PRESS RELEASE

Mind the Non-GAAP: Inflating Net Income by $164 Billion or More
In-Depth Study of How Companies Report Non-GAAP Net Income Available

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NEW YORK (June 28)—Corporate America used non-standard accounting metrics in 2015 to publicize profit numbers $164 billion above the true net income companies must report according to formal accounting rules, a new study from Calcbench and Radical Compliance has found.

The report, "Measuring Non-GAAP Metrics: A Look at Adjusted Net Income," examined the earnings releases of 816 companies, comparing the "non-GAAP" net income companies typically tout at the top of their releases with the formal net income numbers dictated by U.S. Generally Accepted Accounting Rules. Those companies made more than 4,600 adjustments to GAAP net income, generally under the logic that those adjustments provided a better sense of the company's financial performance than what traditional GAAP net income allows.

Those adjustments led to non-GAAP net income figures that collectively were $164.1 billion above the true GAAP net income reported further down the earnings release.

"This is one of the most comprehensive analyses not only of how much companies adjust net income, but also of how they justify those adjustments," says Pranav Ghai, CEO of Calcbench. "We now have quantifiable data to answer questions about the role non-GAAP metrics play in financial reporting."

Reporting non-GAAP metrics to investors is permitted under federal securities law, within certain limits. For example, companies must be able to explain why their non-GAAP metrics provide useful information to investors, and must reconcile their non-GAAP metric with the closest similar GAAP-approved metric—in this case, net income.

A growing chorus in financial reporting circles now says that companies use non-GAAP accounting metrics too often, or that companies use non-GAAP metrics more to mask poor financial performance than to give investors an accurate sense of business operations. Numerous officials at the Securities and Exchange Commission have addressed the subject in speeches this year, and occasionally the SEC has directed firms to cease using specific non-GAAP metrics.

"Non-GAAP metrics can sometimes push the boundaries of proper financial reporting and corporate governance," says Matt Kelly, CEO of Radical Compliance. "This report detects broad patterns in companies' thinking and usage of non-GAAP, and hopefully we can have more precise conversations about how far is too far."

The report examines the adjustments to net income made by 816 companies across nine different industries, and groups those adjustments into five categories: acquisition-related costs, restructuring costs, equity compensation costs, debt, and legal costs. The report gives an in-depth analysis of three companies—Facebook, HP, and Merck—and a companion PowerPoint presentation looks at seven more companies.

Copies of the report are available upon request.

About Calcbench

Founded in 2011, Calcbench harnesses the interactive data standard XBRL to provide a new experience researching financial and accounting data. With a direct line into the SEC's corporate financial data repository, Calcbench covers more than 9,000 U.S.-listed public companies and makes data easier to use, faster, and in more detail than ever before.

Investors, financial analysts, auditors, and academics can instantly access, research, and share data, both online and through our Excel add-in. Our accessible and intuitive platform can aid in better understanding competitor financials, identifying potential risk areas, analyzing trends across industry sectors, or conducting more effective due diligence.

Learn more at http://www.calcbench.com

About Radical Compliance

Radical Compliance is operated by Matt Kelly, an independent compliance consultant who studies corporate compliance, governance, and risk management issues. He maintains a blog, RadicalCompliance.com, where he shares his thoughts on business issues; and speaks on compliance, governance, and risk topics frequently.

Kelly was named as 'Rising Star of Corporate Governance' by Millstein Center for Corporate Governance in its inaugural class of 2008; and named to Ethisphere's 'Most Influential in Business Ethics' list in 2011 (no. 91) and 2013 (no. 77).

Kelly previously was editor of Compliance Week, a newsletter on corporate compliance, from 2006 through 2015. He can be reached at mkelly@RadicalCompliance.com.

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