New Operating Lease Disclosures: the Good, the Bad & the Non-Compliant

Check out this week's Danger Zone interview with Chuck Jaffe of Money Life.

Many companies are not complying with the Financial Accounting Standards Board's (FASB) new standard (ASU 2016-02) for reporting operating lease assets and liabilities on the balance sheet. This standard went into effect in 1Q19 and goes a long way towards closing the loophole that allowed companies to hide trillions of dollars in capital off the balance sheet.

This report provides specific examples of compliant and non-compliant disclosures as well as a general overview of how many companies fall into each category. Please contact us if you would like more details on which companies are and are not complying with this new rule.

What Investors Need to Know

For operating lease disclosures to be useful for investors, at a bare minimum, companies must disclose:

- Future annual payments for operating leases
- Rate used to discount the future annual payments into a net present value (NPV) obligation reported on the balance sheet as an asset and liability
- NPV of Operating Lease/right-of-use (ROU) assets and liabilities

Since implementation of ASU 2016-02, many companies have not consistently disclosed all three. While companies are better about disclosing the NPV obligation, the two worst areas of disclosure and compliance are future annual payment tables and discount rates. Without the discount rate and future annual payments data, investors cannot assess the reasonableness of the NPV obligation because companies can manipulate that value with their choice of discount rate, see "How Operating Lease Discount Rates Can Mislead Investors."

Why Disclosure Matters – Required for Accurate Earnings Models

Without compliant disclosures, investors cannot measure the real value of operating lease/ROU asset & liabilities. Since 1998, and long before ASU 2016-02, our models have leveraged detailed footnotes analysis to capture the impact of off-balance sheet debt from operating leases on NOPAT/income statements, invested capital/balance sheets and the weighted-average cost of capital (WACC).

Though ASU 2016-02 aims to relieve investors of at least some of the rigorous footnotes analysis required to assess operating lease liabilities, plenty of footnotes work remains to ensure we get the right value across 5,000+ companies for our clients and partners. Figure 1 shows just how different our measure of the NPV of operating leases compared to what companies disclose.

Figure 1: Balance Sheet Impact: Largest Differences in Reported and Adjusted Operating Lease Assets

Company	Ticker	Annual Period	Company-Reported Operating Leases ($mm)	Our Value of Operating Leases ($mm)	% Difference
Virgin Galactic Holdings	SPCE	2019	$24	$36	48%
Uber Technologies	UBER	2019	$1,719	$2,422	41%
Macy's Inc.	M	2020	$3,228	$4,325	34%
MGM Resorts International	MGM	2019	$4,345	$5,702	31%
Twitter Inc.	TWTR	2019	$756	$952	26%

Sources: New Constructs, LLC and company filings

Operating leases also distort EBIT/EBITDA, core earnings and NOPAT. We resolve this distortion by removing sublease income, a non-operating item (excluding Real Estate and Restaurants), from operating expenses. Figure 2 shows how big an impact this adjustment has on core earnings. For example, AudioCodes (AUDC) uses sublease income to overstate core earnings by 16%. Again, investors need adequate disclosure from companies in order to gain an accurate understanding of corporate performance.

Figure 2: Income Statement Impact: Sublease Income Overstates Earnings

Company	Ticker	Annual Period	Sublease Income	% of Revenue	% of Core Earnings
AudioCodes, Ltd.	AUDC	2019	$2,741,000	1.4%	16%
Weis Markets, Inc.	WMK	2019	$7,749,000	0.2%	13%
SVMK Inc.	SVMK	2019	$7,500,000	2.4%	9%
Ligand Pharmaceuticals	LGND	2019	$700,000	0.6%	8%

Sources: New Constructs, LLC and company filings

At the end of the day, we applaud the FASB for narrowing the loophole that allowed companies to hide trillions of dollars in capital off the balance sheet. The problem is not the new rule, the problem is companies not complying with the rule.

The Good Disclosure Practices

We begin with examples of some of the best disclosures so that investors can see how good disclosures look and how easy it is for companies to provide them. Plus, they provide a point of reference for understanding just how bad the bad disclosures are.

Good Disclosure #1: This 2019 10-K disclosure from American Airlines (AAL) of the operating lease ROU assets and current/long-term liabilities on the balance sheet is an example of the best disclosure of this information. In total, we estimate about 52% of companies provide this level of disclosure for their operating leases in 10-Ks and 43% in 10-Qs. As noted above, contact us to request more details on which companies provide the best/worst disclosures. Note that we will provide certain details to clients only.

Figure 3: American Airlines (AAL) Operating Lease Assets & Liabilities Disclosure in 2019 10-K

AMERICAN AIRLINES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and par value)

	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash	$ 280	$ 275
Short-term investments	3,546	4,485
Restricted cash and short-term investments	158	154
Accounts receivable, net	1,750	1,706
Aircraft fuel, spare parts and supplies, net	1,851	1,522
Prepaid expenses and other	621	495
Total current assets	8,206	8,637
Operating property and equipment		
Flight equipment	42,537	41,499
Ground property and equipment	9,443	8,764
Equipment purchase deposits	1,674	1,278
Total property and equipment, at cost	53,654	51,541
Less accumulated depreciation and amortization	(18,659)	(17,443)
Total property and equipment, net	34,995	34,098
Operating lease right-of-use assets	8,737	9,151
Other assets		
Goodwill	4,091	4,091
Intangibles, net of accumulated amortization of $704 and $663, respectively	2,084	2,137
Deferred tax asset	645	1,145
Other assets	1,237	1,321
Total other assets	8,057	8,694
Total assets	$ 59,995	$ 60,580
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current maturities of long-term debt and finance leases	$ 2,861	$ 3,294
Accounts payable	2,062	1,773
Accrued salaries and wages	1,541	1,427
Air traffic liability	4,808	4,339
Loyalty program liability	3,193	3,267
Operating lease liabilities	1,708	1,654
Other accrued liabilities	2,138	2,342
Total current liabilities	18,311	18,096
Noncurrent liabilities		
Long-term debt and finance leases, net of current maturities	21,454	21,179
Pension and postretirement benefits	6,052	6,907
Loyalty program liability	5,422	5,272
Operating lease liabilities	7,421	7,902
Other liabilities	1,453	1,393
Total noncurrent liabilities	41,802	42,653
Commitments and contingencies (Note 12)		
Stockholders' equity (deficit)		
Common stock, $0.01 par value; 1,750,000,000 shares authorized, 428,202,506 shares issued and outstanding at December 31, 2019; 460,610,870 shares issued and outstanding at December 31, 2018	4	5
Additional paid-in capital	3,945	4,964
Accumulated other comprehensive loss	(6,331)	(5,896)
Retained earnings	2,264	758
Total stockholders' deficit	(118)	(169)
Total liabilities and stockholders' equity (deficit)	$ 59,995	$ 60,580

See accompanying notes to consolidated financial statements.

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Sources: New Constructs, LLC and company filings

Good Disclosure #2: This 2019 10-K disclosure from American Airlines of the future annual payments in an operating lease note, as a table, with a breakout of each individual year, is an example of the best disclosure of this information. In total, we estimate about 93% of companies provide this level of disclosure for their operating leases in 10-Ks and 50% in 10-Qs.

Figure 4 American Airlines Future Annual Payments Disclosure in 2019 10-K

Maturities of lease liabilities were as follows (in millions):

	December 31, 2019	
	Operating Leases	Finance Leases
2020	$ 1,990	$ 153
2021	1,817	128
2022	1,620	132
2023	1,429	110
2024	1,030	116
2025 and thereafter	3,276	171
Total lease payments	11,162	810
Less: Imputed interest	(2,033)	(140)
Total lease obligations	9,129	670
Less: Current obligations	(1,708)	(112)
Long-term lease obligations	$ 7,421	$ 558

Sources: New Constructs, LLC and company filings

Good Disclosure #3: This 2019 10-K disclosure from American Airlines of the discount rate used to determine the NPV of the operating lease payments in a table in the operating lease note is an example of the best disclosure of this information. Contact us to request more details on which companies provide the best/worst disclosures in this area.

Figure 5: American Airlines (AAL) Operating Lease Discount Rate Disclosure in 2019 10-K

Weighted average discount rate:		
Operating leases	4.7%	4.6%
Finance leases	6.2%	6.5%

Sources: New Constructs, LLC and company filings

Good Disclosure #4: This 2019 10-K disclosure from Invesco (IVZ) of sublease income reported in a table in the operating lease note is an example of the best disclosure of this information. In total, we estimate about 94% of companies provide this level of disclosure for their operating leases in 10-Ks and 97% in 10-Qs.

Sublease income is usually a non-operating item for most companies (with the exception of Real Estate and Restaurants) that reduces reported operating expenses, such as selling, general, and administrative. We add back sublease income in our adjusted EBIT/EBITDA, core earnings and NOPAT calculations because it leads to overstated profits and represents unusual income not core to the company's ongoing operations.

Figure 6: Invesco Sublease Income Disclosure in 2019 10-K

The components of lease expense for the year ended December 31, 2019 were as follows:

$ in millions	Year ended December 31, 2019
Operating lease cost	70.0
Variable lease cost	26.8
Less: sublease income	(0.6)
Total lease expense	96.2

Sources: New Constructs, LLC and company filings

The Bad Disclosure Practices

The below examples include disclosures that are not as good as the prior examples because they make the information needed to assess operating leases harder to find in filings.

Bad Disclosure #1: Instead of disclosing their operating lease/ROU assets and liabilities on the balance sheet in its 2020 10-K, Evolution Petroleum Corp (EPM) buries that information in "Other" on the balance sheet. Analysts and investors have to find the breakout of the "Other" value in the footnotes. It is far more convenient to get this data from the balance sheet and not have to search through potentially hundreds of pages of footnotes to find it. In total, we estimate about 38% of companies provide this level of disclosure for their operating leases in 10-Ks and 54% in 10-Qs.

Figure 7: Evolution Petroleum Corp "Other Assets" Disclosure in the Footnotes in 2020 10-K

Note 7 – Other Assets

	June 30, 2020	June 30, 2019
Royalty rights	108,512	108,512
Less: Accumulated amortization of royalty rights	(61,037)	(47,474)
Investment in Well Lift Inc., at cost	108,750	108,750
Deferred loan costs	168,972	168,972
Less: Accumulated amortization of deferred loan costs	(157,084)	(141,927)
Right of use asset under operating lease	161,125	—
Less: Accumulated amortization of right of use asset	(43,932)	—
Software license	20,662	20,662
Less: Accumulated amortization of software license	(14,350)	(7,462)
Other assets, net	$ 291,618	$ 210,033

Our royalty rights and investment in Well Lift, Inc. ("WLI") resulted from the separation of our artificial lift technology operations in December 2015. We conveyed our patents and other intellectual property to WLI and retained a 5% royalty on future gross revenues associated with the technology. We own 17.5% of the common stock of WLI and account for our investment in this private company at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, if such were to occur. The Company evaluates the investment for impairment when it identifies any events or changes in circumstances that might have a significant adverse effect on the fair value of the investment.

Note 8 – Accrued Liabilities and Other

	June 30, 2020	June 30, 2019
Accrued incentive and other compensation	$ 176,636	$ 369,719
Asset retirement obligations due within one year	—	50,244
Accrued franchise taxes	100,978	5,738
Accrued ad valorem taxes	108,000	100,500
Payable for settled derivatives	265,188	—
Operating lease liability, current	54,290	—
Accrued - other	11,556	11,554
Accrued liabilities and other	$ 716,648	$ 537,755

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Sources: New Constructs, LLC and company filings

Bad Disclosure #2: In Figure 8, Tellurian Inc. (TELL) double buries, or makes it doubly hard to find, its operating lease right-of-use assets and liabilities in its 2019 10-K because they are not disclosed on the balance sheet and not directly disclosed in a table in the footnotes. We have to dig further into the text supporting the footnotes table to find the operating lease/ROU values. Contact us to request more details on which companies provide the best/worst disclosures in this area.

Figure 8: Tellurian Inc. Operating Lease Disclosures Buried in Footnotes in 2019 10-K

NOTE 9 — ACCRUED AND OTHER LIABILITIES

The components of accrued and other liabilities consist of the following (in thousands):

	December 31,	
	2019	2018
Project development activities	$ 3,851	$ 8,879
Payroll and compensation	18,773	23,286
Accrued taxes	1,018	2,507
Professional services (e.g., legal, audit)	2,906	2,423
Lease liability - current (Note 17)	3,729	—
Other	2,726	4,078
Total accrued and other liabilities	$ 33,003	$ 41,173

TELLURIAN INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

As of December 31, 2019, our financing leases have a corresponding right of use asset of approximately $13.4 million recognized within Property, plant and equipment, net, and a total lease liability of approximately $9.9 million which is recognized between Accrued and other liabilities, approximately $1.4 million, and Other non-current liabilities, approximately $8.5 million. For the year ended December 31, 2019, we paid approximately $2.2 million in cash for amounts included in the measurement of finance lease liabilities, all of which are presented within financing cash flows. For the year ended December 31, 2019, our finance lease costs, which are associated with the interest on our lease liabilities, were approximately $0.2 million.

As of December 31, 2019, our operating leases have a corresponding right of use asset of approximately $15.8 million recognized within Other non-current assets and a total lease liability of approximately $18.1 million which is recognized between Accrued and other liabilities, approximately $2.3 million, and Other non-current liabilities, approximately $15.8 million. For the years ended December 31, 2019, 2018 and 2017, our operating lease costs were $3.6 million, $3.2 million and $2.3 million, respectively. For the years ended December 31, 2019, 2018 and 2017, we paid approximately $3.2 million, $2.2 million and $1.0 million, respectively, in cash for amounts included in the measurement of operating lease liabilities, all of which are presented within operating cash flows.

Sources: New Constructs, LLC and company filings

Bad Disclosure #3: In Figure 9, Two Harbors (TWO) discloses its future annual payments in an "aggregate contractual obligations" table in its 2019 10-K, rather than breaking out the values in a table specifically related to operating leases. In total, we estimate about 1% of companies provide this level of disclosure for their operating leases in 10-Ks and less than 1% in 10-Qs.

Figure 9: Two Harbors Future Annual Payments Bundled in Unrelated Table in 2019 10-K

Aggregate Contractual Obligations

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements, FHLB advances, revolving credit facilities, convertible senior notes, interest expense on borrowings, our non-cancelable office leases, net of contractual subleases, and management fees payable under our management agreement:

(in thousands)	Due During the Year Ended December 31, 2020	2021	2022	2023	2024	Thereafter	Total
Repurchase agreements	$29,147,463	$ —	$ —	$ —	$ —	$ —	$29,147,463
Federal Home Loan Bank advances	160,000	—	—	—	—	50,000	210,000
Revolving credit facilities	—	300,000	—	—	—	—	300,000
Convertible senior notes	—	—	284,954	—	—	—	284,954
Interest expense on borrowings[1]	153,525	21,761	2,043	1,305	1,305	12,785	192,724
Long-term operating lease obligations	1,616	1,523	1,003	327	—	—	4,469
Management fee - PRCM Advisers[2]	245,826	—	—	—	—	—	245,826
Total	$29,708,430	$ 323,284	$ 288,000	$ 1,632	$ 1,305	$ 62,785	$30,385,436

Sources: New Constructs, LLC and company filings

Bad Disclosure #4: EXACT Sciences (EXAS) makes its operating lease discount rate more difficult to find in its 2019 10-K by only disclosing it in a supporting paragraph and not in the operating lease table. Contact us to request more details on which companies provide the best/worst disclosures in this area.

Figure 10: EXACT Sciences Operating Lease Discount Rate Buried in Text in 2019 10-K

(In thousands)	Year Ended December 31, 2019
Operating lease cost	$ 9,200
Short-term lease cost	219
Variable lease cost	896
Total Lease Cost	$ 10,315

Certain vehicle leases include variable lease payments that depend on an index or rate. Those lease payments are initially measured using the index or rate at the lease commencement date.
The Company calculates its incremental borrowing rates for specific lease terms, used to discount future lease payments, as a function of the U.S. Treasury rate and an indicative Moody's rating for operating leases. The Company's weighted average discount rate and weighted average lease term remaining on lease liabilities is approximately 6.80% and 9.8 years, respectively.

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Sources: New Constructs, LLC and company filings

Bad Disclosure #5: Figure 11 shows how Janus Henderson Group (JHG) discloses sublease income in its 2019 10-K, but only within in a paragraph and not a separate table. This disclosure practice is more difficult to identify, especially in filings that can run 200+ pages. In total, we estimate about 6% of companies provide this level of disclosure for their operating leases in 10-Ks and 3% in 10-Qs.

Figure 11: Janus Henderson Group (JHG) Sublease Income Disclosed in Paragraph in 2019 10-K

The components of lease expense on our Consolidated Statements of Comprehensive Income for the year ended December 31, 2019, are summarized below (in millions):

	Year ended December 31, 2019
Operating lease cost^(1)	$ 33.7
Finance lease cost:	
Amortization of right-of-use asset^(2)	$ 1.1
Interest on lease liabilities^(3)	-
Total finance lease cost	$ 1.1

(1) Included in general, administrative and occupancy on our Consolidated Statements of Comprehensive Income.

(2) Included in depreciation and amortization on our Consolidated Statements of Comprehensive Income.

(3) Included in interest expense on our Consolidated Statements of Comprehensive Income.

We sublease certain office buildings in the UK and received $7.3 million from the tenants during the year ended December 31, 2019. We recognized a $4.7 million impairment of a subleased ROU operating asset in the UK during the year ended December 31, 2019, as collection of rents under the sublease are uncertain. Also, we recognized a $0.7 million impairment of a U.S. operating lease during the year ended December 31, 2019, due to early termination of the lease.

Sources: New Constructs, LLC and company filings

The Ugly (and at Times Non-Compliant) Disclosure Practices

These disclosures lack information necessary for investors and analysts to fully measure the impact of a firm's operating leases on its fundamentals.

Ugly Disclosure #1: Instead of disclosing operating lease/ROU assets and liabilities on the balance sheet in its 2019 10-K, Werner Enterprises (WERN) buries that information in "Other" on the balance sheet. However, unlike the EPM example above, Werner does not break out "Other" in any way in the footnotes, which leaves analysts unable to fully analyze and adjust for operating leases. Contact us to request more details on which companies provide the best/worst disclosures in this area.

Figure 12: Werner Enterprises Operating Lease & ROU Assets & Liabilities Not Broken Out in 2019 10-K

Balance Sheet Classification		
Right-of-use assets (recorded in other non-current assets)	$	11,376
Current lease liabilities (recorded in other current liabilities)	$	3,583
Long-term lease liabilities (recorded in other long-term liabilities)		8,153
Total operating lease liabilities	$	11,736

Sources: New Constructs, LLC and company filings

Ugly Disclosure #2: Figure 13 shows that Altria Group (MO) is not compliant with GAAP as it groups future annual payments in its 2019 10-K years into multi-year timeframes. Under GAAP, aggregation of future annual payments is only allowed in the thereafter portion following five individual years. Aggregating multiple years prior to the first five makes it more difficult to assess the accuracy of the firm's NPV calculation. In total, we estimate about 1% of companies provide this level of disclosure for their operating leases in 10-Ks and 10-Qs.

Figure 13: Altria Group Future Annual Payment Disclosure Lacks Needed Transparency in 2019 10-K

Aggregate Contractual Obligations - The following table summarizes Altria's contractual obligations at December 31, 2019:

	Payments Due				
(in millions)	Total	2020	2021 - 2022	2023 - 2024	2025 and Thereafter
Long-term debt (1)	$ 28,275	$ 1,000	$ 4,400	$ 4,152	$ 18,723
Interest on borrowings (2)	17,923	1,194	2,182	1,909	12,638
Operating leases (3)	196	53	72	28	43
Purchase obligations: (4)					
Inventory and production costs	4,038	1,039	1,343	761	895
Other	886	585	247	54	—
	4,924	1,624	1,590	815	895
Other long-term liabilities (5)	1,944	81	180	198	1,485
	$ 53,262	$ 3,952	$ 8,424	$ 7,102	$ 33,784

Sources: New Constructs, LLC and company filings

Ugly Disclosure #3: Figure 14 illustrates how Altria Group combines many of the worst disclosures from above by only mentioning operating lease/ROU assets & liabilities in a paragraph in its 2019 10-K, but providing no indication of where these items are recorded on the balance sheet. Contact us to request more details on which companies provide the best/worst disclosures in this area.

Figure 14: Altria Group Operating Lease/ROU Assets & Liabilities Lack Necessary Context in 2019 10-K

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as lessees, recorded right-of-use assets and lease liabilities of $179 million at January 1, 2019 for its leases, which were all operating leases. There was no cumulative effect adjustment to the opening balance of earnings reinvested in the business. Right-of-use assets and lease liabilities on Altria's consolidated balance sheet at December 31, 2019 were not materially different than the amounts recorded upon adoption of ASU No. 2016-02.

Sources: New Constructs, LLC and company filings

Ugly Disclosure #4: American Bio Medica Corp (ABMC) provides a breakdown of its future annual payments in its 2019 10-K but does not disclose the discount rate used to calculate these payments. Without disclosing the discount rate, analysts cannot judge the appropriateness of the rate used and whether the balance sheet impact of the operating leases is reasonable. In total, we estimate about 7% of companies provide this level of disclosure for their operating leases in 10-Ks and 10% in 10-Qs.

Figure 15: American Bio Medica Corp Lack of Discount Rate Disclosure in 2019 10-K

Operating leases: The Company leases office and R&D/production facilities in New Jersey under a, non-cancellable operating lease through December 31, 2019. In December 2019, the Company extended the lease for the New Jersey facility through December 31, 2022. The Company also leases office support equipment through July 2022 and December 2025. At December 31, 2019, the future minimum rental payments under these operating leases are as follows:

2020	$37,000
2022	37,000
2022	36,000
2023	1,000
2024	1,000
Thereafter	1,000
	$113,000

Future annual payments disclosed but no discount rate provided.

Rent Expense was $46,000 and $43,000 in Fiscal 2019 and Fiscal 2018, respectively.

Sources: New Constructs, LLC and company filings

Ugly Disclosure #5: Per Figure 16, Acacia Research (ACTG) disclosed the exact amount of sublease income in its 2019 10-K, but omits this important data in its 1Q20 10-Q. Figure 17 shows how Acacia Research's poor disclosure makes it impossible for investors to know and adjust earnings for sublease income.

Figure 16: Acacia Research Discloses Sublease Income in 2019 10-K

Operating lease costs, net of sublease income of $780,000, were $426,000 for the year ended December 31, 2019. Operating lease costs, net of sublease income of $65,000, were $1,106,000 for the year ended December 31, 2018.

The table below presents aggregate future minimum payments due under the New Lease and the Old Lease, reconciled to lease liabilities included in the consolidated balance sheet as of December 31, 2019:

Sources: New Constructs, LLC and company filings

Note that when companies make no mention of sublease income whatsoever, we do not know whether or not they have sublease income. We have to assume that companies disclose the existence of any material amounts of sublease income. However, given that we see companies not disclose material information in other areas, we also have to assume that some companies with material sublease income may have it, but do not disclose it.

Without adequate enforcement of disclosure compliance, investors are unable to make fully informed decisions.

Figure 17: Acacia Research Fails to Disclose Sublease Income in 1Q20 10-Q

Operating lease costs, net of sublease income, were $121,000 and $153,000 for the three months ended March 31, 2020 and 2019, respectively.

The table below presents aggregate future minimum payments due under the New Lease and the New York Office Lease discussed above, reconciled to lease liabilities included in the consolidated balance sheet as of March 31, 2020:

Sources: New Constructs, LLC and company filings

Contact us to request more details on which companies provide the best/worst disclosures in this area.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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Learn more.

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Get better research:

"…the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications." – page 20

Pick better stocks:

"Trading strategies that exploit cross-sectional differences in firms' transitory earnings produce abnormal returns of 7-to-10% per year." – Abstract

Avoid losses from using other firms' data:

"…many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat…" – page 14

Build better models:

"Core Earnings [calculated using New Constructs' novel dataset] provides predictive power for various measures of one-year-ahead performance…that is incremental to their current-period counterparts." – page 4

Exploit market inefficiencies:

"These results … suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures." – page 26

Fulfill fiduciary duties:

"An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A." – page 33-34

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