(16) OTHER INCOME AND DEDUCTIONS

The following table details the components of other income and deductions for PNM Resources, Inc. and subsidiaries (In thousands):

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
Other income:			
Investment income	**$ 41,826**	$ 44,954	$ 48,742
AFUDC	**2,589**	–	–
Gross receipts tax credits	**2,893**	–	–
Miscellaneous non-operating income	**5,397**	3,406	3,405
	$ 52,705	$ 48,360	$ 52,147
Other deductions			
Loss on reacquired debt write off	**$ 16,576**	$ –	$ –
Transition costs write off	**16,720**	–	–
Merger costs and related legal costs	**–**	(2,436)	17,975
Write-off of Avistar investments	**–**	–	13,089
Nonrecoverable coal mine decommissioning costs	**–**	–	12,979
Write-off of regulatory assets	**–**	–	11,100
Contribution to PNM Foundation	**–**	–	5,000
Transmission line project write-off	**–**	4,818	–
Miscellaneous non-operating deductions	**12,857**	9,924	7,114
	$ 46,153	$ 12,306	$ 67,257

(17) PRO-FORMA EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

The following table, presented for comparative purposes, shows the pro-forma effect assuming the adoption of SFAS 143 and the change in measurement date of the pension and other post-retirement benefit plans applied retroactively to the Company's earnings. (In thousands)

	YEAR ENDED DECEMBER 31,	
	2002	2001
Net Earnings as previously reported	$ 63,686	$ 149,847
Change of Pension Measurement Date, net of tax expense (benefit) of $(167) and $144 (note 9)	(255)	219
Adoption of Asset Retirement Obligations, net of tax benefit of $3,048 and $3,088 (note 12)	4,651	4,712
Net Earnings Available to Common Stock	$ 68,082	$ 154,778
Earnings per Share:		
Net Earnings as previously reported	$ 1.63	$ 3.83
Change of Pension Measurement Date (note 9)	(0.01)	(0.01)
Adoption of Asset Retirement Obligations, net of tax of $0.08 and $0.08 (note 12)	0.12	0.12
Net Earnings Available to Common Stock	$ 1.74	$ 3.94
Diluted Earnings Per Share as previously reported	$ 1.61	$ 3.77
Diluted Earnings Per Share net of tax of $0.08 and $0.07	$ 1.73	$ 3.88

(18) NEW AND PROPOSED ACCOUNTING STANDARDS

Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" (revised December 2003) ("FIN 46R"). In January 2003, the Financial Accounting Standards Board ("FASB") issued FIN 46 to address the consolidation of variable interest entities ("VIEs"). FIN 46 applied immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applied in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. Upon adoption of FIN 46, the Company did not identify any VIEs for which it is the primary beneficiary or has significant involvement. In December 2003, the FASB issued FIN 46R to clarify provisions of FIN 46 and exempt certain entities from its requirements. The Company must apply the provisions of FIN 46R for special purpose entities (SPEs) created prior to February 1, 2003, at the end of the annual reporting period ending after December 15, 2003. The Company

evaluated all its interests in entities that may be deemed SPEs under the provisions of FIN 46R and concluded that no additional entities need to be consolidated. The Company is required to adopt FIN 46R for non-SPEs at the end of the first interim reporting period ending after March 15, 2004. The Company is currently evaluating the impact of adopting FIN 46R applicable to non-SPEs created prior to February 1, 2003 and is unable to predict its impact on the Company's operating results and financial position at this time.

Statement of Financial Accounting Standards No. 132 (revised 2003) "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132(R)"). This statement was issued in December of 2003 and replaces FASB statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"). SFAS 132(R) addresses disclosure only and does not change the measurement and recognition provisions of FASB Statement No. 87, "Employers' Accounting for Pensions", Statement No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". Additional disclosures to be included in the annual report include additional information regarding plan assets, the accumulated benefit obligations (for defined benefit pension plans), projected benefit payments, estimated expected contributions, assumptions used in the calculations and the measurement date of the plan (see Note 9 – Pension and Other Post-retirement Benefits for additional disclosures). Disclosures to be included in interim reports include the amount of net periodic benefit cost recognized (showing the components separately) and contributions paid and expected to be paid during the current fiscal year, if significantly different from amounts previously disclosed. This statement is effective for fiscal years ending after December 15, 2003 and interim periods beginning after December 15, 2003. The disclosure regarding estimated future benefit payments shall be effective for fiscal years ending after June 15, 2004.

EITF 01-8 "Determining Whether an Arrangement Contains a Lease." EITF 01-8 provides guidance on how to determine whether an arrangement contains a lease that is within the scope of Statement of Financial Accounting Standards No. 13, "Accounting for Leases" ("SFAS 13"). The guidance is based on whether the arrangement conveys to the purchaser (lessee) the right to use a specific asset. A consensus was reached on the accounting for substantial services provided by the lessor in these arrangements in which these services are not executory costs as the term is used in SFAS 13. The guidance provides as to when an arrangement should be reassessed to determine whether it contains a lease and how to account for these subsequent changes in lease classification. EITF 01-8 must be applied to arrangements agreed to, committed to, modified, or acquired in business combinations initiated after April 1, 2003. Upon adoption, EITF 01-8 did not have a material impact on the Company's financial condition or results of operation.

EITF 02-9 "Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold." EITF 02-9 addresses how to apply the accounting requirements of paragraph 55 of Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), with respect to beneficial interests held by the transferor and loans that do not meet the definition of a security, including whether the transferor should recognize a gain or loss when the provisions of paragraph 55 are applied. Paragraph 55 of SFAS No. 140 requires a transferor to recognize in its financial statements assets previously accounted for appropriately as having been sold when one or more of the conditions regarding control of the assets are no longer met. EITF 02-9 must be applied to events occurring after April 2, 2003. Upon adoption, EITF 02-9 did not have a material impact on the Company's financial condition or results of operation.

FASB Staff Position No. 106-1 "Accounting and Disclosure Requirements Related to Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act")" ("FSP 106-1"). The Act introduces a prescription drug benefit under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act. Authoritative guidance on accounting for the federal subsidy is pending and could require a change in previously reported information. Disclosures are required regardless of whether the sponsor elects deferral. FSP 106-1 is effective for fiscal years or interim periods ending after December 7, 2003 and interim periods beginning after December 15, 2003. Because of various uncertainties related to the Company's response to this litigation and the appropriate accounting methodology for this event, the Company has elected to defer financial recognition of this legislation until the FASB issues final accounting guidance. When issued, that final guidance could require the Company to change previously reported information. This deferral election is permitted under FSP 106-1.