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Pro Forma Earnings: A Different Recipe

What could be more important to analysts and investors than corporate earnings? Why, "pro forma" corporate earnings, of course. Pro forma earnings have been around for years in some fashion or other. In fact, the adjustments made by analysts - both published and unpublished - to reported earnings have always been pro forma exercises. It's always been the job of the analyst to cull the chaff from the earnings wheat because different income and expense items carry different connotations about how well a firm has done, and how it might be expected to do in the future. The spirit of pro forma earnings, at least as interpreted by this observer, is that they are supposed to provide insights to the financial statement user as to how the reporting firm is doing when all the important factors are considered - and the extraneous ones are ignored.

In the past few years, however, companies have become visibly more strident in publishing pro forma earnings of their own - always with the excuse that analysts are going to make those adjustments anyway, and probably to make earnings look better than the reported amounts. In keeping with the genuine spirit of pro forma earnings, this report offers a different recipe for pro forma earnings for the S&P 100 - one that excludes extraneous pension items and includes the effects of stock option compensation.

I. The Rumble Going On

*If you've been contemplatin' just what you're doin' wrong,
Then you will be a witness to the rumble goin' on
You fight it hard to tell apart the truth from the jive,
They've got a right to say it wrong if freedom's to survive*

- Steppenwolf, "For Ladies Only"

Maybe it seems odd to open a report on pro forma earnings with a line from a song by Steppenwolf about the Seventies women's liberation movement - but the sample above nicely summarizes the current state of affairs surrounding pro forma earnings. Anyone who's even remotely related to the investment scene is "a witness to the rumble going on." In fact, it's hard *not* to be a witness.

Whether long-term or momentum players, analysts have always had one common mission: figure out from a firm's reported earnings just how well it's doing. That mission might imply that there's something inherently wrong with the way earnings are calculated, but nothing could be further from the truth. Earnings calculated in ac-

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Companies in this report:

AES Corporation
Alcoa
Allegheny Technologies
American Electric Power
American Express

(Continued on back of report)

Pro Forma Earnings: A Different Recipe

The ongoing rumble over "pro forma earnings" neglects a couple of things: for one, it's usually overlooked that earnings as determined under generally accepted accounting principles are supposed to display all of the transactions that affected a company in a given period. The routine "analysis" of excluding "one-time" or other unpleasant items in the income statement ignores the qualitative story being told by such charges - and the qualitative story usually reflects badly upon a management. Restructuring charges? Maybe a management's capital allocation skills are lacking. IPR&D charge? Maybe the firm's R&D effort has been unproductive, and more spending is needed to fix it. Intangibles amortization? Weren't intangible assets employed to produce results - and wasn't there a cost to them?

Furthermore, the pro forma exercise does not often take into account the presence of pension items that do not relate directly to a firm's operations - and improve its appearance. Nor do pro forma earnings commonly include stock compensation expense. Annually, adjustments can be made for these items because the information is available - and this report examines "pro forma earnings" using this methodology for the S&P 100.

The Earnings Newspaper

• Earnings should be like an uncensored newspaper: they should contain all the facts. The decision as to what's important should be left to the reader - and it usually results in what used to be referred to commonly as "adjusted" or "core" earnings. The more common moniker is "pro forma earnings."

• While handy for making comparisons across companies and time periods, there's information in the items usually excluded to arrive at pro forma earnings. The trouble is that it's usually of a nature that can't be forecasted, so analysts don't build into their earnings estimates. Worse: the items can be arbitrarily determined (example: restructuring charges), leading managements to lead analysts into certain pro forma regimes that encourage them to look the other way at economic activity evinced by the excluded items.

• While used to value companies, pro forma earnings are only half a tool. The usual rationale for excluding items from the income statement in determining pro forma earnings is that it brings earnings closer to cash flow. That may be true but the typical pro forma earnings figure is far from the cash generated by operations, a GAAP figure - and the mere application of a multiplier to some projected earnings figure is nothing at all like a discounted cash flow estimate, which is a much more logical way to value companies based on cash flow information. The income statement should provide insights as to where cash flows may be heading, and in that way affect estimates of value in discounted cash flow estimates.

A Different Pro Forma Recipe

• The starting point for pro forma earnings - that is, unadjusted earnings is incomplete in the first place. That's because it includes plenty of noise from pension plans, which don't relate to a firm's operations, and they exclude the effects of stock compensation, which is an input to a firm's operations. A recasting of the "as reported" earnings, "pro forma-ed" for these items, is made in this report.

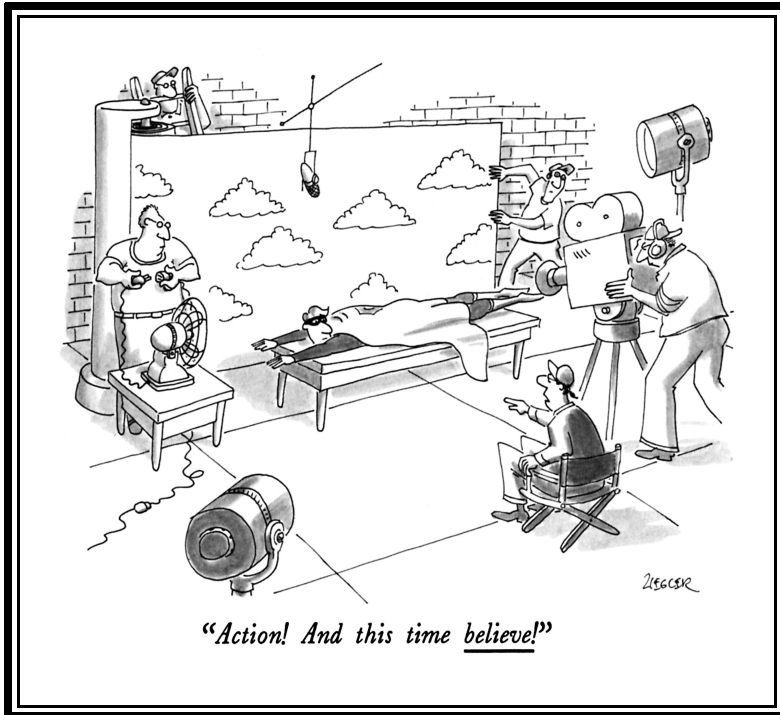
(\$ Millions)	<u>Pension</u>	<u>Stock Comp</u>
1st Quartile	(\$20,989.6)	\$13,410.0
2nd Quartile	(14,154.0)	13,334.5
3rd Quartile	(3,321.2)	13,125.5
4th Quartile	(863.5)	9,233.1
	<u>(\$39,328.3)</u>	<u>\$49,103.1</u>

• For the S&P 100 firms, the as reported figures exceeded the pro forma amounts by 10% for the five years between 1996 and 2000. That means earnings were already overstated during the period even before firms and analysts started excluding unpleasanties from the income statement.

• Looking at the 100 companies' overstatement by quartile showed the dispersion of overstatement was quite wide. For the uppermost quartile, the overstatement ranged from 21% to 487%. At the lowermost quartile, the overstatement ranged from only .5% to 5%.

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cordance with generally accepted accounting principles are like a newspaper: full of (hopefully) all available reported facts, some of which are important to the reader in shaping opinions, some of which might be disregarded immediately. To again quote John Kay and the boys, we “fight it hard to tell apart the truth from the jive” in the reported earnings.

Unfortunately, reporting companies have “got a right to say it wrong if freedom’s to survive.” The Financial Accounting Standards Board and the Securities & Exchange Commission rule, respectively, when it comes to the development and application of accounting principles, but their reach stops with financial statements filed with the SEC. They rightly lack the authority to control free speech, but in turn, companies have that “right to say it wrong” when they put their spin on earnings and accounting principles in earnings releases. Freedom may survive, but confusion may be rampant. Earnings have devolved from a fairly standard means of measuring corporate performance to something of a free-for-all street brawl.

It's the same thing with pro forma earnings: super performance through wishful thinking.

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The financial press frequently questions the methods and motivations of companies presenting pro forma earnings measures in press releases.¹ Companies point the finger at analysts, saying that they are likely to make pro forma adjustments anyway, and they are just giving them what they want. Analysts sometimes blame companies, charging that managements insist on being evaluated on the yardsticks they provide - and limit other information. There may be much truth to this charge: it's an overlooked benefit to companies that pro forma reporting makes analysts' estimates - and by default, their analysis - more homogeneous and easier to steer, something managements desire. If the operative principle of managing analysts is “the less questions, the better,” then pro forma earnings are a means to the end.

A reflective witness to the rumble going on might ask: who's to blame? Maybe more importantly: what's the right answer? It's hard to say any single party deserves all the blame: everyone's got a role in the makings of this rumble. Flimsy or nonexistent accounting principles governing restructuring charges and asset writedowns led to multitudes of them in the Eighties; reform efforts haven't quite done the trick.² The abundance of those charges probably triggered the concept of pro forma earnings innocently enough: leaving them in earnings would make year-to-year comparisons of operations tenuous to say the least, unless some adjustment was made for them. Analysts, always eager to catch “turns” in a business in either direction, happily excluded them from the earnings stream for the purpose of making comparisons - even though the determination of such “special” items is arbitrary. The results were symmetrical with future earnings estimates as well: analysts' forecasts only focused on what the operations

¹For just a couple of good examples, see “The Numbers Game,” Business Week, May 14, 2001 by David Henry, and “Ignore the Items Behind the Curtain: EPS Means Different Things to Different Earnings,” The Wall Street Journal, October 16, 2001 by Jonathan Weil.

²For some background on the standards that should have reformed the accounting, see Volume 4, No. 4, “Restructurings: New Rules For The Game,” and Volume 5, No. 1, “Industry Focus On SFAS No. 121: Why Charges Occur.”

of a firm would produce, not what writedowns or charges might be incurred.

In the Nineties, the menu of items to be eliminated from the earnings results began to proliferate, with “non-cash” status being the preferred rationale for excluding an item from earnings. “Dot-com” managements mastered this public relations prestidigitation more ably than the basics of running a company. FASB’s initial cut at revamping business combinations would have increased goodwill amortization³ - and acquisition-laden companies responded by trumpeting their “cash earnings” in analyst trysts, so as to diminish the relevance of goodwill amortization charges. Wall Street bought into it eagerly; flush with success, companies trotted more and more items out of the income statement and into the ether in determining “pro forma earnings.” Quarterly income “analysis” is now mostly an exercise in finding as many GAAP items to exclude from earnings as possible. Not only goodwill amortization and writedowns have been fair game for exclusion from pro forma earnings but also payroll taxes related to stock option exercises, inventory obsolescence charges, depreciation, and whatever else might be somehow justified.

So there you have the “who to blame,” at least in this observer’s view: everyone. Poor accounting standards permitted the arbitrary isolation of selected costs in the income statement; analysts, intent on catching every turn in operations every quarter, willingly forgave managements for trashing shareholder resources with monster-sized charges. (Longer-term, qualitative information in those charges be damned!) Successfully hooking analysts on such analytical dope, firms pushed more and more drugs on them whenever convenient - taking the investing world to its current state.

As for “what’s the right answer”, let’s take things a step at a time. Recall the earlier statement that earnings should be considered a newspaper: full of facts about everything that happened. That’s all there is to it; that’s what earnings should show and should continue to show. In the long run, all expenses are relevant, and to stay viable, a firm will have to be able to recover them - if not through operations, then through capital markets, as long as they are open to perennial capital squanderers.⁴ In the short run, analysts like to care about only the expenses they can (reasonably) forecast so they can apply an earnings multiple to forecasted earnings. The convention of applying multiples to some sort of earnings measure, however widespread, defies what every student of Finance 101 has learned about valuation: that discounted cash flow is the most theoretically sound way to value capital projects, from investing in the tiniest widget production line all the way up to investing in shares of a multinational firm.⁵

Realistically, nobody is going to stop valuing companies by using multiples on some measure of earnings - even if it’s not the best tool for the job of valuation. (Would the same people use pliers to tighten a screw? One wonders.) Analysts will always read the “earnings newspaper” to form their opinions and make their estimates of value; the problem is that when companies push the presentation of earnings in their own pro forma way, to the minimization of all other news in GAAP-backed earnings, it’s as if they’ve censored the news. There’s perhaps a better way to get the news to analysts, one that will be explored later.

Nevertheless, let’s focus on what analysts have come to call “pro forma” earnings, either by their definition or by some firm’s definition. Usually, it’s pitched as being better than the GAAP-backed earnings figure because

³See Volume 8, No. 13, “Re-engineering Business Combination Accounting.”

⁴Anyone who thinks otherwise should look at some of the lists of dead dot-coms; they certainly never covered their costs, and once their financing window slammed shut, died horribly. To boot, firms such as these were master practitioners of “pro forma reporting” and lowered the bar to new depths. One such list can be found in the article “Dead and (Mostly) Gone,” Fortune, December 24, 2001, by Ellen Florian, available on the Fortune magazine website at www.fortune.com.

⁵For a discussion of how to apply a discounted cash flow discipline to valuing a firm, using the cash flow statement as a starting point, see Volume 10, No. 4, “Reading The 2000 Annual Reports: A User’s Guide.”

it's closer to cash flow, (never mind there's no consistent definition of this), and after all, "cash is king⁶." Maybe that feels right because it might convince the casual analyst that he or she has done their duty to bash GAAP in smug preference of something somehow more "real," but the simple truth is that earnings and cash flow are supposed to be different; earnings aren't required to mimic cash flow, nor should they be. In fact, the two are opposite ends of a spectrum for measuring a firm's output. On the earnings end of the spectrum, earnings are supposed to show everything that happened within a firm for a period - and like it or not, writedowns, restructurings and stock compensation are economic events, even if they aren't cash transactions in a given period. They belong in earnings, and are real long-term costs of doing business. On the other end of the spectrum, cash generated from operations - a GAAP figure, incidentally, and found in the statement of cash flows - shows nothing more than the firm's efforts success in turning income into cash. If earnings can be compared to a newspaper that reports all events occurring within an entity as a whole, the cash generated from operations is like a different document: a report card on a firm's treasury function, nothing more. In between the two, it's hard to tell exactly what is the story told; measures in the "pro forma zone" aren't telling you earnings and they aren't telling you about cash generation.

Look at earnings without depreciation and you ignore the fact that long-lived assets cost something to obtain and control - and were employed to produce revenues; similarly, earnings without amortization ignore the fact that intangibles produced revenues. Restructuring charges and writedowns muck up comparisons for sure and make current net results incomparable to projected results - but what about the capital wasted by management? Ignore in-process R&D charges because they're one-time events? Then you might miss a more subtle message: maybe the acquirer has a miserable R&D effort and needs to be spending much more in the future to stay competitive, a cash flow implication. Want to know the earnings of a business strictly from its operations? It surely makes good sense to exclude non-operating gains and losses arising from sales of assets - but ignoring it totally avoids that evaluation-of-capital-allocation issue again. (How well has the company managed its investments in such assets? Why is it necessary to sell assets? Why was such investment made in the first place?)

The Reporting Spectrum

Net income	Depreciation & Amortization	Restructuring Charges, In-Process R&D Charges & Writedowns	Gains/Losses On Asset Disposals	Deferred Tax Expense	Net Pension Cost	Working Capital Investment	Cash Generated from Operations
The "Pro Forma Zone"							

Deferred tax expense and net pension cost aren't usually in the pro forma zone, though they are issues faced by many, if not most, firms. Working capital investment is another item not observed in pro forma results. Yet, all of these items have significant cash-generation implications, which pro forma players usually extol as a virtue of this kind of reporting.

In short, the items that get excluded from earnings somewhere in "the pro forma zone" may ruin year-to-year comparisons but they carry qualitative information that might offer clues about future cash flows - information that might affect an analyst's views in projecting future results for a discounted cash flow exercise, but ironically, information that is ignored when applying "cash flow multiples" or some other such relative valuation measure to pro forma earnings.

Earnings are a worthwhile concept of performance because they let investors know what's the net result of all transactions that have happened as of a point in time - and thus, they carry future implications about cash flows. Without question, there are flaws in earnings measurement: for one, they're chock full of well-veiled estimates that are subject to tweaking by managements who know investors will be looking at earnings of some sort in setting value. That's a practical - and justifiable and remediable - complaint, but not one that invalidates earnings as a measure of performance. If anything, it's an indictment of the insufficient disclosure system that permits such manipulation to take place without detection.

⁶When someone poses that hoary chestnut - watch your wallet.

II. Some Real Pro Forma Figures

Though GAAP-backed earnings are a more complete measure of performance than those in the “pro forma zone,” they harbor some easily remedied flaws that need to be corrected before one can say they really depict what happened in a firm for a given period of time. Accept the premise that analysts and investors should care only about the operations of the firm in which they invest, and you’ll realize there’s still some adjusting to do to earnings. In short, analysts need a pro forma recipe that differs from what is traditionally served up by reporting firms.

If analysts and investors care only about a firm’s operating results - which is the ultimate source of their returns - then they need to remove the effects of pension plan results. The components of net pension cost have been discussed much more thoroughly in prior reports⁷, but keep in mind a few simple facts. There are components to net pension cost that simply are not the responsibility of the sponsor firm (like interest expense) - nor the right of the sponsor firm to enjoy (like return on plan assets). To get to a more descriptive view of earnings showing a firm’s results using all of *its own resources*, then a logical cut is to exclude from earnings all components of pension cost (or income) other than service cost, which is definitely the responsibility of the sponsoring firm. Stripping the non-service cost components out of the net income gets the figure down to results of the firm’s operations. That’s a cut firms don’t usually help analysts make when they are discussing pro forma earnings - maybe because “pro forma” earnings are usually helped by keeping them in the picture.

But wait, there’s more: recall that net income handily excludes one of the inputs to operations - namely, the cost of stock compensation. Again, the whole subject of stock compensation expense has been discussed more thoroughly in prior reports;⁸ what matters here is that the deficiency in reported net income can be repaired with a “pro forma earnings” computation. Why put in stock compensation? Simple: it was a transaction that happened. Employees worked for pay denominated in stock compensation and produced results for it. Looking at earnings without all costs included tells only “the good parts” of the corporate performance story.

Accounting standards as they exist in the United States are very transparent - even if they are the result of a development process that is frequently politicized. The beauty of them is that they often contain their own remedies for the end results of the political concessions they contain. Statement No. 87 (pensions) created unreal results in the income statement, at the request of firms desiring to present nothing more than smooth results. At least the annual disclosures of Statement No. 87 allow analysts to remove the effects of its built-in “expense-smoothing” distortions of economic reality. Likewise, Statement No. 123 kept stock compensation out of the income statement - but provided enough annual disclosures for analysts to “pro forma” it back into earnings.

So, to sum up, let us throw one more definition of “pro forma” earnings into the arena, one that’s rooted in the concept that earnings are supposed to show all that happened in a firm whether or not transactions were of a non-cash nature (and excluding transactions that don’t relate to the firm). Let the cash flow statement show what happened with cash transactions; let pro forma earnings be reported earnings available to common shareholders, excluding non-service cost pension items (on an estimated after-tax basis) and including all charges, writedowns and stock compensation. Let’s make pro forma earnings be what earnings should have been in the first place.

One caveat: yes, unusual charges and writedowns can be distortive in any one year’s performance, but they also indicate a likelihood that assets were not depreciated or amortized properly in years previous to the recognition in earnings. As mentioned earlier, they are still real costs and need to be considered in a complete display of earnings. Over time, such “overs” and “unders” may cancel out. So we’ll examine the cumulative earnings of the S&P 100 companies under this definition over the last five years (1996 to 2000) to handle those bumps.

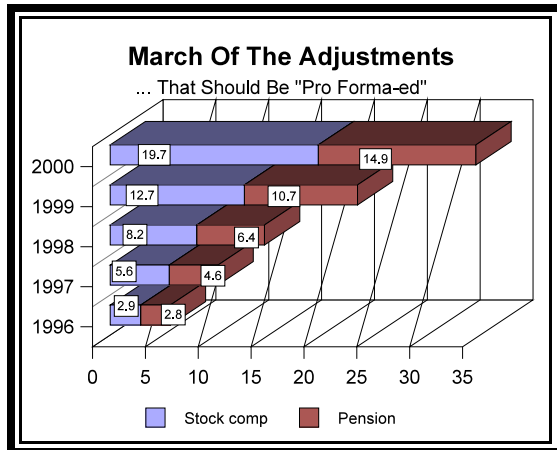
⁷See Volume 10, No. 6, “Pondering Pensions: How They Affected 2000 Earnings,” Volume 9, No. 6, “Pondering Pensions: Are They “Making” Earnings?,” and Volume 9, No. 8, “Pondering Pensions, Part 2: Shock Absorbers For Smoothing Reality.”

⁸See Volume 10, Nos. 8 & 9, “2000 Stock Compensation: Sizing Up The Beast.”

Earnings: "As Reported" To "Pro Forma"

(\$ in millions)	----- 1996 - 2000 Cumulative -----				Difference	
	"As Reported" Earnings	Estimated Pension Items	Stock Compensation	"Pro Forma" Earnings	\$	%
Consumer Discretionary	\$139,944.7	(\$1,454.2)	\$5,147.4	\$133,343.1	\$6,601.6	5.0%
Consumer Staples	99,435.3	(885.3)	3,782.0	94,768.0	4,667.3	4.9%
Energy	56,824.7	40.6	1,392.0	55,473.3	1,351.4	2.4%
Financials	204,465.3	(1,651.6)	8,236.5	194,577.2	9,888.1	5.1%
Health Care	96,600.7	(676.1)	5,931.8	89,992.8	6,607.9	7.3%
Industrials	105,841.3	(11,413.6)	3,514.7	90,913.0	14,928.3	16.4%
Information Technology	146,400.8	(8,659.8)	16,300.1	121,440.9	24,959.9	20.6%
Materials	25,653.8	(3,443.2)	1,182.2	21,028.4	4,625.4	22.0%
Telecommunication Services	77,066.5	(9,985.7)	3,054.1	64,026.7	13,039.8	20.4%
Utilities	18,042.8	(1,199.4)	562.3	16,281.1	1,761.7	10.8%
Total	\$970,275.9	(\$39,328.3)	\$49,103.1	\$881,844.5	\$88,431.4	10.0%

Some computational notes: First, the reported earnings is based on diluted earnings per share, multiplied by diluted shares. This represents the earnings available to shareholders, after preferred shareholder claims. Estimated pension items are the difference between pretax net pension cost and service cost, multiplied by 65% to derive an estimated after-tax amount (1- federal statutory rate of 35% = 65%). Don't be confused by the amounts in parentheses; they signify that these items were effectively income items in reported earnings, and they are relieved from reported earnings in calculating this version of pro forma earnings. The stock compensation amounts are based on the required SFAS No. 123 footnote disclosures, and are a subtraction from reported earnings in deriving these pro forma earnings.

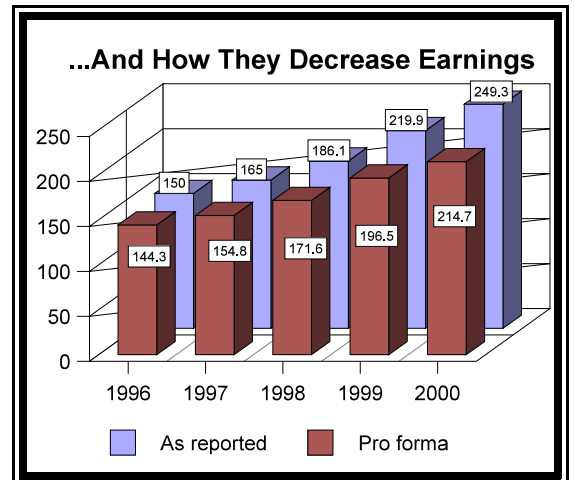


It isn't just earnings that grow. Ignoring one of the inputs of production help earnings grow; counting the output of pension plans in earnings helps them grow.

been overstated by 10% - a significant amount in almost anyone's book. The materials sector leads the way, on a percentage basis - a 22% difference over the five years between as reported and pro forma earnings. The biggest contributor to the overage is the pension plan effects for these firms; the materials sector is full of old-line firms like **DuPont** and **International Paper** which are more likely to possess mature labor forces than companies in the information technology sector. Those employees are covered by defined benefit plans in existence for years - and have benefitted from the long bull market,

The table above summarizes, by sector, the cumulative "as reported" earnings available to common shareholders, the estimated after-tax boost provided by conventional pension reporting, and the amount of the stock compensation unrecorded in reported earnings. Put them all together and what have you got? Pro forma earnings with all that you need and nothing you don't. Perhaps the most interesting fact revealed: while stock compensation is the most-often-vilified reporting distortion, pension items aren't far behind in terms of the total earnings fog created - \$49.1 versus \$39.3 billion.

Notice also that for the five year cumulative period, the S&P 100 earnings have



After adjusting earnings to a "pro forma" basis - one that includes all that you need and nothing you don't - earnings growth in the last five years looks a lot less robust. Notice the difference was up to 16% by 2000!

which affects pension reporting even after its end.⁹ The industrials sector has the biggest difference in earnings due to pension items - \$11.4 billion. This sector contains companies with labor/pension plan characteristics similar to the materials sector, and includes firms with fabled titanic pension plans like **General Electric** and **Boeing**. Those two firms contributed the lion’s share of the sector’s pension adjustments of \$11.4 billion. Likewise, older firms with monster pension plans make up the telecommunications sector and its \$10 billion pension adjustment. These firms include **Verizon**, **SBC Communications**, and **AT&T**. (Composition of the sectors, by individual companies, appear in the appendix.)

Contrast the above with the sector having the biggest dollar amount of earnings difference - the information technology sector. Its \$25 billion of “vapor earnings” is mostly attributable to unrecorded stock compensation, related to younger companies without pension plans and with workforces that demand option pay. Indeed, though there is \$8.7 billion of pension items for the sector, don’t be fooled: it stems largely from **Lucent** and **IBM** - genuinely old-line companies with lots of well-pensioned labor, despite their information technology tag.

Looking at the companies a different way, the 100 companies were classified into quartiles by the absolute value of the percentage difference between “as reported” earnings available to common shareholders and the “pro forma” earnings under the all-inclusive recipe. The table below summarizes the distribution.

The Degrees Of Overstatement

	Underper- formers	Average Underper- formance	Cumulative Underper- formers	Outper- formers	Average Outper- formance	Cumulative Outper- formers
Greater than 21% overstated	15	-85%	15	10	423%	10
10.1% to less than 21% overstated	12	-106%	27	13	212%	23
5.0% to less than 10.1% overstated	14	-69%	41	11	501%	34
.5% to 4.97% overstated	<u>11</u>	-66%	52	<u>14</u>	180%	48
Total	<u>52</u>			<u>48</u>		

In examining the summary, notice first what *isn't* in it: no firm’s earnings were understated by the “as reported” accounting regime. Next, observe that a little more than half (52) of the companies’ stocks underperformed the market (as expressed by the S&P 500’s return of 114%) over the same time frame; a little less than half (48) outperformed the market. What’s curious to note is that more of the underperformers were clustered in the upper half of the distribution (27 outperformers against 23 underperformers.) Also, compare the “overstated underperformers” in the first quartile to their counterparts in the lowest quartile: those with the most overstatement enjoyed the most outperformance. If that doesn’t make you wonder about the efficiency of capital allocation by the stock market...

⁹Again, the reader is urged to visit Volume 10, No. 6, “Pondering Pensions: How They Affected 2000 Earnings” for a more thorough discussion of how pension assets and accounting conventions affect reported earnings.

The companies in the uppermost quartile are shown in the table below. These are the ones with the biggest absolute value percentage difference between as reported and pro forma earnings.

Top 25%: Largest % Difference Between “As Reported” & “Pro Forma” Earnings

Company	Sector	----- 1996 - 2000 Cumulative -----				Difference	
		“As Reported” Earnings	Estimated Pension Items	Stock Compensation	“Pro Forma” Earnings	\$	%
Viacom	Consumer Discretionary	\$330.6	(\$57.1)	\$217.2	\$56.3	\$274.3	486.8%
Lucent	Information Technology	6,165.5	(3,018.6)	1,881.6	1,265.3	4,900.2	387.3%
AOL Time Warner	Consumer Discretionary	1,493.2	5.2	1,114.0	384.4	1,108.8	288.4%
International Paper	Materials	1,040.2	(525.9)	105.8	408.5	631.7	154.6%
Black & Decker	Consumer Discretionary	214.2	(87.9)	30.5	95.8	118.4	123.7%
Allegheny Technologies	Materials	764.3	(360.9)	20.2	383.2	381.1	99.4%
Unisys	Information Technology	(18.9)	(406.7)	102.5	(528.0)	509.2	-96.4%
Boise Cascade	Materials	217.6	(68.7)	36.4	112.5	105.1	93.5%
Baker Hughes	Energy	264.0	(19.4)	92.9	151.7	112.3	74.0%
NVIDIA Corporation	Information Technology	135.6	0.0	53.8	81.8	53.8	65.7%
Raytheon	Industrials	3,289.4	(869.7)	266.4	2,153.3	1,136.1	52.8%
Medimmune	Health Care	212.8	0.0	65.8	147.0	65.8	44.8%
National Semiconductor	Information Technology	(278.6)	0.8	198.7	(476.5)	197.9	-41.5%
Boeing	Industrials	7,196.6	(2,085.9)	(39.3)	5,150.0	2,046.6	39.7%
Pharmacia	Health Care	3,559.5	(16.9)	983.5	2,559.1	1,000.4	39.1%
Cisco Systems	Information Technology	8,074.4	0.0	2,131.7	5,942.7	2,131.7	35.9%
Nortel Networks	Information Technology	(4,083.5)	68.9	2,285.9	(6,300.5)	2,217.0	-35.2%
Du Pont	Materials	8,491.9	(1,671.8)	232.2	6,587.9	1,904.0	28.9%
Fedex	Industrials	2,412.6	(439.8)	72.9	1,899.9	512.7	27.0%
IBM	Information Technology	33,549.3	(4,979.7)	2,081.3	26,488.3	7,061.0	26.7%
Verizon Communications	Telecommunication Services	29,955.2	(5,418.8)	742.8	23,793.6	6,161.6	25.9%
Delta Air Lines	Industrials	4,384.0	(406.9)	475.1	3,502.0	882.0	25.2%
El Paso Energy	Utilities	745.6	(81.9)	61.6	602.1	143.5	23.8%
Weyerhaeuser	Materials	2,554.3	(403.0)	64.1	2,087.2	467.1	22.4%
Halliburton	Energy	1,570.9	(144.8)	132.3	1,293.8	277.1	21.4%

The table at left summarizes the distribution by the sources of the difference between the earnings figures. Surprisingly, the pension figures contribute the most distortion in the top half of the distribution. Scanning the list on the previous page and the list below shows why: it’s where the older firms with the monster-sized pension plans fell out in the distribution. No surprise: most of the stock compensation difference was made by companies in the information technology sector.

(\$ Millions)	Pension	Stock Comp
1st Quartile	(\$20,989.6)	\$13,410.0
2nd Quartile	(14,154.0)	13,334.5
3rd Quartile	(3,321.2)	13,125.5
4th Quartile	(863.5)	9,233.1
	<u>(\$39,328.3)</u>	<u>\$49,103.1</u>

In the bottom half of the distribution (individual companies shown on next page), the difference in earnings was more attributable to the lack of stock compensation recognition - and a scan of them shows heavy representation by the financials and consumer sectors.

Next 25: 2nd Largest % Difference Between “As Reported” & “Pro Forma” Earnings

Company	Sector	----- 1996 - 2000 Cumulative -----				Difference	
		“As Reported” Earnings	Estimated Pension Items	Stock Compensation	“Pro Forma” Earnings	\$	%
Eastman Kodak	Consumer Discretionary	\$5,203.5	(\$527.2)	\$359.6	\$4,316.8	\$886.8	20.5%
Tyco	Industrials	5,690.4	(185.7)	686.0	4,818.7	871.7	18.1%
Williams Companies	Utilities	2,130.8	(24.2)	295.9	1,810.6	320.1	17.7%
Honeywell	Industrials	7,767.1	(821.6)	259.0	6,686.5	1,080.6	16.2%
Schlumberger	Energy	3,689.5	(59.2)	445.8	3,184.6	504.9	15.9%
SBC Communications	Telecommunication Services	29,750.0	(3,406.0)	658.7	25,685.3	4,064.7	15.8%
Xerox	Information Technology	4,151.0	(267.8)	286.7	3,596.4	554.5	15.4%
Alcoa	Materials	4,712.1	(143.8)	477.4	4,090.9	621.2	15.2%
Exelon	Utilities	2,510.4	(244.2)	78.0	2,188.2	322.1	14.7%
General Electric	Industrials	48,331.8	(5,475.6)	668.3	42,187.9	6,143.9	14.6%
Pfizer	Health Care	15,841.5	(141.7)	1,845.5	13,854.3	1,987.2	14.3%
Gillette	Consumer Staples	5,519.0	(58.5)	618.7	4,841.8	677.2	14.0%
Southern Co.	Utilities	4,993.5	(588.3)	6.5	4,398.7	594.8	13.5%
Microsoft	Information Technology	27,336.4	0.0	3,058.4	24,278.0	3,058.4	12.6%
Clear Channel	Consumer Discretionary	486.9	0.0	51.9	435.0	51.9	11.9%
Ralston	Consumer Staples	1,762.1	(150.0)	30.8	1,581.3	180.8	11.4%
Oracle	Information Technology	9,803.5	0.0	1,003.6	8,799.9	1,003.6	11.4%
Sara Lee	Consumer Staples	3,574.3	(87.8)	277.9	3,208.6	365.7	11.4%
Harrah's Entertainment	Consumer Discretionary	536.3	0.0	54.1	482.2	54.1	11.2%
United Technologies	Industrials	5,650.8	(349.7)	217.2	5,083.8	566.9	11.2%
Texas Instruments	Information Technology	5,292.0	45.5	575.1	4,762.4	529.6	11.1%
General Dynamics	Industrials	3,199.7	(256.8)	63.2	2,879.8	319.9	11.1%
AT&T	Telecommunication Services	23,559.9	(1,160.9)	1,146.4	21,252.6	2,307.3	10.9%
Norfolk Southern	Industrials	2,493.5	(163.8)	80.3	2,249.4	244.1	10.8%
Rockwell	Industrials	1,911.3	(87.1)	89.5	1,734.7	176.6	10.2%

No matter how you slice the data, one thing is clear: there's a lot of information that's not included in the "earnings newspaper" even before managements and analysts take their scissors of censorship to its pages. A difference of 10% of net income - even over a five year span - implies that the starting point for most of the pro forma calculations made by analysts and firms is flawed even before it gets flawed some more.

Company	Sector	----- 1996 - 2000 Cumulative -----				Difference	
		"As Reported" Earnings	Estimated Pension Items	Stock Compensation	"Pro Forma" Earnings	\$	%
Third Quartile: Companies With Lesser Differences In Earnings							
Walt Disney	Consumer Discretionary	7,504.5	(128.1)	561.2	6,815.3	689.3	10.1%
Amgen	Health Care	5,112.5	0.0	466.6	4,645.9	466.6	10.0%
Toys 'R Us	Consumer Discretionary	1,468.9	0.0	132.0	1,336.9	132.0	9.9%
Minnesota Mining & Mfg.	Industrials	8,465.5	(227.5)	508.4	7,729.6	735.9	9.5%
Merrill Lynch & Co.	Financials	11,137.0	(61.1)	819.1	10,256.8	880.2	8.6%
Morgan Stanley	Financials	17,956.3	29.9	1,317.9	16,668.3	1,288.0	7.7%
Baxter International	Health Care	2,734.7	(55.3)	139.1	2,540.3	194.4	7.7%
Pepsico	Consumer Staples	8,661.5	(4.6)	607.4	8,049.5	612.0	7.6%
Nextel Communications	Telecommunication Services	(6,198.6)	0.0	506.1	(6,704.7)	506.1	-7.5%
HCA	Health Care	3,044.2	0.0	210.1	2,834.1	210.1	7.4%
American Electric Power	Utilities	3,469.3	(229.7)	3.2	3,236.4	232.9	7.2%
EMC	Information Technology	4,441.6	(0.9)	294.4	4,146.3	295.3	7.1%
Dow Chemical	Materials	7,873.3	(269.1)	246.1	7,358.1	515.2	7.0%
U.S. Bancorp	Financials	6,455.1	(126.7)	282.2	6,046.2	408.9	6.8%
Home Depot	Consumer Discretionary	8,717.8	0.0	520.6	8,197.2	520.6	6.4%
General Motors	Consumer Discretionary	23,172.7	(570.7)	811.6	21,790.3	1,382.3	6.3%
Bank of America	Financials	32,607.2	(579.8)	1,338.2	30,689.2	1,918.0	6.2%
Computer Sciences	Information Technology	1,334.2	(9.1)	67.7	1,257.4	76.8	6.1%
Bank One	Financials	12,229.5	(332.8)	342.0	11,554.7	674.8	5.8%
Radio Shack	Consumer Discretionary	798.7	0.0	43.4	755.3	43.4	5.8%
Bristol-Myers Squibb	Health Care	16,701.4	(146.3)	707.3	15,847.9	853.5	5.4%
American Express	Financials	11,316.8	(87.1)	486.9	10,742.8	574.0	5.3%
McDonald's	Consumer Discretionary	8,648.3	0.0	417.7	8,230.6	417.7	5.1%
Citigroup	Financials	44,647.1	(430.3)	1,699.6	42,517.2	2,129.9	5.0%
Hewlett-packard	Information Technology	14,534.7	(92.3)	596.9	13,845.5	689.1	5.0%
Fourth Quartile: Least Different Earnings							
Colgate-Palmolive	Consumer Staples	4,213.7	(26.7)	172.2	4,014.8	199.0	5.0%
Entergy	Utilities	2,637.6	(90.4)	33.0	2,514.2	123.4	4.9%
Intel	Information Technology	35,963.6	0.0	1,681.9	34,281.7	1,681.9	4.9%
J.P. Morgan Chase	Financials	23,407.3	140.4	1,204.3	22,343.4	1,063.9	4.8%
Coca-Cola	Consumer Staples	15,776.5	29.9	699.1	15,107.3	669.2	4.4%
Burlington North Santa Fe	Industrials	5,048.7	(43.6)	167.9	4,837.3	211.4	4.4%
Merck & Co.	Health Care	26,465.7	(80.1)	985.4	25,400.2	1,065.5	4.2%
Wells Fargo & Co.	Financials	14,722.7	(159.3)	407.9	14,155.5	567.2	4.0%
Campbell Soup	Consumer Staples	3,483.2	(92.3)	40.0	3,350.9	132.3	3.9%
Lehman Bros.	Financials	4,340.4	(87.1)	72.1	4,181.2	159.2	3.8%
Cigna	Health Care	4,741.3	(37.7)	132.1	4,571.5	169.8	3.7%
Procter & Gamble	Consumer Staples	17,421.8	164.5	758.9	16,827.3	594.5	3.5%
Philip Morris	Consumer Staples	34,171.4	(694.9)	454.0	33,022.6	1,148.8	3.5%
Johnson & Johnson	Health Care	18,187.1	(198.3)	396.3	17,592.5	594.6	3.4%
Hartford Finl.	Financials	4,086.4	(8.5)	110.6	3,967.3	119.0	3.0%
Heinz	Consumer Staples	3,129.6	5.0	77.0	3,057.6	72.0	2.4%
Limited	Consumer Discretionary	3,568.6	0.0	69.0	3,499.6	69.0	2.0%
Aes Corp.	Utilities	1,555.7	59.2	84.0	1,530.8	24.9	1.6%
May Department Stores	Consumer Discretionary	4,142.4	22.8	78.6	4,086.5	55.9	1.4%
Ford	Consumer Discretionary	44,432.3	(173.6)	329.7	43,929.0	503.3	1.1%
Sears	Consumer Discretionary	6,303.1	62.4	130.5	6,235.0	68.1	1.1%
Wal Mart Stores	Consumer Discretionary	22,922.6	0.0	225.7	22,697.0	225.7	1.0%
Avon Products	Consumer Staples	1,722.3	30.0	46.0	1,706.3	16.0	0.9%
Exxon Mobil	Energy	51,300.3	263.9	721.1	50,843.1	457.2	0.9%
American Int'l Group	Financials	21,559.7	50.7	155.8	21,454.6	105.1	0.5%

III. What Should Be Done

Realistically, Wall Street will never perform the kind of pro forma analysis shown in this report, for a couple of reasons. One, the information is simply unavailable in quarterly fashion, and Wall Street lives and dies by information by the minute, especially during quarterly earnings season. The information in these figures is not required by accounting and disclosure rules to be presented on an interim basis. Companies could make the information available easily; already being a component of earnings, the pension figure is nothing new to calculate. Its components would only need to be disclosed. The stock compensation information already must be calculated for disclosure annually; one would expect that practical firms already update it as the year progresses and transactions occur - and if so, there should be no hardship in disclosing it. Better yet, maybe firms should just take the high road and report it as a cost of doing business (which it is, by the way.)

Most of the items excluded when “normalizing” earnings are actually pretty normal.

Another reason that Wall Street would not beg managements for these kinds of pro forma figures on a quarterly basis: it’ll always be easier to apply multiples to “normalized” versions of earnings. They should remember that most of the things they exclude when looking at their versions of pro forma earnings are pretty normal in and of themselves. Investors and analysts are pretty much hooked on discussing values in terms of multiples of some earnings measure, instead of in terms of something like discounted cash flows. Admittedly, it does simplify analysis and making comparisons between companies - but simplification carries its own cost, and in this case, it costs relevance.

Back to what should be done. Wall Street, meaning both investors and analysts, should take some pains to do more qualitative work in assessing earnings. Analysis like this should be well within the grasp of most analysts, and to a man (and woman), they profess to be interested in the source of a company’s earnings ability. Why not really look for it? The tools are available at least annually, and if such an assessment was made, it might provide a fresh perspective. Furthermore, Wall Street should recognize the limits of reading the earnings newspaper in estimating values - and use the inferences provided in the newspaper to help develop more logical estimates of value based on discounted forecasted cash flows. That’s tough medicine to get unhooked from the pro forma valuation habit, but potentially worth it.

Perhaps that sounds a little too pat; what might be more satisfying is a laundry list of items to be excluded from earnings in determining “pro forma” earnings in the more traditional sense. In fact, there are some moves in this direction. Two trade groups - Financial Executives International (FEI) and the National Investor Relations Institute (NIRI) - have joined forces in producing broad guidelines for earnings press releases. (You can find it on the web at www.fei.org/news.) It’s not a laundry list per se, but mere suggestions at what might be most useful to investors at press release time. The joint effort is admirable but ultimately the wrong answer: there are enough rules and bureaucracy involved in the financial reporting hierarchy already. Another layer of reporting do’s and don’ts is not likely to improve anything.

Better to serve the investing public with providing honest, full-featured, timely reporting of quarterly information. Put all of the right facts in the hands of the people who should be doing the picking and choosing of relevant facts themselves - the analysts. Giving a more complete 10-Q to the investing public at the time of the earnings release would go far in settling the debate over what belongs in pro forma earnings; let all the players have all the available information and then let them decide for themselves, free from the tyranny of management censors.

The SEC has been slow to act on pro forma abuses; it brought an action just this week against **Trump Casinos & Hotel Resorts** for a misleading earnings release in 1999. The transgression arose because the firm

neglected to mention the inclusion of a one-time gain that helped it surpass analyst estimates - while at the same time, it steered analysts away from including a one-time charge. Consider this: would there ever have been a case if Trump Casinos & Hotel Resorts had been required to file its 10-Q at the same time it presented earnings to the public? The SEC has to tread carefully when it deals with a company's "right to say it wrong," but it does have considerable sway over when and what should be said in corporate filings. SEC Chairman Pitt has mentioned that the SEC is concerned with developing a policy of "continuous disclosure;" let's hope that includes enrichment of the quarterly reporting package - both in content and timeliness.

The quarterly disclosure system has been sadly neglected; information technology has barreled forward in the last twenty years, and lots of talk is spent on how to increase the speed of information provided to investors. Precious little attention is devoted to improving the quality of information. Quarterly information about activity in non-cash accounts affecting earnings along with more disclosures about sensitive accounting assumptions (and changes in them) would go far toward improving the quality of earnings by allowing more efficient market scrutiny.

Putting more high quality information into quarterly filings that are synchronized with earnings releases should be music to the ears of Wall Street - and muffle the noisy din of "pro forma earnings" and the debate surrounding them. Who know? Maybe a regrouped Steppenwolf might jam about it.

* * * * *

Note: the above suggestions for better quarterly reporting mentioned here were developed in greater depth in two editorials in Barron's:

- *"More Second Guessing," August 24, 1998, and*
- *"Get Real," May 28, 2001.*

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Company	----- 1996 - 2000 Cumulative -----						Firm's Stock Return	% Over (Under) Market
	Reported	Pension	Stock Comp	Revised	Difference \$	%		
Consumer Discretionary								
AOL Time Warner	\$1,493.2	\$5.2	\$1,114.0	\$384.4	\$1,108.8	288.4%	1387%	1273%
Black & Decker	214.2	(87.9)	30.5	95.7	118.4	123.7%	11%	-103%
Clear Channel	486.9	0.0	51.9	435.0	51.9	11.9%	339%	225%
Eastman Kodak	5,203.5	(527.2)	359.6	4,316.8	886.8	20.5%	-41%	-156%
Ford	44,432.3	(173.6)	329.7	43,929.0	503.3	1.1%	114%	-1%
General Motors	23,172.7	(570.7)	811.6	21,790.3	1,382.3	6.3%	16%	-99%
Harrah's Entertainment	536.3	0.0	54.1	482.2	54.1	11.2%	9%	-106%
Home Depot	8,717.8	0.0	520.6	8,197.2	520.6	6.4%	330%	216%
Limited	3,568.6	0.0	69.0	3,499.6	69.0	2.0%	99%	-15%
May Department Stores	4,142.4	22.8	78.6	4,086.5	55.9	1.4%	17%	-98%
McDonald's	8,648.3	0.0	417.7	8,230.6	417.7	5.1%	51%	-64%
Radio Shack	798.7	0.0	43.4	755.3	43.4	5.8%	312%	198%
Sears	6,303.1	62.4	130.5	6,235.0	68.1	1.1%	-11%	-125%
Toys 'R Us	1,468.9	0.0	132.0	1,336.9	132.0	9.9%	-23%	-138%
Viacom	330.6	(57.1)	217.2	56.3	274.3	486.8%	97%	-17%
Wal Mart Stores	22,922.6	0.0	225.7	22,697.0	225.7	1.0%	377%	263%
Walt Disney	7,504.5	(128.1)	561.2	6,815.3	689.3	10.1%	48%	-67%
	<u>\$139,944.7</u>	<u>(\$1,454.2)</u>	<u>\$5,147.4</u>	<u>\$133,343.2</u>	<u>\$6,601.6</u>			
Consumer Staples								
Avon Products	\$1,722.3	\$30.0	\$46.0	\$1,706.3	\$16.0	0.9%	154%	40%
Campbell Soup	3,483.2	(92.3)	40.0	3,350.9	132.3	3.9%	15%	-99%
Coca-Cola	15,776.5	29.9	699.1	15,107.3	669.2	4.4%	64%	-50%
Colgate-Palmolive	4,213.7	(26.7)	172.2	4,014.8	199.0	5.0%	268%	153%
Gillette	5,519.0	(58.5)	618.7	4,841.8	677.2	14.0%	39%	-76%
Heinz	3,129.6	5.0	77.0	3,057.6	72.0	2.4%	43%	-71%
Pepsico	8,661.5	(4.6)	607.4	8,049.5	612.0	7.6%	77%	-37%
Philip Morris	34,171.4	(694.9)	454.0	33,022.6	1,148.8	3.5%	46%	-68%
Procter & Gamble	17,421.8	164.5	758.9	16,827.3	594.5	3.5%	89%	-25%
Ralston	1,762.1	(150.0)	30.8	1,581.3	180.8	11.4%	26%	-89%
Sara Lee	3,574.3	(87.8)	277.9	3,208.6	365.7	11.4%	54%	-61%
	<u>\$99,435.3</u>	<u>(\$885.3)</u>	<u>\$3,782.0</u>	<u>\$94,768.0</u>	<u>\$4,667.5</u>			
Energy								
Baker Hughes	\$264.0	(\$19.4)	\$92.9	\$151.7	\$112.3	74.0%	71%	-44%
Exxon Mobil	51,300.3	263.9	721.1	50,843.1	457.2	0.9%	114%	0%
Halliburton	1,570.9	(144.8)	132.3	1,293.7	277.1	21.4%	43%	-71%
Schlumberger	3,689.5	(59.2)	445.8	3,184.6	504.9	15.9%	131%	16%
	<u>\$56,824.7</u>	<u>\$40.6</u>	<u>\$1,392.0</u>	<u>\$55,473.2</u>	<u>\$1,351.5</u>			
Financials								
American Int'l Group	\$21,559.7	\$50.7	\$155.8		\$105.1	0.5%	349%	234%
American Express	11,316.8	(87.1)	486.9	10,742.8	574.0	5.3%	299%	184%
Bank One	12,229.5	(332.8)	342.0	11,554.7	674.8	5.8%	18%	-97%
Bank of America	32,607.2	(579.8)	1,338.2	30,689.2	1,918.0	6.2%	32%	-83%
Citigroup	44,647.1	(430.3)	1,699.6	42,517.2	2,129.9	5.0%	389%	274%
Hartford Financial	4,086.4	(8.5)	110.6	3,967.3	119.0	3.0%	192%	78%
J.P. Morgan Chase	23,407.3	140.4	1,204.3	22,343.4	1,063.9	4.8%	132%	18%
Lehman Bros.	4,340.4	(87.1)	72.1	4,181.2	159.2	3.8%	536%	422%
Merrill Lynch & Co.	11,137.0	(61.1)	819.1	10,256.8	880.2	8.6%	435%	320%
Morgan Stanley	17,956.3	29.9	1,317.9	16,668.3	1,288.0	7.7%	575%	460%
U.S. Bancorp	6,455.1	(126.7)	282.2	6,046.2	408.9	6.8%	252%	138%
Wells Fargo & Co.	14,722.7	(159.3)	407.9	14,155.5	567.2	4.0%	238%	123%
	<u>\$204,465.3</u>	<u>(\$1,651.6)</u>	<u>\$8,236.5</u>	<u>\$194,577.2</u>	<u>\$9,888.2</u>			

Appendix: S&P 100 Companies Data, By Sector

	----- 1996 - 2000 Cumulative -----						Firm's % Over Stock (Under) Return Market	
	Reported	Pension	StockComp	Revised	Difference \$	%		
Health Care								
Amgen	\$5,112.5	\$0.0	\$466.6	\$4,645.9	\$466.6	10.0%	331%	217%
Baxter International	2,734.7	(55.3)	139.1	2,540.3	194.4	7.7%	111%	-3%
Bristol-Myers Squibb	16,701.4	(146.3)	707.3	15,847.9	853.5	5.4%	244%	130%
CIGNA	4,741.3	(37.7)	132.1	4,571.5	169.8	3.7%	285%	170%
HCA	3,044.2	0.0	210.1	2,834.1	210.1	7.4%	30%	-84%
Johnson & Johnson	18,187.1	(198.3)	396.3	17,592.5	594.6	3.4%	146%	31%
Medimmune	212.8	0.0	65.8	147.0	65.8	44.8%	1332%	1218%
Merck & Co.	26,465.7	(80.1)	985.4	25,400.2	1,065.5	4.2%	185%	71%
Pfizer	15,841.5	(141.7)	1,845.5	13,854.3	1,987.2	14.3%	339%	224%
Pharmacia	3,559.5	(16.9)	983.5	2,559.1	1,000.4	39.1%	149%	35%
	<u>\$96,600.7</u>	<u>(\$676.1)</u>	<u>\$5,931.8</u>	<u>\$89,992.8</u>	<u>\$6,607.9</u>			
Industrials								
Boeing	\$7,196.6	(\$2,085.9)	(\$39.3)	\$5,150.0	\$2,046.6	39.7%	68%	-46%
Burlington North Santa Fe	5,048.7	(43.6)	167.9	4,837.3	211.4	4.4%	9%	-105%
Delta Air Lines	4,384.0	(406.9)	475.1	3,502.0	882.0	25.2%	36%	-78%
FedEx	2,412.6	(439.8)	72.9	1,899.8	512.8	27.0%	116%	2%
General Electric	48,331.8	(5,475.6)	668.3	42,187.9	6,143.9	14.6%	300%	185%
General Dynamics	3,199.7	(256.8)	63.2	2,879.8	319.9	11.1%	164%	50%
Honeywell	7,767.1	(821.6)	259.0	6,686.5	1,080.6	16.2%	99%	-15%
Minnesota Mining & Mfg.	8,465.5	(227.5)	508.4	7,729.6	735.9	9.5%	82%	-33%
Norfolk Southern	2,493.5	(163.8)	80.3	2,249.4	244.1	10.8%	-50%	-164%
Raytheon	3,289.4	(869.7)	266.4	2,153.3	1,136.1	52.8%	-34%	-149%
Rockwell	1,911.3	(87.1)	89.5	1,734.7	176.6	10.2%	-10%	-124%
Tyco	5,690.4	(185.7)	686.0	4,818.7	871.7	18.1%	524%	409%
United Technologies	5,650.8	(349.7)	217.2	5,083.8	566.9	11.2%	232%	117%
	<u>\$105,841.3</u>	<u>(\$11,413.6)</u>	<u>\$3,514.7</u>	<u>\$90,912.9</u>	<u>\$14,928.5</u>			
Information Technology								
Cisco Systems	\$8,074.4	\$0.0	\$2,131.7	\$5,942.7	\$2,131.7	35.9%	822%	707%
Computer Sciences	1,334.2	(9.1)	67.7	1,257.4	76.8	6.1%	71%	-43%
EMC	4,441.6	(0.9)	294.4	4,146.3	295.3	7.1%	3364%	3249%
Hewlett-Packard	14,534.7	(92.3)	596.9	13,845.5	689.1	5.0%	51%	-64%
IBM	33,549.3	(4,979.7)	2,081.3	26,488.4	7,061.0	26.7%	272%	158%
Intel	35,963.6	0.0	1,681.9	34,281.7	1,681.9	4.9%	324%	210%
Lucent	6,165.5	(3,018.6)	1,881.6	1,265.3	4,900.2	387.3%	76%	-38%
Microsoft	27,336.4	0.0	3,058.4	24,278.0	3,058.4	12.6%	295%	181%
National Semiconductor	(278.6)	0.8	198.7	(476.5)	197.9	-41.5%	-9%	-123%
Nortel Networks	(4,083.5)	68.9	2,285.9	(6,300.5)	2,217.0	-35.2%	496%	382%
NVIDIA Corporation	135.6	0.0	53.8	81.8	53.8	65.7%	233%	118%
Oracle	9,803.5	0.0	1,003.6	8,799.9	1,003.6	11.4%	826%	711%
Texas Instruments	5,292.0	45.5	575.1	4,762.4	529.6	11.1%	636%	521%
Unisys	(18.9)	(406.7)	102.5	(528.0)	509.2	-96.4%	166%	52%
Xerox	4,151.0	(267.8)	286.7	3,596.4	554.5	15.4%	-80%	-194%
	<u>\$146,400.8</u>	<u>(\$8,659.8)</u>	<u>\$16,300.1</u>	<u>\$121,440.9</u>	<u>\$24,960.0</u>			
Materials								
Alcoa	\$4,712.1	(\$143.8)	\$477.4	\$4,090.9	\$621.2	15.2%	153%	39%
Allegheny Technologies	764.3	(360.9)	20.2	383.3	381.1	99.4%	-37%	-151%
Boise Cascade	217.6	(68.7)	36.4	112.5	105.1	93.5%	-3%	-117%
Dow Chemical	7,873.3	(269.1)	246.1	7,358.1	515.2	7.0%	57%	-58%
Du Pont	8,491.9	(1,671.8)	232.2	6,588.0	1,904.0	28.9%	38%	-76%
International Paper	1,040.2	(525.9)	105.8	408.5	631.7	154.6%	8%	-107%
Weyerhaeuser	2,554.3	(403.0)	64.1	2,087.2	467.1	22.4%	17%	-97%
	<u>\$25,653.8</u>	<u>(\$3,443.2)</u>	<u>\$1,182.2</u>	<u>\$21,028.5</u>	<u>\$4,625.4</u>			

Appendix: S&P 100 Companies Data, By Sector

	----- 1996 - 2000 Cumulative -----							
	Reported	Pension	Stock Comp	Revised	Difference		Firm's Stock Return	% Over (Under) Market
					\$	%		
Telecommunication Services								
AT&T	\$23,559.9	(\$1,160.9)	\$1,146.4	\$21,252.6	\$21,252.6	10.9%	-45%	-159%
Nextel Communications	(6,198.6)	0.0	506.1	(6,704.7)	506.1	-7.5%	235%	121%
SBC Communications	29,750.0	(3,406.0)	658.7	25,685.3	4,064.7	15.8%	67%	-48%
Verizon Communications	29,955.2	(5,418.8)	742.8	23,793.6	6,161.6	25.9%	50%	-65%
	<u>\$77,066.5</u>	<u>(\$9,985.7)</u>	<u>\$3,054.1</u>	<u>\$64,026.8</u>	<u>\$13,039.7</u>			
Utilities								
AES Corp.	\$1,555.7	\$59.2	\$84.0	\$1,530.8	\$24.9	1.6%	828%	713%
American Electric Power	3,469.3	(229.7)	3.2	3,236.4	232.9	7.2%	15%	-100%
El Paso Energy	745.6	(81.9)	61.6	602.1	143.5	23.8%	398%	284%
Entergy	2,637.6	(90.4)	33.0	2,514.2	123.4	4.9%	45%	-70%
Exelon	2,510.4	(244.2)	78.0	2,188.2	322.1	14.7%	133%	19%
Southern Co.	4,993.5	(588.3)	6.5	4,398.7	594.8	13.5%	35%	-79%
Williams Companies	2,130.8	(24.2)	295.9	1,810.6	320.1	17.7%	173%	59%
	<u>\$18,042.8</u>	<u>(\$1,199.4)</u>	<u>\$562.3</u>	<u>\$16,281.0</u>	<u>\$1,761.7</u>			

Companies in this report (continued)

American Int'l Group	Du Pont	J.P. Morgan Chase	Radio Shack
Amgen	Eastman Kodak	Johnson & Johnson	Ralston
AOL Time Warner	El Paso Energy	Lehman Bros.	Raytheon
AT&T	Emc	Limited	Rockwell
Avon Products	Entergy	Lucent	Sara Lee
Baker Hughes	Exelon	May Department Stores	SBC Communications
Bank of America	Exxon Mobil	Mcdonald's	Schlumberger
Bank One	Fedex	Medimmune	Sears
Baxter International	Ford	Merck & Co.	Southern Co.
Black & Decker	General Dynamics	Merrill Lynch & Co.	Texas Instruments
Boeing	General Electric	Microsoft	Toys 'R Us
Boise Cascade	General Motors	Minnesota Mining & Mfg.	Tyco
Bristol-Myers Squibb	Gillette	Morgan Stanley	U.S. Bancorp
Burlington North Santa Fe	Halliburton	National Semiconductor	Unisys
Campbell Soup	Harrah's Entertainment	Nextel Communications	United Technologies
CIGNA	Hartford Finl.	Norfolk Southern	Verizon Communications
Cisco Systems	HCA	Nortel Networks	Viacom
Citigroup	Heinz	Nvidia Corporation	Wal Mart Stores
Clear Channel	Hewlett-packard	Oracle	Walt Disney
Coca-Cola	Home Depot	Pepsico	Wells Fargo & Co.
Colgate-Palmolive	Honeywell	Pfizer	Weyerhaeuser
Computer Sciences	IBM	Pharmacia	Williams Companies
Delta Air Lines	Intel	Philip Morris	Xerox
Dow Chemical	Int'l Paper	Procter & Gamble	

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