



The Vincent C. Ross Institute of Accounting Research
Baruch Lev, Director and the Philip Bardes Professor of Accounting and Finance
Seymour Jones, Acting Associate Director

ROSS ROUNDTABLE

On

GAAP: Back From The Dead?

Date/Time: Thursday, October 4, 2001 from 4:00pm to 6:00pm

Location: New York University, Leonard N. Stern School of Business
 Abbe-Bogen Faculty lounge, 11th Floor (11-85)
 Kaufman Management Education Center
 44 West Fourth Street, New York, NY 10012

RSVP (212) 998-4143 or email aallison@stern.nyu.edu by **September 28, 2001**

Roundtable Coordinator

Joshua Livnat, *Professor, Department of Accounting, Taxation, and Business Law*

ROUNDTABLE BACKGROUND

To justify high valuations during the stock market boom in the late 1990's, analysts and investors focused on non-GAAP performance measures such as revenue growth, Internet-traffic data, and pro-forma earnings. The recent market bust has brought back in fashion traditional GAAP-based earnings, with investors rewarding companies that post positive accounting earnings and penalizing those companies that post GAAP losses. Further, it appears that investors are becoming more skeptical about the notion of pro-forma or core earnings.

On the other hand, some argue that pro-forma measures, and other GAAP alternatives, are a natural response to the limitations of the accounting system in reflecting value and results of operations for modern business enterprises.

The following table shows recently reported quarterly and pro-forma (or core) earnings of four companies, two of which are in the high technology sector and two in traditional industries. The table also reports the percentage increase in earnings (or reduction of losses in the case of Amazon).

Company	Preliminary Earnings Release Date	Reported Earnings Current Quarter (\$ Million)	Pro-forma Earnings Current Quarter (\$ Million)	Difference in Earnings
Amazon.Com	23-Jul-01	-168.4	-57.5	66%
Cisco Systems	7-Aug-01	7	163	2229%
H. J. Heinz Co.	14-Jun-01	-170.1	185.7	209%
Whirlpool Corp.	17-Jul-01	53	88	66%

Discussion Questions:

1. Do companies mislead investors by highlighting performance measures other than GAAP-based earnings, or are they providing meaningful information with the pro-forma (core) numbers?
2. Are professional investors better off knowing the performance measures management selected **in addition** to GAAP-based earnings?
3. Some of the most common adjustments relate to:
 - a. Amortization of goodwill and other intangibles. How would the new FASB pronouncements affect these adjustments?
 - b. Restructuring charges. Since these charges depend on managerial discretion, should they be highlighted?
 - c. Losses on equity investments. Should these losses be excluded from GAAP earnings?
4. Are financial analysts trying to predict the pro-forma (core) earnings numbers?
5. The role of academic institutions and the press in emphasizing the importance of GAAP-based earnings in good as well as bad times, and criticizing some “innovative” measures of performance in good times.
6. How do such measures as EBITDA relate to pro-forma earnings?

The Ross Roundtable provides a forum for "public opinion shapers" -- business writers, financial analysts, educators, corporate financial executives, regulators, etc. -- to discuss with policymakers important developments in capital markets and the financial world. To provide ample opportunity for participants to voice their opinions, the size of the Roundtable is limited.