP earnings.

The names used for non-GAAP earnings reporting reveal a similar theme. Non-GAAP or Adjusted Diluted Earnings Per Share is the most commonly used non-GAAP figure, being mentioned 44 times. Sixteen companies use Non-GAAP or Adjusted Net Income, making it the second most used non-GAAP earnings figure. We identify five other types of non-GAAP earnings used by companies, but they are used much less often, combining for only 15 uses. Again, it appears firms prefer to use an adjusted version of Diluted EPS or Net Income when reporting non-GAAP earnings.

It should also be noted that the GAAP values used by companies do not necessarily dictate the non-GAAP values used. For example, Allstate and General Motors both report GAAP net income available for controlling interest as their baseline earnings figure, but the adjustments they make result in different measures of non-GAAP earnings. Both companies use non-recurring adjustments, but General Motors also includes recurring adjustments. The difference in adjustments results in General Motors using EBIT as its non-GAAP earnings figure, while Allstate reports operating income as its non-GAAP amount.

IV. Conclusion

The use of non-GAAP earnings in financial reporting is common among U.S corporations. In this study, we examine the earnings releases of the 75 companies from the S&P 100 who report non-GAAP earnings for the 2013 fiscal year. Our objectives are to determine whether companies follow SEC guidelines in the reporting of non-GAAP earnings and to learn how non-GAAP adjustments impact earnings.

We find that 61 of the 75 companies in our sample follow all SEC guidelines in the reporting of non-GAAP earnings, while 14 companies violate at least one guideline. In order to comply with SEC guidance, companies must give GAAP income figures equal or greater prominence than non-GAAP income in the earnings release, make a distinction between the titles used to describe GAAP and non-GAAP income, and include a quantitative reconciliation between non-GAAP values and their corresponding GAAP values. While all sample companies include reconciliations, we find that nine companies emphasize a GAAP income figure in the title of the release, three give non-GAAP values greater prominence than GAAP values and three use names for non-GAAP values that are confusingly similar to their GAAP earnings name. One of the 14 companies in violation of SEC guidance, FedEx Corp. gives greater prominence to non-GAAP income *and* uses confusingly similar names.

In examining the impact of non-GAAP adjustments on earnings we find that 56 of 75 sample companies report non-GAAP income that is greater than GAAP income, with a mean non-GAAP income measure (after adjustments for non-recurring items) of 112.31% of GAAP income for the entire sample. The mean value of non-GAAP earnings was found to be significantly greater than GAAP earnings at the 1% level. While these findings do not speak to the motives of companies who report non-GAAP earnings, we can conclude that the use of non-GAAP earnings do indeed have a favorable impact for reporting firms.

We find that there are several potential adjustments used in the calculation of non-GAAP earnings. Certain adjustments, such as income tax items, are used more frequently than other

DOI: 10.0707/article-2

adjustments, while others, such as non-cash compensation, have a larger impact on earnings when used. Finally, we examine the titles used by companies to report GAAP and non-GAAP income. Non-GAAP earnings are most frequently reported as an adjusted form of EPS or net income, but the type of GAAP earnings reported does not necessarily determine the non-GAAP figure. Companies can use several combinations of adjustments to arrive at different types of non-GAAP earnings.

Analysts and investors should make efforts to be certain of whether earnings are GAAP or non-GAAP, as reporting can sometimes be confusing or misleading. Non-GAAP earnings could be materially different from reported GAAP earnings, leading to incorrect conclusions about a company's financial performance. While SEC guidance requires companies to report GAAP earnings in a prominent manner, financial statement readers may find non-GAAP earnings to be a better indicator of company performance because it excludes non-recurring items that do not reflect the company's normal operations. Readers should, however, be aware of any adjustments for recurring items. These adjustments reflect recurring operations that should be considered to be components of earnings, but that have been removed, creating an inaccurate representation of company performance. For CFOs, these results offer a benchmark to measure non-GAAP earnings against other companies. Regulators should find these results to be useful in better understanding how companies report non-GAAP earnings and determine whether they are presented in accordance with SEC guidance.

References

Doyle, J., Jennings, M. and Soliman, M. 2013, Do Managers Define Non-GAAP Earnings to Meet or Beat Analyst Forecasts?, *Journal of Accounting and Economics,* 56, 1: 40-56.

Financial Reporting Release No. 33-8176. 2003, Regulation G, *Conditions for Use of Non-GAAP Financial Measures*, (Washington, DC: Securities and Exchange Commission, March 28), Topic II.A.2.a.

Frankel, R., McVay, S. and Soliman, M. 2011, Non-GAAP Earnings and Board Independence, *Review of Accounting Studies,* 16, 4: 719-744.

Morgenson, G. 2013, Earnings, but Without the Bad Stuff, *The New York Times,* 9, November, 2013.

Regulation S-K, Item 10(e). *Conditions for Use of Non-GAAP Financial Measures*, (Washington, DC: Securities and Exchange Commission), Section 229.10.

Weil, J. 2013, Are There Cockroaches under Tesla's Hood?, *Bloomberg View,* 14, November, 2013.

International Research Journal of Applied Finance ISSN 2229 – 6891
Vol. VII Issue – 7 July, 2016 www.irjaf.com
DOI: 10.0707/article-2

Table I: Reconciliation of GAAP to Non-GAAP Financial Information, Tesla Motors, Inc. for the Quarter Ended September 30, 2013 (dollars in thousands).

Net loss (GAAP)	US$(38 496)
Stock-based compensation expense	21 439
Non-cash interest expense related to convertible notes	4260
Net income (loss) (Non-GAAP) including lease accounting	(12 797)
Model S gross profit deferred due to lease accounting	28 732
Net income (loss) (Non-GAAP)	US$15 935

Source: Tesla Motors, Inc., Form 8-K Special Report to the Securities and Exchange Commission, November 5, 2013

Table II: A List of Companies in the S&P 100 That Did Not Report Non-GAAP Income for the Fiscal Year, 2013

3M Co
Amazon.com Inc
Apple Inc.
Capital One Financial
Caterpillar Inc
Chevron Corp
Costco Wholesale Corp
CVS Caremark Corp.
Exxon Mobil Corp
Freeport McMoRan Copper & Gold
General Dynamics
Goldman Sachs Group Inc
Home Depot Inc
Intel Corp
Lockheed Martin
Lowe's Cos Inc
McDonald's Corp
NIKE Inc B
Norfolk Southern Corp
Texas Instruments Inc
Union Pacific Corp
Unitedhealth Group Inc
US Bancorp
Visa Inc
Wells Fargo & Co

Source: S&P 100 Companies, Form 8-K Special Reports to the Securities and Exchange Commission, fiscal year 2013.

DOI: 10.0707/article-2

Table III: Compliance with SEC Non-GAAP Income Reporting Guidance

Company	Question 1†	Question 2‡	Question 3§	Question 4¶	Question 5††
Abbott Laboratories	Neutral	Non-GAAP	Yes	Distinctive	Yes
AbbVie Inc.	Neutral	Non-GAAP	Yes	Distinctive	Yes
Accenture plc	GAAP	GAAP	N/A	Confusingly Similar	Yes
Allstate corp	Neutral	GAAP	N/A	Distinctive	Yes
Altria Group Inc	Non-GAAP	GAAP	N/A	Distinctive	Yes
American Express Co	GAAP	GAAP	N/A	Distinctive	Yes
American International Group	GAAP	GAAP	N/A	Distinctive	Yes
Amgen Inc	Neutral	GAAP	N/A	Distinctive	Yes
Anadarko Petroleum Corp	Neutral	GAAP	N/A	Distinctive	Yes
Apache Corp	Neutral	GAAP	N/A	Distinctive	Yes
AT&T Inc	Non-GAAP	GAAP	N/A	Distinctive	Yes
Bank of America	GAAP	GAAP	N/A	Distinctive	Yes
Baxter Intl Inc	Neutral	GAAP	N/A	Distinctive	Yes
Berkshire Hathaway Inc	Neutral	Non-GAAP	Yes	Distinctive	Yes
Biogen Idec	Neutral	Non-GAAP	Yes	Distinctive	Yes
Boeing Co	GAAP	Non-GAAP	Yes	Distinctive	Yes
Bristol-Myers Squibb	Neutral	GAAP	N/A	Distinctive	Yes
Cisco Systems Inc	Neutral	GAAP	N/A	Distinctive	Yes
Citigroup Inc	GAAP	GAAP	N/A	Distinctive	Yes
Coca-Cola Co	Neutral	GAAP	N/A	Distinctive	Yes
Colgate-Palmolive Co	Neutral	GAAP	N/A	Distinctive	Yes
Comcast Corp	Neutral	Non-GAAP	Yes	Confusingly Similar	Yes
ConocoPhillips	Neutral	GAAP	N/A	Distinctive	Yes
Devon Energy Corp	Neutral	GAAP	N/A	Distinctive	Yes
Dow Chemical	Neutral	GAAP	N/A	Distinctive	Yes
DuPont	Non-GAAP	Non-GAAP	Yes	Distinctive	Yes
eBay Inc.	Neutral	GAAP	N/A	Distinctive	Yes
Eli Lilly	Neutral	GAAP	N/A	Distinctive	Yes
EMC Corp	Neutral	GAAP	N/A	Distinctive	Yes
Emerson Electric Co	Neutral	Non-GAAP	Yes	Distinctive	Yes
Exelon Corp	Neutral	Non-GAAP	Yes	Distinctive	Yes
Facebook Inc	Neutral	GAAP	N/A	Distinctive	Yes

-- Continued

Table III: Compliance with SEC Non-GAAP Income Reporting Guidance (continued)

Company	Question 1[†]	Question 2[‡]	Question 3[§]	Question 4[¶]	Question 5[††]
FedEx Corp	Non-GAAP	Non-GAAP	Yes	Confusingly Similar	Yes
Ford Motor Co	GAAP	GAAP	N/A	Distinctive	Yes
General Electric Co	Non-GAAP	Non-GAAP	Yes	Distinctive	Yes
General Motors Company	GAAP	GAAP	N/A	Distinctive	Yes
Gilead Sciences Inc	Neutral	GAAP	N/A	Distinctive	Yes
Google Inc	Neutral	GAAP	N/A	Distinctive	Yes
Halliburton Co	Non-GAAP	Non-GAAP	Yes	Distinctive	Yes
Hewlett-Packard Co	Neutral	Non-GAAP	Yes	Distinctive	Yes
Honeywell Intl Inc	Non-GAAP	Non-GAAP	Yes	Distinctive	Yes
Intl Business Machines Corp	Neutral	GAAP	N/A	Distinctive	Yes
Johnson & Johnson	Neutral	GAAP	N/A	Distinctive	Yes
JP Morgan Chase & Co[‡‡]	N/A[a]	N/A[a]	N/A[a]	Distinctive	Yes
Mastercard Inc A	Neutral	Non-GAAP	Yes	Distinctive	Yes
Medtronic Inc	Neutral	GAAP	N/A	Distinctive	Yes
Merck & Co Inc	Neutral	Non-GAAP	Yes	Distinctive	Yes
Metlife Inc	Neutral	Non-GAAP	No	Distinctive	Yes
Microsoft Corp	Neutral	GAAP	N/A	Distinctive	Yes
Mondelez International Inc.	Neutral	GAAP	N/A	Distinctive	Yes
Monsanto Co.	Neutral	Non-GAAP	Yes	Distinctive	Yes
Morgan Stanley	Neutral	GAAP	N/A	Distinctive	Yes
National Oilwell Varco Inc	Neutral	GAAP	N/A	Distinctive	Yes
Occidental Petroleum	GAAP	Non-GAAP	Yes	Distinctive	Yes
Oracle Corp	Neutral	GAAP	N/A	Distinctive	Yes
PepsiCo Inc	Neutral	Non-GAAP	Yes	Distinctive	Yes
Pfizer Inc	Neutral	Non-GAAP	Yes	Distinctive	Yes
Philip Morris International	Neutral	GAAP	N/A	Distinctive	Yes
Procter & Gamble	Neutral	Non-GAAP	No	Distinctive	Yes
QUALCOMM Inc	GAAP	GAAP	N/A	Distinctive	Yes
Raytheon Co	Neutral	Non-GAAP	Yes	Distinctive	Yes

-- Continued

Table III: Compliance with SEC Non-GAAP Income Reporting Guidance (continued)

Company	Question 1†	Question 2‡	Question 3§	Question 4¶	Question 5††
Schlumberger Ltd	Neutral	Non-GAAP	No	Distinctive	Yes
Simon Property Group Inc	Neutral	Non-GAAP	Yes	Distinctive	Yes
Southern Co	Neutral	GAAP	N/A	Distinctive	Yes
Starbucks Corp	GAAP	GAAP	N/A	Distinctive	Yes
Target Corp	Neutral	Non-GAAP	Yes	Distinctive	Yes
The Bank of New York Mellon Corp	GAAP	GAAP	N/A	Distinctive	Yes
Time Warner Inc	Neutral	GAAP	N/A	Distinctive	Yes
Twenty-First Century Fox, Inc	Non-GAAP	Non-GAAP	Yes	Distinctive	Yes
United Parcel Service Inc B	Neutral	GAAP	N/A	Distinctive	Yes
United Technologies Corp	GAAP	GAAP	N/A	Distinctive	Yes
Verizon Communications Inc	Neutral	GAAP	N/A	Distinctive	Yes
Wal-Mart Stores	Non-GAAP	GAAP	N/A	Distinctive	Yes
Walgreen Co	Neutral	Non-GAAP	Yes	Distinctive	Yes
Walt Disney Co	Neutral	GAAP	N/A	Distinctive	Yes

†Does the title of the annual earnings announcement emphasize GAAP or non-GAAP income? A neutral assessment indicates that either the company did not mention earnings in the title to the release or gave equal prominence to GAAP earnings by mentioning GAAP earnings closely following the mention of non-GAAP earnings.

‡What is reported first in the text of the announcement, GAAP or non-GAAP income?

§If non-GAAP income is reported first in the text, does GAAP income follow immediately in the text?

¶Is the title used for non-GAAP income confusingly similar to the title used for GAAP income? The response, Distinctive, indicates that the company uses a title for non-GAAP income that is distinctive from GAAP income. The response, Confusingly Similar, indicates that the company uses a name for non-GAAP income that makes it difficult to differentiate from GAAP income.

††Does the presentation of non-GAAP income include a quantitative reconciliation of non-GAAP income to GAAP income?

‡‡The company does not provide a title or opening text to its earnings announcement on Form 8-K.

International Research Journal of Applied Finance ISSN 2229 – 6891
Vol. VII Issue – 7 July, 2016 www.irjaf.com
DOI: 10.0707/article-2

Table IV: Descriptive Statistics for Non-GAAP Income Adjustments, S&P 100 Companies, Fiscal 2013

Panel A: All Adjustments

Non-Recurring Adjustments	Mean	Minimum	Median	Maximum	Count
GAAP Income	100.00%	100.00%	100.00%	100.00%	
Acquisition/divestiture expenses	8.78%	-3.84%	0.98%	95.87%	17
Asset disposal (gains)/losses	-5.20%	-48.28%	-1.33%	22.76%	10
Employee separation charges	3.80%	-0.01%	1.77%	11.96%	5
Impairment charges	9.52%	-0.02%	4.04%	62.67%	19
Income tax items	-4.75%	-30.15%	-1.45%	7.09%	30
Investment (gains)/losses	2.29%	-36.21%	-0.03%	63.64%	14
Litigation expenses	8.54%	-9.29%	1.47%	68.79%	19
Non recurring transaction gains/losses	-1.56%	-12.61%	0.33%	8.20%	13
Non-cash compensation	17.73%	0.39%	13.75%	66.60%	10
Other non recurring (gains/credits) or losses/charges	5.40%	-51.58%	1.65%	46.86%	48
Pension plan (gains)/losses	-0.65%	-33.75%	2.56%	18.62%	10
Restructuring and productivity related charges	5.92%	-7.71%	2.43%	41.48%	27
Total net adjustments (non-recurring)†	12.29%	-53.36%	7.39%	153.43%	
Non-GAAP Income (after non recurring adjustments) †	112.31% ‡	46.64%	107.39%	253.43%	
Recurring Adjustments					
Depreciation and Amortization	20.17%	3.87%	10.21%	114.45%	13
Interest expense	2.33%	2.33%	2.33%	2.33%	1
Net income attributable to non-controlling interests	-0.53%	-0.58%	-0.53%	-0.49%	2
Preferred distributions and dividends	20.73%	-0.34%	20.73%	41.80%	2
Provision for income taxes	56.42%	56.42%	56.42%	56.42%	1
Total net adjustments (recurring)†	24.09%	-0.49%	10.21%	113.54%	
Non-GAAP Income (after all adjustments) †	117.20%	46.64%	111.21%	253.43%	

International Research Journal of Applied Finance ISSN 2229 – 6891
Vol. VII Issue – 7 July, 2016 www.irjaf.com
DOI: 10.0707/article-2

Table IV: Descriptive Statistics for Non-GAAP Income Adjustments, S&P 100 Companies, Fiscal 2013 (continued)

Panel B: 56 Companies with Net Positive Adjustments

Non-Recurring Adjustments	Mean	Minimum	Median	Maximum	Count
GAAP Income	100.00%	100.00%	100.00%	100.00%	
Acquisition/divestiture expenses	11.35%	-3.84%	0.98%	95.87%	13
Asset disposal (gains)/losses	2.43%	-6.24%	-0.63%	22.76%	6
Employee separation charges	3.91%	3.91%	3.91%	3.91%	1
Impairment charges	12.23%	-0.02%	4.12%	62.67%	12
Income tax items	-3.77%	-22.08%	-1.42%	7.09%	21
Investment (gains)/losses	11.08%	-24.47%	0.20%	63.64%	8
Litigation expenses	10.01%	-9.29%	1.65%	68.79%	17
Non recurring transaction gains/losses	1.54%	-5.44%	1.03%	8.20%	7
Non-cash compensation	17.73%	0.39%	13.75%	66.60%	10
Other non recurring (gains/credits) or losses/charges	9.77%	-12.21%	2.42%	46.86%	35
Pension plan (gains)/losses	8.66%	1.02%	7.83%	18.62%	6
Restructuring and productivity related charges	7.09%	-0.16%	3.13%	41.48%	23
Total net adjustments (non-recurring) †	22.32%	-6.93%	14.30%	153.43%	
Non-GAAP Income (after non recurring adjustments) †	122.34%	93.07%	114.30%	253.43%	
Recurring Adjustments					
Depreciation and Amortization	20.55%	3.87%	10.02%	114.45%	12
Interest expense	2.33%	2.33%	2.33%	2.33%	1
Net income attributable to non-controlling interests	-0.53%	-0.58%	-0.53%	-0.49%	2
Preferred distributions and dividends	20.73%	-0.34%	20.73%	41.80%	2
Provision for income taxes	56.42%	56.42%	56.42%	56.42%	1
Total net adjustments (recurring) †	24.70%	-0.49%	10.02%	113.54%	
Non-GAAP Income (after all adjustments) †	128.63%	100.29%	117.79%	253.43%	

International Research Journal of Applied Finance ISSN 2229 – 6891
Vol. VII Issue – 7 July, 2016 www.irjaf.com
DOI: 10.0707/article-2

Table IV: Descriptive Statistics for Non-GAAP Income Adjustments, S&P 100 Companies, Fiscal 2013 (continued)

Panel C: 19 Companies with Net Negative Adjustments

Non-Recurring Adjustments	Mean	Minimum	Median	Maximum	Count
GAAP Income	100.00%	100.00%	100.00%	100.00%	
Acquisition/divestiture expenses	0.43%	-1.36%	0.66%	1.74%	4
Asset disposal (gains)/losses	-16.65%	-48.28%	-8.87%	-0.59%	4
Employee separation charges	3.76%	-0.08%	1.58%	11.96%	4
Impairment charges	5.38%	0.46%	3.94%	14.30%	7
Income tax items	-6.22%	-30.15%	-1.37%	6.25%	10
Investment (gains)/losses	-9.56%	-36.21%	-1.64%	3.52%	6
Litigation expenses	-3.18%	-5.06%	-3.18%	-1.29%	2
Non recurring transaction gains/losses	-5.18%	-12.61%	-7.63%	4.50%	6
Non-cash compensation	N/A	N/A	N/A	N/A	0
Other non recurring (gains/credits) or losses/charges	-6.66%	-51.58%	-0.36%	9.95%	13
Pension plan (gains)/losses	-14.62%	-33.75%	-12.76%	0.78%	4
Restructuring and productivity related charges	-0.84%	-7.71%	0.45%	3.45%	4
Total net adjustments (non-recurring)†	-16.72%	-53.36%	-14.54%	-0.14%	
Non-GAAP Income (after non recurring adjustments) †	83.28%	46.64%	85.46%	99.86%	

Recurring Adjustments					
Depreciation and Amortization	15.52%	15.52%	15.52%	15.52%	1
Interest expense	N/A	N/A	N/A	N/A	0
Net income attributable to non-controlling interests	N/A	N/A	N/A	N/A	0
Preferred distributions and dividends	N/A	N/A	N/A	N/A	0
Provision for income taxes	N/A	N/A	N/A	N/A	0
Total net adjustments (recurring) †	15.52%	15.52%	15.52%	15.52%	
Non-GAAP Income (after all adjustments) †	84.10%	46.64%	86.21%	99.86%	

† Total net adjustments and Non-GAAP Income reflect company-specific mean, minimum, median and maximum amounts and are not a sum of the amounts presented in the table.

‡ In a Student's T-Test it was determined that the mean of non-GAAP earnings was significantly greater than GAAP earnings at the 1% level.

Source: Descriptive statistics of non-GAAP adjustments from S&P 100 companies Form 8-K Special Reports to the Securities and Exchange Commission.

Table V: Earnings Classifications

Company	GAAP Earnings Name	Non-GAAP Earnings Name
Abbott Laboratories	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
AbbVie Inc.	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Accenture plc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Allstate Corp	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Operating Earnings
Altria Group Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
American Express Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
American International Group	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Operating Earnings
Amgen Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Anadarko Petroleum Corp	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Net Income Available for Controlling Interest
Apache Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
AT&T Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Bank of America	Net Income	Non-GAAP or Adjusted Net Income
Baxter Intl Inc	Net Income	Non-GAAP or Adjusted Net Income
Berkshire Hathaway Inc	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Operating Earnings
Biogen Idec	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Net Income Available for Controlling Interest
Boeing Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Bristol-Myers Squibb	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Cisco Systems Inc	Net Income	Non-GAAP or Adjusted Net Income
Citigroup Inc	Net Income	Non-GAAP or Adjusted Net Income
Coca-Cola Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Colgate-Palmolive Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Comcast Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
ConocoPhillips	Net Income	Non-GAAP or Adjusted Net Income
Devon Energy Corp	Net Income	Non-GAAP or Adjusted Net Income
Dow Chemical	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
DuPont	After-Tax Income from Continuing Operations	Non-GAAP or Adjusted Operating Earnings
eBay Inc.	Net Income	Non-GAAP or Adjusted Net Income
Eli Lilly	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
EMC Corp	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Net Income Available for Controlling Interest
Emerson Electric Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Exelon Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share

-- Continued

Table V: Earnings Classifications (continued)

Company	GAAP Earnings Name	Non-GAAP Earnings Name
Facebook Inc	Net Income	Non-GAAP or Adjusted Net Income
FedEx Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Ford Motor Co	Net Income	Non-GAAP or Adjusted Operating Earnings
General Electric Co	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Operating Earnings
General Motors Company	Net Income Available for Controlling Interest	Earnings Before Interest and Taxes
Gilead Sciences Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Google Inc	Net Income	Non-GAAP or Adjusted Net Income
Halliburton Co	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Net Income Available for Controlling Intere
Hewlett-Packard Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Honeywell Intl Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Intl Business Machines Corp	Net Income	Non-GAAP or Adjusted Net Income
Johnson & Johnson	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
JP Morgan Chase & Co	Net Income	Non-GAAP or Adjusted Net Income
Mastercard Inc A	Net Income	Non-GAAP or Adjusted Net Income
Medtronic Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Merck & Co Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Metlife Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Microsoft Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Mondelez International Inc.	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Monsanto Co.	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Morgan Stanley	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
National Oilwell Varco Inc[†]	Net Income	Non-GAAP or Adjusted Net Income
Occidental Petroleum	Net Income	Non-GAAP or Adjusted Net Income
Oracle Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
PepsiCo Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share

-- Continued

[†]National Oilwell Varco reports income excluding certain items (Adjusted Net Income) in the opening text of its report. The reconciliation calculates EBITDA, but by removing all recurring adjustments, the calculation would result in the same value given in the opening text. As such, recurring adjustments are removed from the calculation in order to represent the value from the opening text.

Table V: Earnings Classifications (continued)

Company	GAAP Earnings Name	Non-GAAP Earnings Name
Pfizer Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Philip Morris International	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Procter & Gamble	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
QUALCOMM Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Raytheon Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Schlumberger Ltd[‡]	After-Tax Income from Continuing Operations	Non-GAAP or Adjusted Income From Continuing Operations
Simon Property Group Inc[§]	Net Income	Non-GAAP or Adjusted Net Income Available for Controlling Interest
Southern Co	Net Income	Non-GAAP or Adjusted Net Income
Starbucks Corp	Net Income	Non-GAAP or Adjusted Net Income
Target Corp	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
The Bank of New York Mellon Corp	Net Income Available for Controlling Interest	Non-GAAP or Adjusted Net Income Available for Controlling Interest
Time Warner Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Twenty-First Century Fox, Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
United Parcel Service Inc B	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
United Technologies Corp[¶]	Pre-Tax Operating Income	Non-GAAP or Adjusted Pre-Tax Operating Income
Verizon Communications Inc	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Wal-Mart Stores	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Walgreen Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share
Walt Disney Co	Diluted Earnings Per Share	Non-GAAP or Adjusted Diluted Earnings Per Share

[‡] Schlumberger does not mention non-GAAP earnings in the opening text of its earnings announcement. We use the name of the non-GAAP figure used in the reconciliation.

[§] Note that while Simon Property refers to GAAP income in the opening text of its earnings release as "Net income available to common shareholders", the reconciliation uses "Consolidated Net Income" as its baseline value, which is used here as the GAAP measure.

[¶] United Technologies' uses "Consolidated Operating Profit" as its baseline value for GAAP income in the reconciliation. The non-GAAP income measure is also taken from the reconciliation.

Table VI: Counts of GAAP and Non-GAAP Classifications

GAAP Earnings Names	Count	Non-GAAP Earnings Names	Count
After-Tax Income from Continuing Operations	2	Earnings Before Interest and Taxes	1
Diluted Earnings Per Share	44	Non-GAAP or Adjusted Diluted Earnings Per Share	44
Net Income	18	Non-GAAP or Adjusted Income From Continuing Operations	1
Net Income Available for Controlling Interest	10	Non-GAAP or Adjusted Net Income	16
Pre-Tax Operating Income	1	Non-GAAP or Adjusted Net Income Available for Controlling Interest	6
		Non-GAAP or Adjusted Operating Earnings	6
		Non-GAAP or Adjusted Pre-Tax Operating Income	1
Total	75	Total	75

Authors

Charles W. Mulford*
Invesco Chair and Professor of Accounting, Scheller College of Business, Georgia Institute of Technology, Atlanta, GA, charles.mulford@scheller.gatech.edu

Alex Pfeffer
Graduate Research Assistant, Scheller College of Business, Georgia Institute of Technology

*Corresponding Author