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One-Time Charges: Never Having to Say You're Sorry?

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Abstract

Although financial analysts sometimes dismiss one-time charges to company earnings as unimportant, stock returns appear to suffer significantly during periods of frequent one-time charges. Distinguishing among types of one-time charges is important. Some charges represent sound economic decisions that the market appears to recognize. One-time charges relating to accounting changes usually reflect catching up with past events (e.g., recognizing the true cost of postretirement benefits). These charges can result in companies changing policy going forward. The charges that appear most problematic are restructuring charges and those taken for discontinued operations. When such charges occur frequently, they may yield insights into future expected cash flows and the quality of companies' management.