"Adjusted" earnings

Letters: 2016 · Difficulty: Intro

> *"Too many managements ... are looking for any means to report, and indeed feature, "adjusted earnings" that are higher than their company's GAAP earnings." (2016)*

1. GAAP net income is $80 million. Management adds back $15 million of stock-based compensation and $10 million of amortization. What "adjusted earnings" does it report ($ millions)? _____

2. Which add-back does Buffett argue is clearly a real cost?

   A. Income tax refund

   B. Gain on sale of land

   C. Dividends paid

   D. Stock-based compensation

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 2016 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.