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The Voluntary Disclosure of Pro Forma Earnings: A U.S.-Canada Comparison

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ABSTRACT: This study compares managers' voluntary disclosure of pro forma earnings—an alternative measure to generally accepted accounting principals (GAAP) earnings—in the U.S. and Canada. The results indicate some distinct differences between the two countries in that U.S. managers (1) disclose pro forma earnings more frequently, (2) place greater emphasis on the pro forma earnings number relative to the GAAP earnings figure, and (3) make greater (income-increasing) adjustments from GAAP in calculating pro forma earnings than do their Canadian counterparts. While we find distinct differences in the use of pro forma between the U.S. and Canada, we do not find evidence that it is used for different purposes. Our evidence suggests that in both countries pro forma earnings is used by some corporations to affect users' perceptions of firm performance. Overall, given the differences in managers' use of pro forma, a form of voluntary disclosure, our results suggest caution in moving to a uniform (cross-border) system of financial regulation.

Keywords: pro forma earnings; voluntary disclosure; regulation; international.

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I. INTRODUCTION

The regular reporting of firm performance is foundational to capital market systems such as in the U.S. and Canada. The primary securities regulators in both countries—the Securities and Exchange Commission (SEC) in the U.S. and the Ontario Securities Commission (OSC) in Canada—consequently require that firms regularly disclose earnings prepared in accordance with generally accepted accounting principles (GAAP). Further, both regulators require that the GAAP earnings number be audited. These regulators also allow managers to voluntarily disclose a second, unaudited measure of firm

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performance—colloquially termed "pro forma" earnings.[1] The argument for this second measure—accepted by both regulators—is that pro forma earnings may help investors better understand a firm's financial results (OSC 2002a; U.S. SEC 2001). As an example of such reporting, in its February 6, 2002, earnings press release (see Appendix B, Exhibit 3), PepsiCo, a U.S. company, disclosed *comparable* (i.e., pro forma) earnings for fiscal 2001 of $3 billion ($1.66 per share), while its reported GAAP earnings were $2.66 billion ($1.47 per share). Similarly, in its March 19, 2002, press release (see Appendix B, Exhibit 2), Bombardier, a Canadian company, disclosed *income before special items* for fiscal 2001 of $1.7 billion ($0.81 per share), as compared to GAAP earnings of $391 million ($0.27 per share). In this study, we compare the behavior of a prominent group of U.S. and Canadian firms in their use of pro forma earnings. To our knowledge, this is the first cross-country comparison of the use of pro forma earnings, as well as the first paper that documents pro forma disclosure outside the U.S.

The U.S. and Canada are primary trading partners and their capital markets are highly integrated.[2] Cross border regulatory issues are consequently of interest to both countries. In particular, Canadian securities regulators closely examine U.S. regulation for its appropriateness for Canadian financial markets. For example, the OSC is continuing to examine the implications of adopting the various measures proposed in the Sarbanes-Oxley Act (SOX).[3] According to David Brown, the chair of the OSC, "The regulatory overhaul right next door—in the world's largest economy—is simply too big for Canadians to ignore." However, he also noted that "... we have to examine these reforms through the prism of the Canadian economy and Canadian market conditions" (OSC 2002b). To help determine the appropriateness of another country's regulation, it is helpful to know whether managers in different countries make different decisions when faced with similar regulation. This study provides an ideal setting for such an analysis. Specifically, during our sample period, both U.S. and Canadian managers had similar (i.e., almost complete) discretion to voluntarily disclose pro forma earnings, and the form such disclosure would take. Indeed, prior to SOX—enacted subsequent to our study—there were effectively no regulations regarding pro forma disclosure in either country,[4] other than those related to fraud. Managers in both countries could therefore freely decide whether to report a pro forma earnings number, the relative emphasis they would place on pro forma versus GAAP earnings in their earnings press release, as well as how the pro forma earnings number would be calculated. Both countries' business environments are also similar, including their securities regulatory structures and accounting systems (i.e., their GAAP). Consequently, given these similarities, and the absence of any specific pro forma regulation in either country, we expect similar pro

[1] Pro forma earnings are alternately described by firms using such descriptors as "core earnings," "adjusted earnings," "recurring earnings," or "ongoing earnings." Refer to Appendix A for a more detailed list.

[2] A number of Canadian and U.S. companies are cross listed. For example, in our study, 40 percent of the S&P TSX 300 firms were cross listed on a U.S. stock exchange.

[3] SOX is significantly altering the U.S. financial regulatory landscape, for example, the need for executives to certify the overall fairness of their company's financial statements (refer to U.S. House of Representatives [2002], SOX, Section 302(a)(3)). In Canada the OSC has adopted this certification requirement (OSC 2004), and is considering the appropriateness of other U.S. SOX-inspired regulation. SOX is available online at: http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf.

[4] Subsequent to the period of this study, the Sarbanes-Oxley Act in the U.S. led the SEC to issue specific rules—Regulation G—on pro forma earnings. These rules, while not restricting the ability of firms to disclose pro forma earnings, require management to ensure that such disclosure is: (1) not materially misleading; and (2) reconciled to GAAP earnings numbers (U.S. SEC 2003a).

forma disclosure practices of U.S. and Canadian managers. To the extent there are differences, this could have implications for the efficacy of uniform financial regulation, particularly between U.S. and Canadian financial markets. Therefore, in this study, we also contribute to the regulatory debate regarding the convergence of financial regulation.

Our results reveal that on important dimensions, the pro forma reporting practices are, on average, different between U.S. and Canadian managers. U.S. managers are far more likely to report pro forma earnings (77 percent of our sample firms) than are Canadian managers (33 percent of the noncross-listed firms). In addition, when U.S. managers announce pro forma earnings, they give greater emphasis in the press release to the pro forma versus the GAAP number; make significantly more adjustments to GAAP earnings; and make adjustments that are larger, and more frequently income-increasing. However, we also find evidence that suggests both U.S. and Canadian managers use pro forma earnings strategically to affect users' perceptions of firm performance. Overall, our results suggest caution, certainly for Canadian regulators, in moving to adopt U.S. securities regulation.

The remainder of the study is organized as follows. The next section provides relevant background information, including a review of the existing pro forma literature. Section III presents the research design. Section IV compares the use of pro forma earnings by U.S. and Canadian managers, and Section V explores whether pro forma earnings are being used to manage users' perceptions of firm performance. Discussion and policy implications complete the paper.

II. BACKGROUND INFORMATION

Pro Forma Earnings Research

Only recently has disclosure research been extended to the area of pro forma earnings. As noted earlier, this research is presently limited to U.S. data. These studies have explored two, arguably competing, motives for managers to disclose pro forma earnings; to provide additional value relevant information (e.g., to inform shareholders), or to manage perceptions (e.g., to affect shareholder expectations). Consistent with the first motive, management tends to argue that the additional information provided through pro forma earnings allows investors to better evaluate the firm's performance.[5] For example, the information enables managers to reveal to the market the firm's "core" earnings, where one-time or unusual events are excluded from the measurement of earnings. Empirical studies have generally supported the value relevance argument, including findings by Bhattacharya et al. (2003) that firms' reported pro forma earnings is more informative and persistent (or permanent) than GAAP earnings. Other empirical studies, using "street" earnings reported by analyst tracking services (e.g., I/B/E/S, First Call) to proxy for firms' pro forma earnings, also find these alternate earnings measures to be more closely associated with stock price (Bradshaw and Sloan 2002; Brown and Sivakumar 2003) and more predictive of future earnings (Brown and Sivakumar 2003). Conversely, Doyle et al. (2003) find that the expenses excluded from GAAP earnings would help investors predict lower future cash flows: in other words, that street earnings exclude value relevant items.

The second motive for disclosing pro forma earnings is that managers attempt to affect users' perceptions of firm performance (e.g., to have the firm viewed as being more profitable, or to create a perception that the firm has met or exceeded analysts' earnings forecasts). Empirical studies have also found evidence consistent with this strategic motive

[5] This motive is also consistent with managers providing investors with a "higher quality" measure of the firm's performance than is possible under GAAP (see Entwistle 2002). Support for this motive has also come from securities regulators in the U.S. (U.S. SEC 2001), Canada (OSC 2002a), and at the international level (IOSCO 2002).

for reporting pro forma earnings. For example, Bhattacharya, Black, Christensen, and Mergenthaler (2004) find that 80 percent of firms that report on a pro forma basis report pro forma earnings exceeding analysts' forecasts, while only 39 percent report GAAP-based earnings which exceed analysts' forecasts. Bowen et al. (2004) find that firms whose period-to-period change in pro forma earnings exceeds the corresponding change in GAAP earnings, placed greater relative emphasis on pro forma in their earnings press release. They also find that firms that report GAAP losses, but pro forma profits, are more likely to emphasize pro forma earnings. Lougee and Marquardt (2004) find evidence suggesting that some firms use pro forma reporting for strategic considerations: for example, to compensate for negative earnings surprises. Experimental research (e.g., Elliot 2004; Frederickson and Miller 2004) has found evidence suggesting that the judgments of unsophisticated investors (i.e., M.B.A. students) are affected by the strategic use of pro forma earnings. For example, Elliot (2004) finds that viewing an earnings release emphasizing a pro forma profit versus a GAAP loss leads to a greater assessment of firm performance than when provided only the GAAP loss.

Some results, however, do not support this strategic motive for pro forma earnings. For example, Bowen et al. (2004) find that firms that might be predisposed to highly emphasizing pro forma earnings, such as high technology firms (where GAAP earnings are purportedly of especially low quality) and firms with a history of prior GAAP losses, do not emphasize the pro forma number. Johnson and Schwartz (2001) also find evidence that any stock market premium attached to their sample of pro forma firms is unrelated to characteristics of the firms' pro forma earnings disclosure. Finally, neither the Elliot (2004) nor the Frederickson and Miller (2004) experiments generally find that sophisticated investors (i.e., analysts) are influenced by pro forma earnings.

This latter motive for managers to disclose pro forma—to affect users' perceptions—is of significant interest to regulators. Therefore, we examine this motivation. In particular, regulators are concerned that firms may use pro forma earnings to potentially mislead investors. If pro forma reporting is used extensively, and is used to mislead, it is important for regulators to protect investors from harm. If pro forma reporting is not used extensively, or if it is not misleading, there may be little justification for regulation. Thus, this paper examines policy implications of pro forma earnings, both in Canada and the U.S., by examining the use and motivation for pro forma reporting. We are also interested in the emergence and efficacy of cross-border financial regulation. Thus, we also investigate pro forma reporting differences across countries (i.e., between the U.S. and Canada).

To summarize, existing pro forma research, focusing exclusively on U.S. firms, reveals mixed support for the two motives advanced for the disclosure of pro forma earnings—to provide value relevant information or to affect users' perceptions. It may, however, be possible that both motives are correct. That is, some firms may use pro forma reporting to provide value relevant information, while others try to mislead investors. Our study builds on this prior research, and extends it into an international comparative setting.

The U.S. and Canada

A number of empirical studies have compared the financial reporting practices of managers across countries (e.g., Camfferman and Cooke 2002; Jaggi and Low 2000; Maignan and Ralston 2002; Newson and Deegan 2002; Kinnunen and Koskela 2003). Generally, these studies find significant differences. However, they frequently compare countries between which disclosure differences might reasonably be expected to exist. For example, Jaggi and Low (2000) find that financial disclosure significantly differs between firms from common law versus *ex ante* code law countries, while Newson and Deegan (2002) find

differences between firms from three culturally distinct countries. In contrast, this study compares two countries (the U.S. and Canada) which operate within very similar business and institutional environments and where, *ex ante*, one might not expect to find significantly different disclosure practices.

In terms of similarities, according to Jaggi and Low (2000), both the U.S. and Canada operate within a similar (common law) legal system. Saudagaran (2004) also suggests that both countries have similar economies where financing for large companies is provided largely through the equity markets. Both countries also have strong geographic and economic ties and share similar (low) levels of inflation. In terms of specific accounting standards, Paul Cherry, chairman of the Accounting Standards Board of Canada recently stated "... the Canadian board has largely succeeded in eliminating major differences in accounting principles between Canada and the U.S." (Cherry 2003). Cherry's statement is consistent with Kinnunen and Koskela (2003) who find that the degree of latitude in GAAP is very similar between the U.S. and Canada—more similar than between the U.S. and other countries. However, Canadian GAAP is arguably more "principles-based" than U.S. GAAP (e.g., Quinn 2003; Bandyopadhyay et al. 1994). This enables managers to more easily adjust their earnings within GAAP, hence reducing the need in Canada to provide a pro forma earnings number. However, according to Paul Cherry "The flap over rules versus principles is much ado about nothing ... The whole debate is very overblown ... The U.S. has very well principled standards" (Quinn 2003, 21). A recent SEC report also argues against the claim that the U.S. approach to standard setting is rules-based (U.S. SEC 2003b).

The U.S. and Canadian reporting environments are also very similar in terms of relevant securities regulation. Specifically, under the shareholder protection index developed by LaPorta et al. (1997), the U.S. and Canada have similar scores, with respective rankings of numbers one and two. Likewise, Saudagaran and Biddle (1992) also rank the U.S. and Canada as numbers one and two. In terms of management compensation, Towers Perrin (2003) also find that the mix of pay components for U.S. and Canadian CEO's is similar. Finally, researchers have hypothesized that national culture might affect management's financial reporting decisions (e.g., Zarzeski 1996; Hope 2003; Kinnunen and Koksela 2003). However, Hofstede's (1980) study showed similar scores and rankings for the U.S. and Canada on each of the four cultural dimensions of power distance, uncertainty avoidance, individualism, and masculinity.

To summarize, while there are some country-level differences between the U.S. and Canada, these differences are small relative to their similarities. Notably, with respect to the regulation of pro forma earnings disclosure, the two countries were identical for the period studied in this paper (i.e., there was effectively no regulation of pro forma in either country). Further, to the extent that there are country-level differences between the two countries, these would tend to be far smaller than between the U.S. and other countries, or between the various countries examined in prior comparative research. *Ex ante* then, we do not expect significant differences in pro forma disclosure practices between U.S. and Canadian firms.

III. RESEARCH DESIGN

We employ a cross-sectional design, using annual earnings, to compare the pro forma reporting behavior between U.S. and Canadian firms. Specifically, we select a specific set of firms—the Standard and Poor's (S&P) 500 in the U.S. and the Toronto Stock Exchange (TSX) S&P 300 in Canada—and then undertake a full reading of the actual year-end earnings press releases. This differs from prior pro forma research which has used analysts' earnings numbers as a proxy for pro forma earnings (e.g., Brown and Sivakumar 2003;

Bradshaw and Sloan 2002; Doyle et al. 2003),[6] or that has identified the set of pro forma firms by performing electronic word searches (e.g., Bowen et al. 2004; Bhattacharya et al. 2003; Johnson and Schwartz 2001; Lougee and Marquardt 2004).[7] Our study also differs from prior research by using annual, as compared to quarterly, earnings announcements, and by using a defined (and prominent) set of firms as opposed to a broad sampling of publicly listed firms. These differences should be considered in interpreting and generalizing our results.

From the firms' Internet sites we collected annual earnings press releases for firms on the U.S. S&P 500 index and on the Canadian TSX S&P 300 index.[8] Our sample period includes fiscal years ending between February 1, 2001, and January 31, 2002. Six U.S. firms[9] and ten Canadian firms[10] were excluded from the analysis, leaving a final sample of 494 U.S. firms and 290 Canadian firms. Of the 290 Canadian firms, 116 were cross-listed on a U.S. exchange; this cross-listing was used to add an additional dimension to the data analysis. Using various data capture instruments, each of the 784 press releases was then fully and independently read and coded by one of the study authors, and by an extensively trained research assistant. The collection and coding of the annual earnings press releases was a time-intensive process which required the exercise of judgment. Where coding differences existed (approximately 5 percent of all cases), the two coders, along with a second author, met to form a consensus. As a further check on the integrity of the data collection, this second author subsequently reviewed the coding for all 784 press releases.

To be considered a pro forma earnings press release, two criteria had to be met. First, an alternative measure of earnings (to GAAP earnings) for the year had to be provided somewhere in the press release, either specifically in the headline or in the narrative. Second, this alternate measure had to be expressed on a per-share basis. Consistent with the findings of Bhattacharya, Black, Christensen, and Mergenthaler (2004), and as presented in Appendix A, a wide variety of pro forma earnings descriptors were used, both in the U.S. (28 descriptors) and in Canada (17 descriptors). The most common descriptor (43 percent of U.S. firms; 31 percent of Canadian firms) was "*Net Income or EPS excluding* or *before various charges or one-time items.*" In our sample, 14 percent of U.S. firms and 6 percent of Canadian firms actually use the specific descriptor "*pro forma.*"

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[6] Equating an external (i.e., to the firm) earnings forecast with actual pro forma use can overstate the proportion or frequency with which managers actually disclose pro forma earnings. Bhattacharya et al. (2003, 287) challenged the use of analysts' earnings as a proxy for pro forma reporting; they stated "... the extent to which these forecast data providers approximate pro forma earnings numbers managers report in press releases is an open question."

[7] To illustrate, in Bhattacharya et al. (2003), different versions of the search term *pro forma* (e.g., pro forma, pro-forma, or proforma) were first used to identify firms disclosing pro forma earnings. This search was later expanded to incorporate numerous other nomenclatures (e.g., earnings excluding, net income excluding, adjusted net income). These various nomenclatures capture most of the pro forma descriptors identified in our study. However, we opted to identify the pro forma users in our group through directly reading each of the press releases, some of which contained multiple linked documents (i.e., the press release had attached files) which may not have been fully amenable to a newswire search.

[8] We used the S&P 500 index reported in Business Week 50/Spring 2002. We accessed the TSX S&P 500 index from the TSX website on June 10, 2002.

[9] Of the six S&P 500 firms excluded from the analysis, two were excluded due to corporate restructurings, two due to insufficient information to enable a complete analysis, and there were no press releases available for two firms.

[10] At the time of the data selection, there were 297 firms listed on the S&P/TSX 300. This is a common situation due to the maintenance policies in place for the S&P/TSX 300 index. Four of these firms were excluded due to corporate restructuring, and there were no press releases available for three firms.

We also analyzed each press release to determine whether the existence of a pro forma earnings measure was specifically provided in the press release headline.[11] It is important to note that in certain cases where the headline provided an "earnings" measure, it was not immediately apparent whether this earnings measure was GAAP or pro forma until after a full reading of the press release. To help clarify our coding process, we provide four Exhibits (abridged versions of actual earnings press releases) in Appendix B. Exhibit 1 (Wal-Mart) is an example of a GAAP (i.e., nonpro forma) press release. Exhibits 2 through 4 are examples of pro forma releases. In Exhibits 2 (Bombardier) and 3 (PepsiCo), pro forma measures are disclosed in the headline. While for Bombardier this may be determined simply through reading the headline, one can only confirm that the language in the headline for PepsiCo is pro forma (i.e., "2001 EPS UP 14% TO $1.66") through reading the narrative section of the press release. Finally, Exhibit 4 (Hershey's) is an example of a firm with pro forma in the narrative, but not in the headline.

We further analyzed the pro forma press releases to assess the emphasis placed on the pro forma message. That is, we also explore whether the pro forma earnings number is the dominant earnings measure communicated by the firm (versus GAAP). We determine the emphasis placed on pro forma earnings using two separate measures. The first measure indicates whether the pro forma number is reported in the headline, or solely in the body of the press release. The second measure indicates whether the pro forma or GAAP earnings number has greater overall prominence in the earnings press release. Finally, we analyzed each pro forma press release to identify the number, nature, and income-affect (both direction and magnitude) of the adjustment(s) to GAAP earnings used in determining the firm's pro forma measure.

IV. COMPARATIVE USE OF PRO FORMA EARNINGS

Hypotheses

An important empirical focus of this research is to determine whether there are differences in the use of pro forma earnings between the U.S. and Canada. As discussed in Section II, there are many similarities between the U.S. and Canada on dimensions that may affect manager disclosure practices. Hence, *ex ante,* we hypothesize that:

H1: U.S. and Canadian firms are equally likely to disclose pro forma earnings in their earnings press releases;

H2: The relative emphasis managers place on pro forma versus GAAP earnings in their earnings press releases is the same for U.S. and Canadian firms;

H3: The number of adjustments to GAAP earnings to arrive at the pro forma earnings number is the same for U.S. and Canadian firms;

H4: The direction (i.e., income-increasing or decreasing) of pro forma adjustments is the same for U.S. and Canadian firms; and,

H5: The magnitude of pro forma adjustments is the same for U.S. and Canadian firms.

[11] Some judgment was required in determining when the headline ended and when the narrative began. A guiding feature for the coders is that the headline was typically set off in some way from the narrative, with the latter typically written in full prose.

Results

Table 1 presents the frequency of pro forma reporting in both the U.S. and Canada. Of the firms sampled in the U.S., 77 percent (380 of 494 firms) voluntarily disclosed a non-GAAP earnings number, while a significantly smaller percentage of sampled Canadian firms did so, 42 percent (121 of 290 firms).[12] Tests of differences indicate that U.S. firms are significantly more likely (at the 0.01 level) to disclose a non-GAAP earnings figure than their Canadian counterparts. The results also suggest that Canadian cross-listed firms (54 percent) are significantly more likely (also at the 0.01 significance level) to disclose a non-GAAP earnings number than Canadian noncross-listed firms. Overall, the results lead us to reject the first hypothesis that U.S. and Canadian firms are equally likely to report pro forma earnings numbers in their earnings press releases.

Table 2 demonstrates that, when examined by industry, the proportion of firms that disclose a pro forma earnings number in each industry (other than the services industry) is substantially larger in the U.S. than in Canada. Prior U.S.-based research suggests that pro forma earnings measures, while used across industries, are concentrated in the service and high-technology industries (Bhattacharya, Black, Christensen, and Mergenthaler 2004; Lougee and Marquardt 2004). Our results are partially consistent with these prior studies. In both countries, pro forma reporting is used in a large cross section of industries. In the

TABLE 1
The Frequency of Use of Pro Forma[a]
(test of H1)

	U.S. S&P 500		Canada TSX S&P 300					
			Cross-Listed		Noncross-Listed		Total Canada	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Pro Forma in Press Release	380	77	63	54	58	33	121	42
No Pro Forma in Press Release	114	23	53	46	116	67	169	58
Total	494[a]	100	116	100	174	100	290	100

Test of Difference between Means
(two-tailed t-test)

Comparison	t-statistic
• U.S. versus Total Canada	10.579**
• U.S. versus Canada Cross-Listed	5.007**
• U.S. versus Canada Noncross-Listed	11.352**
• Canada Cross-Listed versus Canada Noncross-Listed	3.616**

** Significant at 0.01.
[a] A pro forma earnings measure exists where an alternate (to GAAP) earnings per share measure for the year is presented somewhere in the headline or narrative of the press release.

[12] The U.S. frequencies (77 percent of firms) are in sharp contrast to the 10.7 percent of firms using pro forma earnings documented in Bhattacharya, Black, Christensen, and Mergenthaler 2004). Note however, that we used large firms (S&P 500, TSX S&P 300), while Bhattacharya, Black, Christensen, and Mergenthaler (2004) used all firms listed on Compustat. To the extent there are systematic differences in the propensity to report pro forma earnings based on firm size, our study may overstate the frequency of pro forma reporting across a larger cross-section of firms, both in the U.S. and Canada.

TABLE 2
The Frequency of Use of Pro Forma—by Industry

GICS Code[a]	Industry	U.S. Sample Firms by Industry		U.S. Firms using Pro Forma			Canada Sample Firms by Industry		Canada Firms using Pro Forma		
		Number	Percent	Frequency	Relative Frequency	Percent of Sample Firms	Number	Percent	Frequency	Relative Frequency	Percent of Sample Firms
1000	Basic Materials	50	10	38	10	76	70	24	14	12	20
3000	Consumer Goods	66	13	49	13	74	41	14	15	12	37
3500	Health Care	47	10	37	10	79	27	9	6	5	22
5000	Financial	68	14	52	14	76	31	11	19	16	61
6000	Industrial Goods	24	5	20	5	83	9	3	3	2	33
8000	Technology	106	21	94	25	89	45	16	24	20	53
8600	Services	83	17	49	13	59	49	17	30	25	61
9000	Utilities	36	7	29	7	81	7	2	3	2	43
2000 and 4000	Other	14	3	12	3	86	11	4	7	6	64
	Total	494	100	380	100		77	100	121	100	

[a] The Global Industry Classification Standard (GICS) code categorizes companies into economic industry groups. The GICS code is obtained from Compustat.

U.S., consistent with prior literature, technology firms have the greatest incidence of pro forma reporting at 89 percent; however, U.S. service firms have the lowest percentage of pro forma at 59 percent. In Canada, service and financial firms have the highest percentage of pro forma reporting at 61 percent, while basic materials firms have the lowest percentage.

The second hypothesis focuses on the degree of emphasis placed on pro forma earnings. We measure the degree of emphasis in two ways. First, we examine whether a pro forma descriptor appears in the press release headline. Second, we code the relative prominence of the pro forma number in the overall press release versus the GAAP earnings measure. The results are presented in Table 3. Panel A summarizes the number of firms that disclose pro forma earnings in the press release headline. Of the U.S. firms that report pro forma earnings in their press release, 51 percent (193 of 380 firms) report the earnings numbers in their press release headline. Conversely, in Canada, only 26 percent (32 of 121 firms) reported pro forma earnings in the headline. Hence, the results suggest that U.S. managers are significantly more likely to mention the pro forma number in the headline (at the 0.01 level) than are Canadian managers.

Table 3, Panel B examines the relative level of emphasis (*RELEMP*) that is placed on pro forma versus GAAP earnings in the firm's full press release. We coded *RELEMP* as 1 if the pro forma figure is both presented before the GAAP earnings number, and is the main earnings number of discussion in the press release. We coded *RELEMP* as 2 if the pro forma and GAAP earnings numbers are given equal emphasis (i.e., they appear in the same paragraph and neither measure is given preferential discussion in the press release). We coded *RELEMP* as 3 if the GAAP earnings figure appears before pro forma earnings, and is the main earnings number of discussion. The results suggest that while both in the U.S. and in Canada, the pro forma number usually appears before the GAAP earnings figure and is the main earnings number of discussion (U.S.—79 percent; Canada—65 percent), U.S. firms are significantly more likely than Canadian firms to emphasize the pro forma number (the difference is significant at the 0.01 level). Overall, the results in Table 3, Panels A and B reject the null hypothesis that the relative emphasis placed on the pro forma and GAAP numbers is the same for U.S. and Canadian firms. In other words, our results are consistent with the conclusion that U.S. managers place greater emphasis on pro forma earnings than do their Canadian counterparts.

Our third null hypothesis posits that the number of adjustments to GAAP earnings is the same for U.S. and Canadian firms. In calculating pro forma earnings, most firms start with GAAP earnings, and then make adjustments to arrive at the pro forma number. *Ex ante*, there is no reason to expect that the number of adjustments should be different between U.S. and Canadian firms. Table 4 demonstrates that in deriving pro forma earnings, U.S. firms make significantly (at the 0.01 level) more adjustments (3.02) than do Canadian firms (2.17). This result leads us to reject our third hypothesis, that the number of adjustments is the same across these two countries. The difference is even greater when we compare U.S. firms to noncross-listed Canadian firms, which make an average of only 1.57 adjustments.

In examining the nature of the adjustments, a similar pattern exists for both U.S. and Canadian firms. In both countries, the most common adjustments to GAAP arise from costs related to major business re-organization activities such as restructuring, business unit closures, mergers, or acquisitions. Respectively, in the U.S. and Canada, these account for 37 percent and 33 percent of all adjustments. Similarly, the second most common adjustments, both in the U.S. and Canada, are special, one-time, or nonrecurring items (such as gains or losses from the settlement of lawsuits). These adjustments account for 25 percent and 28 percent of all adjustments for U.S. and Canadian firms, respectively. The third most

TABLE 3
Emphasis Placed on Pro Forma
(test of H2)

Panel A: Does Pro Forma Appear in the Headline?

	U.S. S&P 500		Canada TSX S&P 300					
			Cross-Listed		Noncross-Listed		Total Canada	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Pro Forma in Press Release Headline	193	51	15	24	17	29	32	26
No Pro Forma in Press Release Headline	187	49	48	76	41	71	89	74
Total	380	100	63	100	58	100	121	100

Test of Difference between Means
(two-tailed t-test)

Comparison	t-statistic
• U.S. versus Total Canada	4.785**
• U.S. versus Canada Cross-Listed	4.038**
• U.S. versus Canada Noncross-Listed	3.076**
• Canada Cross-Listed versus Canada Noncross-Listed	0.681

Panel B: Relative Emphasis of Pro Forma versus GAAP in the Press Release[a]

Pro Forma earnings emphasized over GAAP earnings (*RELEMP* = 1)	301	79	45	71	44	59	79	65
Pro Forma and GAAP earnings have equal emphasis (*RELEMP* = 2)	62	16	10	16	7	12	17	14
GAAP earnings emphasized over Pro Forma earnings (*RELEMP* = 3)	17	4	8	13	17	29	25	21
Total	380	100	63	100	58	100	121	100

Test of Difference between Means
(two-tailed t-test)

Comparison	t-statistic
• U.S. versus Total Canada	4.729**
• U.S. versus Canada Cross-Listed	2.111*
• U.S. versus Canada Noncross-Listed	5.462**
• Canada Cross-Listed versus Canada Noncross-Listed	2.006*

*, ** Significant at 0.05, and 0.01, respectively.

[a] Relative emphasis (*RELEMP*) is coded as 1 if the pro forma figure is placed before the GAAP earnings number, and is the main earnings number of discussion in the press release. *RELEMP* is coded as 2 if the pro forma and GAAP earnings numbers are given equal emphasis (i.e., they appear in the same paragraph and neither measure is given preferential discussion in the press release). *RELEMP* is coded as 3 if the GAAP earnings figure appears before pro forma earnings, and is the main earnings number of discussion.

TABLE 4
The Number and Nature of Adjustments to GAAP Earnings
(test of H3)

	U.S. S&P 500	Canada TSX S&P 300					
		Cross-Listed		Noncross-Listed		Total Canada	
Mean Number of Adjustments to GAAP Earnings[a]	3.02	2.68		1.57		2.17	
Nature of Adjustments to GAAP Earnings[a]	**Number**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
(1) Business re-organization costs	415	44	31	26	38	70	33
(2) Special, one-time, or nonrecurring items	285	43	30	16	23	59	28
(3) Accounting-driven adjustments (e.g., back out depreciation or amortization expense)	178	26	18	15	22	41	19
(4) Write-down of firm's assets	162	11	8	5	7	16	8
(5) Other	93	18	13	7	10	25	12
Total	1,133	142	100	69	100	211	100

Test of Difference between Means
(number of adjustments)
(two tailed t-test)

Comparison	**t-statistic**
• U.S. versus Total Canada	4.544**
• U.S. versus Canada Cross-Listed	1.338
• U.S. versus Canada Noncross-Listed	7.639**
• Canada Cross-Listed versus Canada Noncross-Listed	3.909**

** Significant at 0.01.

[a] GAAP earnings represent the starting point for a firm's pro forma earnings. Adjustments to GAAP earnings are then made at management's discretion. There were five U.S. and 24 Canadian (ten cross-listed) companies that used a pro forma earnings measure that did not use GAAP earnings as a starting point.

common form of adjustment, labeled as "accounting-driven," are situations where management adjusts GAAP earnings for items resulting from the application of accounting rules. For example, a number of firms adjust their GAAP earnings to compensate for changes in accounting standards, or to back out "noncash" expenses such as depreciation or amortization. Overall, these adjustments represent 16 percent of all U.S. firms' adjustments and 19 percent of Canadian firms' adjustments. The remainder of the adjustments relate to asset write-downs and other firm-specific adjustments.

Table 5 presents results from tests of Hypotheses 4 and 5, which compare the direction and magnitude of pro forma adjustments for U.S. versus Canadian firms which report pro forma. In terms of direction, we find that U.S. firms are significantly more likely (at the 0.01 level) than Canadian firms to report pro forma earnings that are higher than GAAP earnings. Specifically, 86 percent of U.S. firms and 75 percent of Canadian firms report a pro forma earnings figure that exceeds GAAP earnings. In terms of magnitude, the difference between pro forma earnings per share and GAAP earnings per share is greater in the U.S. than in Canada. For U.S. firms, the average difference between pro forma and GAAP earnings was 85¢ per share. This difference represents a 190 percent increase over GAAP earnings—that is, pro forma earnings per share for U.S. firms are, on average, nearly three times as large as GAAP earnings. Conversely, for Canadian firms that report pro forma earnings, the difference (of 50¢ per share) represents an 86 percent increase over GAAP earnings. Our examination by quartiles suggests that, in general, the magnitude of the differences is greater in each quartile for U.S. firms than for Canadian firms.

To summarize, the results provide empirical evidence of large and statistically significant differences (at the 0.01 level) in the use of pro forma earnings between U.S and

TABLE 5[a]
Direction and Magnitude of Pro Forma Relative to GAAP Earnings
(tests of H4 and H5)

	U.S. S&P 500 n = 378	Canada TSX S&P 300 n = 118
Direction	(326 of 378 firms)	(88 of 118 firms)
(Pro Forma—GAAP > 0)[b]	86%	75%
Magnitude of Difference (Pro Forma—GAAP)		
(1) Average	($0.85)	($0.50)
(2) Quartiles		
25th percentile	($0.09)	($0.01)
Median	($0.36)	($0.27)
75th percentile	($0.93)	($0.81)
(Pro Forma—GAAP)/ |GAAP|[c]		
(1) Average	190%	86%
(2) Quartiles		
25th percentile	5%	0.0%
Median	27%	26%
75th percentile	102%	103%

[a] This table presents results only for firms that reported both a pro forma and GAAP number in their press release. Two U.S. firms and three Canadian firms did not report a GAAP EPS amount in their press release.
[b] The difference between means on the sign test is significant at the 0.01 level (t-statistic = 2.652).
[c] As a result of some firms having GAAP losses, we standardize the difference by the absolute value of GAAP earnings.

Canadian firms. First, the proportion of firms that disclose pro forma earnings is significantly higher in the U.S. Second, the nature of these disclosures differs significantly on various dimensions. Specifically, U.S. firms that report on a pro forma basis generally place significantly more emphasis on the pro forma number than do Canadian firms. Also, the number of adjustments made to GAAP earnings is significantly greater in the U.S. Finally, U.S. firms are more likely than Canadian firms to report a pro forma earnings number that is higher than the GAAP earnings figure.[13]

V. MANAGEMENT MOTIVE TO REPORT PRO FORMA EARNINGS

Hypotheses

Significant differences in managerial motivations for reporting on a pro forma basis between U.S. and Canadian managers would suggest important implications for standard setters and regulators. In this section we, therefore, empirically examine whether the reporting of pro forma earnings is consistent with the motive to manage users' perceptions of the firm—for example, to create a perception that the firm has met or exceeded analysts' earnings forecasts. Prior experimental research finds evidence that has generally supported the notion that managers have an incentive to disclose pro forma to manage stakeholders' perceptions (e.g., Elliot 2004; Frederickson and Miller 2004). Archival evidence from the U.S. is largely consistent with managers strategically disclosing pro forma (e.g., Lougee and Marquardt 2004; Bowen et al. 2004).

In order to examine whether managers use pro forma reporting to manage expectations, we focus on three types of earnings expectations thresholds: (1) how the firm has performed relative to other firms (tested as H6 below); (2) how the firm has performed relative to its past performance (tested as H7 below); and (3) how the firm has performed relative to analysts' expectations (tested as H8 below). In each of these situations, we expect that managers of well (or better) performing firms will be less likely to report pro forma earnings. Specifically, we hypothesize the following:

H6: In both the U.S. and Canada, firms with higher total returns, higher sales growth, and higher profit growth are less likely to report pro forma earnings;

H7: In both the U.S. and Canada, firms with "record" GAAP earnings are less likely to report pro forma earnings; and

H8: In both the U.S. and Canada, firms whose GAAP earnings meet the annual analysts' earnings forecast are less likely to report pro forma earnings.

Multivariate Regression

To test Hypotheses 6 through 8, we employed a multivariate logistic regression. We ran separate regressions for our sample of U.S. firms (n = 494), Canadian cross-listed firms (n = 116), Canadian noncross-listed firms (n = 174) and all Canadian firms (n = 290). Our regressions took the following form:[14]

[13] Note that on the various dimensions examined in this study, cross-listed Canadian firms tend to fall somewhere between U.S. firms and Canadian noncross-listed firms. That is, some managers of cross-listed Canadian firms disclose pro forma similar to U.S. firms, while others disclose similar to noncross-listed Canadian firms. Zarzeski (1996) suggests that where firms have increased dependence on foreign resources (for example, on U.S. capital for Canadian cross-listed firms) they may be more likely to adopt the disclosure norms of the foreign country. Zarzeski (1996, 35) labels this behavior "The theory of cultural borrowing."

[14] We removed from our initial model two additional measures of relative firm performance: net margin and return on equity. These two items were highly correlated (> .5) with profit growth in each of our three groups of firms. No other remaining items were correlated at > .5.

$$PF = \alpha + \beta_1 TR + \beta_2 SG + \beta_3 PG + \beta_4 RE + \beta_5 FORECAST + \beta_6 SIZE + \beta_7 LEV + \varepsilon. \quad (1)$$

Our dependent variable (*PF*) is the presence or absence of a pro forma earnings figure in the annual earnings press releases. Our independent variables included three variables of interest and two control variables. Our first variables of interest, used to test H6, are measures of firms' performance relative to other firms. We used three different performance measures: total returns (*TR*), sales growth (*SG*), and profit growth (*PG*). For each of these measures, firms were placed into one of five quintiles. For U.S. firms, the quintiles were obtained directly from Business Week's Spring 2002 ranking of firms in the S&P 500. For Canadian firms, we established the quintiles using data from the Compustat database. The variable of interest (*RE*), used to test H7, was the firms' performance relative to past performance. For this variable, we read each firm's press release to determine whether managers specifically described its GAAP results as an earnings "record." The variable of interest (*FORECAST*), used to test H8, reflects the firm's GAAP earnings relative to market expectations. For both U.S. and Canadian firms, market expectations were based on analysts' earnings forecasts obtained from the Thomson Financial I/B/E/S database. We also included two control variables common in disclosure research: firm size (*SIZE*) and leverage (*LEV*). Consistent with Hope (2003) we measured firm size as the natural logarithm of sales revenues, and leverage as total liabilities over total assets. Based on the findings of Hope (2003) and Lougee and Marquardt (2004), we predict positive associations with pro forma disclosure. Additional information regarding our variables is provided in Table 6.

Results

As shown in Table 6, for our four regression models, the pseudo-R^2 ranges from 61 percent (cross-listed firms) to 75 percent (U.S. firms); these suggest relatively high predictive power. In support of H8, we find that both U.S and Canadian (both cross-listed and noncross-listed) firms are significantly more likely (at the .01 level) to report pro forma earnings when their GAAP earnings fail to meet analysts' earnings forecasts. Conversely, the evidence fails to support the hypotheses (H7) that U.S. and Canadian firms that report "record earnings" are less likely to use pro forma. The evidence also fails to support the hypotheses (H6) that firms whose performance is weaker relative to other firms are more likely to use pro forma. Statistical significance was only found for U.S. firms in terms of profit growth (at the 0.01 level) and for noncross-listed Canadian firms in terms of total returns (at the 0.05 level). In terms of our control variables, except for leverage in noncross-listed Canadian firms, neither firm size nor leverage are significantly associated with pro forma reporting. Taken together, we interpret our results as partially suggestive of both U.S. and Canadian firms using pro forma earnings as a means to manage expectations, specifically in our study, as a means to meet analysts' earnings forecasts.

VI. DISCUSSION AND POLICY IMPLICATIONS

This study compares the voluntary disclosure of pro forma earnings between managers in two countries: the U.S. and Canada. The study's sample selection differs from previous pro forma disclosure studies in that we select for analysis a specific group of prominent firms (the U.S. S&P 500 and the Canadian TSX S&P 300). We then examine managers reported pro forma earnings by reading firms' actual annual earnings press releases. The study provides the first cross-country comparison of the disclosure of pro forma earnings, as well as the first study that examines pro forma disclosure outside a U.S. setting. The

TABLE 6
Multivariate Logistic Regressions
(tests of H6 to H8)

$$PF = \alpha + \beta_1 TR + \beta_2 SG + \beta_3 PG + \beta_4 RE + \beta_5 FORECAST + \beta_6 SIZE + \beta_7 LEV + \varepsilon$$

Explanatory Variables Coded		Predict. Sign	Pro Forma (*PF*)			
				Canada TSX S&P 300		
			U.S. S&P 500	Noncross-Listed	Cross-Listed	Total Canada
Constant	n/a	n/a	−2.386**	4.546**	3.664**	3.605**
TR	1 to 5	+	.1699	.6698*	−.0017	−.0016
SG	1 to 5	+	−.1161	.2178	.0043	.0063
PG	1 to 5	+	.5615**	−.8949*	.0766	−.0085
RE	0,1	−	−1.214	−1.707	.2143	−.7749
FORECAST	0,1	+	.0061**	.0078**	.0057**	.0059**
SIZE	Continuous	+	.0001	−.0017	−.0005	−.0007
LEV	Continuous	+	−.6167	.0033*	−.0001	.0008
Pseudo R^2			.7464	.7292	.6094	.6483

*, ** Significant at 0.05, and 0.01, respectively.
PF = Pro Forma (coded 0 if the firm did not report pro forma earnings in the press release, and 1 if it did).
TR (Total Returns), *SG* (Sales Growth), and PG (Profit Growth) are coded by quintile from 1 (highest quintile) to 5 (lowest quintile). For example, where a firm's sales growth is in the first quintile, this would indicate performance in the top 20 percent of firms. For U.S. firms, the quintiles are taken from the Spring 2002 Business Week Performance Rankings. For Canadian firms, the quintiles are based on Compustat.
RE (Record Earnings) is coded 0 if the firm does not report "record GAAP earnings" in the year and 1 if it reports "record GAAP earnings." To qualify as record GAAP earnings, the word "record" must be used in the press release.
FORECAST (Analysts' earnings forecast) is obtained from I/B/E/S and is based on the last consensus estimate made before the earnings announcement. *FORECAST* is coded 1 if: (a) the firm meets expectations based on pro forma earnings and (b) the firm misses expectations based on GAAP earnings. *FORECAST* is coded 0 if (a) the firm would miss expectations based on pro forma earnings or (b) the firm would meet expectations based on both pro forma and GAAP earnings.
SIZE = Log of sales revenues.
LEV = Ratio of total liabilities to total assets.

results reveal that management disclosure decisions can differ significantly even when countries have similar business environments and financial regulation.

Overall our findings fail to support our expectations of similar pro forma reporting between U.S. and Canadian firms. Significant differences are found in three main areas. First, U.S. managers are more likely to report pro forma earnings (77 percent of all firms) than are Canadian managers (33 percent of noncross-listed firms). Second, when firms do report pro forma earnings, U.S. managers place significantly greater emphasis on pro forma than GAAP earnings. Finally, U.S. managers make significantly more adjustments to GAAP earnings, make adjustments that are larger in magnitude, and make adjustments that are more frequently income-increasing. In summary, U.S. managers, as compared to Canadian managers, appear to report pro forma earnings more often and with greater emphasis. Our findings also suggest, for both U.S. and Canadian firms, that pro forma reporting may be used to manage users' perceptions.

In terms of regulatory implications, this study is relevant to the ongoing policy debate regarding the convergence of securities regulation. The nature of this convergence, particularly in Canada, is significantly influenced by U.S. regulation, most recently by SOX.

While there may be significant advantages to moving to a single financial and accounting regulatory regime, particularly in increasing the mobility of capital (e.g., allowing companies greater, and more efficient, access to other countries' capital markets), there may be substantial disadvantages if countries' management practices are not uniform. In other words, adopting a U.S.-modeled regulatory structure in response to what is a country-specific management practice may not be appropriate.

In this study, we find evidence that both U.S. and Canadian managers may disclose pro forma earnings in order to affect users' perceptions. Hence, in both countries, some form of regulation of pro forma earnings may be warranted. However, in contrast to their Canadian counterparts, U.S. managers are significantly more likely to disclose pro forma earnings, and to do so with much greater emphasis. Given these differences in management practice, our results suggest caution, certainly for Canadian regulators, in adopting a uniform (cross border) system of financial regulation. As prior comparative research has shown even greater differences in disclosure practices exist between North American and non-North American managers, our results suggest even greater caution in moving toward worldwide convergence of securities regulation.[15]

As noted earlier, our findings are based on data from a specific set of prominent U.S. and Canadian firms. Hence, the generalizability of the findings is limited. Future pro forma research should, therefore, extend to comparing the reporting practices of other groups of firms in the U.S. and Canada, as well as firms in countries outside North America. Along the lines of Bhattacharya, Black, Christensen, and Allee (2004), research could also examine how investors in different countries react to different forms of pro forma reporting—for example, to the relative magnitude of pro forma versus GAAP earnings, or to the relative emphasis or placement of the pro forma earnings numbers in the press release. Future comparative studies could also explore further the reasons for differences in reporting behavior between firms from similar nations. For example, Salter and Sharp (2001) find that even small differences in national culture can affect management decisions. Comparative research can also examine whether firms' reporting is consistent with the value relevance argument for pro forma reporting. Finally, comparative (longitudinal) research should explore whether changes have occurred in firm's pro forma reporting behavior with the introduction of SOX.

APPENDIX A
Pro Forma Descriptors

U.S. Firms (n = 380)

Descriptor	Number	Percentage
1. Net income or EPS excluding or before: special charges/special items/unusual charges/nonrecurring charges/one-time items	165	43.4
2. "Pro Forma" net income/EPS	52	13.7
3. Operating earnings/income	45	11.8
4. Net income/EPS from continuing operations	23	6.1
5. Adjusted net income/EPS	20	5.3

[15] Due to the importance of the U.S. markets, U.S. regulation (particularly SOX) is likely being closely analyzed by various countries' regulators. This is especially the case where markets are becoming increasingly global. According to David Brown of the OSC, "... when the President signed the (SOX) bill he didn't just change the law in the United States. He changed the dynamic for markets around the world" (OSC 2002b).

6. Net income/EPS from continuing operations before special charges	10	2.6
7. Operating earnings before charges	9	2.4
8. Core income/EPS	8	2.1
9. Recurring earnings	8	2.1
10. Ongoing earnings	6	1.5
11. EPS before cumulative effect of accounting changes and excluding special charges	5	1.3
12. Normalized net income/EPS	4	1.1
13. Ongoing operating earnings	3	0.8
14. Operating cash earnings	3	0.8
15. EPS before cumulative effect of accounting changes and other charges	3	0.8
16. Adjusted operating earnings excluding special items	2	0.4
17. Underlying net income/EPS	2	0.4
18. Ongoing earnings excluding unusual items	2	0.4
19. EPS from total operations excluding unusual items	1	0.3
20. Cash earnings per share	1	0.3
21. Adjusted income or EPS from continuing operations before special charges	1	0.3
22. Results from current businesses	1	0.3
23. Core cash basis EPS	1	0.3
24. EPS on comparable basis	1	0.3
25. Economic earnings	1	0.3
26. Funds from operations per share	1	0.3
27. Comparative earnings	1	0.3
28. Cash flow (Income) per share	1	0.3
Canadian Firms (n = 121)		
1. Net income excluding: nonrecurring items, certain charges or provisions	38	31.3
2. Income before goodwill amortization or cash earnings	17	14.0
3. Net earnings from continuing operations	16	13.2
4. Adjusted net income	11	9.1
5. Pro forma net income/loss/EPS	7	5.8
6. Operating earnings/income	6	5.0
7. Normalized net earnings	5	4.1
8. Operating income before net investment gains/one time items	5	4.1
9. EPS before amortization of goodwill	3	2.5
10. Adjusted earnings from continuing operations	2	1.7
11. Earnings from core businesses	2	1.7
12. Funds from operations per share	2	1.7
13. Net income after restructuring charge	2	1.7
14. Net income excluding unusual items and a change in accounting policy	2	1.7
15. Earnings excluding equity interests and change in accounting policy	1	0.8
16. EBITDA and restructuring costs	1	0.8
17. Recurring basis EPS	1	0.8

APPENDIX B
EXHIBIT 1
GAAP Press Release

Wal-Mart Reports Record Sales and Earnings for 4th Quarter and Year.
February 19, 2002

Total company comparable sales for the quarter were up 6.9 percent.

**********Headline Ends/Narrative Begins**********

Bentonville, Ark. Wal-Mart Stores, Inc. reported record earnings and sales for the quarter ended Jan. 31, 2002. Net income for the quarter was $2.189 billion, up from $2.004 billion for the similar prior year quarter. Earnings per share were $0.49 up 8.9 percent from the $0.45 per share reported in the same prior year quarter. Total sales were $64.211 billion, an increase of 13.5 percent over the similar prior year quarter.

Net sales for the year ended Jan. 31, 2002, were $217.799 billion, an increase of 13.8 percent over the prior fiscal year. Net income for the fiscal year increased 6.0 percent to a record $6.671 billion or $1.49 earnings per share, up from $6.295 billion or $1.40 diluted earnings per share, for the prior fiscal year.

Continuation of press release for 7.5 more pages. No Pro Forma measure of earnings provided anywhere in press release.

Interpretation of press release:

There was no pro forma measure of earnings for the year provided either in the headline, or anywhere in the body of the press release. All per-share amounts provided and discussed in the press release were on a GAAP basis. This press release was considered a GAAP press release.

EXHIBIT 2
Pro Forma Press Release

Bombardier Announces Financial Results for the Fourth Quarter and the Year Ended Jan. 31, 2002.

Montreal, March 19, 2002
- Consolidated revenues for the year rise 36 percent to $21.6 billion.
- Income climbs 17 percent to $1.7 billion, before special items, income taxes, and goodwill amortization.
- Net income for the year amounts to $390.9 million.
- Backlog reaches $4.1 billion.
- Q4 consolidated revenues rise 41 percent to $7.8 billion and income climbs 4 percent to $503.8 million, before special items, income taxes, and goodwill amortization.

**********Headline Ends/Narrative Begins**********

Bombardier Inc. today reported consolidated revenues of $21.6 billion for the year ended Jan. 31, 2002, an increase of 36 percent over revenues of $15.9 billion the previous year.

Income before special items, income taxes, and goodwill amortization for the year increased 17 percent to $1.7 billion, compared with $1.4 billion on the same basis for the preceding year. Earnings per share before special items and goodwill amortization rose to $0.81, a 16 percent increase compared with $0.70 on the same basis for the previous year. After the net effect of the special items and goodwill amortization, net income for the year reached $390.9 million, or $0.27 per share, against a net income of $975.4 million, or $0.70 per share last year.

Continuation of press release for 4.5 more pages.

Interpretation of press release:

The existence of a pro forma measure of earnings, being income before special items, income taxes, and amortization, was specifically mentioned in the headline of the press release. This same measure, stated in EPS form, was then described in the first paragraph of the narrative. This press release was considered a pro forma press release

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EXHIBIT 3
Pro Forma Press Release

Pepsico Q4 EPS increases 16 percent to 42 cents.
Full year also excellent, with 2001 EPS up 14 percent to $1.66.
Management confident of long term growth of 13 percent—14 percent.

- Revenues advanced 7 percent for the year, and 5 percent for the fourth quarter.
- Total line of business operating profit grew 12 percent for the quarter and 11 percent for the full year, with every division contributing to the growth.
- Net income advanced 16 percent for the quarter and 15 percent for the full year.
- Quaker integration solidly on track.
- Operating cash flow of $2.9 billion was above expectations.
- ROIC improved to 26 percent.

PURCHASE, N.Y., February 6, 2002

**********Headline Ends/Narrative Begins**********

PepsiCo continued to deliver quality double-digit earnings growth, with earnings per share for the fourth quarter of 2001 up 16 percent to 42 cents, on a comparable basis. For the full year, the Company delivered earnings per share of $1.66, an increase of 14 percent over the comparable prior year.

Chairman and Chief Executive Officer Steve Reinemund said "PepsiCo had an outstanding year. We completed the merger with Quaker while achieving our financial targets and we are now better positioned for growth than ever before."

Reinemund added, "The Quaker integration has brought no surprises and is solidly on track, which will allow us to focus on realizing all of the upsides from the transaction. During the past six months, we have uncovered new opportunities to grow profits and revenues in our businesses, and we are confident we can meet our growth targets for 2002 and beyond."

On a reported basis, earnings per share for the 52-week year were $1.47, an increase of 4 percent over the company's 53-week 2000 fiscal year. For the 16-week fourth quarter, reported earnings were $0.37 per share, a decline compared to $0.39 in the 17-week fourth quarter of 2000.

Except as specifically noted, information in this release is presented on a comparable basis, excluding the impact of costs related to the merger of the Quaker Oats Company with PepsiCo and other one-time charges and excluding the impact of the extra fiscal week in 2000. See the note on presentation at the end of this release.

Continuation of press release for 10 more pages.

Interpretation of press release:

The existence of a pro forma measure of earnings, being earnings before merger costs, one-time charges, and the impact of the extra week in 2000, was not specifically made mention of in the press release headline. It is only upon reading the narrative in the press release that it becomes clear that the 16 percent and 14 percent increases in EPS noted in the headline, are actually based on pro forma earnings measures. GAAP earnings measures were provided in the body of the release. This press release was considered a pro forma press release.

EXHIBIT 4
Pro Forma Press Release

Hershey Announces Fourth Quarter Results.

Hershey, PA, Jan. 24, 2002

**********Headline Ends/Narrative Begins**********

Hershey Foods Corporation (NYSE: HSY) today announced sales and earnings for the fourth quarter ended December 31, 2001. Consolidated net sales for the fourth quarter were $1,273,917,000 compared with $1,194,902,000 for the fourth quarter of 2000, an increase of 6.6 percent. A net loss of $(44,951,000), or $(.33) per share-diluted, for the fourth quarter of 2001 includes a one-time charge to cost of sales of $50 million resulting from a reduction in raw material inventory levels, as well as business realignment and asset impairment charges of $228 million. Excluding total one-time charges of $278 million, or $1.25 per share-diluted, net income for the fourth quarter of 2001 was $126,901,000, or $.92 per share-diluted, compared with $115,962,000, or $.84 per share-diluted, for the fourth quarter of 2000, an increase of 9.5 percent.

For the year 2001, consolidated net sales were $4,557,241,000 compared with $4,220,976,000 for 2000, an increase of 8.0 percent. Net income for 2001, including one-time charges of $278 million, or $1.25 per share-diluted, was $207,156,000, or $1.50 per share-diluted, compared with $334,543,000, or $2.42 per share-diluted, for 2000.

Excluding one-time items such as the special charge to cost of sales, as well as the business realignment and asset impairment charges in the fourth quarter, the gain on the sale of the Luden's business in the third quarter of 2001, and the gain on the sale of corporate aircraft in the first quarter of 2000, net income for 2001 was $377,905,000, or $2.74 per share-diluted, compared with $330,068,000 or $2.39 per share-diluted for 2000, an increase of 14.6 percent.

Continuation of press release for 6 more pages.

Interpretation of press release:

The existence of a pro forma measure of earnings, being "income excluding one time items ... ," is not mentioned in the headline of the press release, but is in the narrative. This was considered a pro forma press release.

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