Shareholder Letters: Accounting Themes

Pro forma results

Amazon letters: 2000, 2001

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What the Letter Says

> *"As I mentioned, we exceeded our goals for the fourth quarter with pro forma operating profit of $59 million and pro forma net profit of $35 million."*
>
> Jeffrey P. Bezos, 2001 letter

- Key letters: 2000, 2001
- Course fit: ACC250 Ch3 · ACC531 Fraud risk · Difficulty: Intro

Step 1: GAAP Operating Result

- **Pro forma** (non-GAAP) results: the company's own version of profit.

EX. GAAP operating loss = $(20) million.

Step 2: Leave Out Selected Expenses

	$ millions
GAAP operating income (loss)	$(20)
+ Stock-based compensation	35
+ Amortization of goodwill	15
Pro forma operating profit	$30

- A $20 million loss becomes a $30 million “profit.”

Step 3: Always Reconcile to GAAP

- GAAP does not define pro forma results → the company chooses what to leave out.
- Since 2003 (SEC Regulation G), a company that reports a non-GAAP number must also show the GAAP number and reconcile the two.
- Compare the two figures every time.

Back to the Letter

- Bezos (2000 letter, early 2001): goal of a **pro forma** operating profit in Q4 2001.
- Bezos (2001): Q4 2001 pro forma operating profit of $59 million and pro forma net profit of $35 million.
- Auditors (ACC531): non-GAAP measures are a **fraud risk** signal when the gap to GAAP keeps growing.

Questions

1. A company's GAAP operating loss is $20 million. Its pro forma figure leaves out $50 million of stock-based compensation and goodwill amortization. What pro forma operating profit does it report ($ millions)?
2. Which statement about pro forma (non-GAAP) results is true?

   A. They include every expense GAAP requires

   B. GAAP does not define them, so the company chooses what to leave out

   C. They must be audited the same way as GAAP results

   D. They always equal GAAP net income

Sources

- Jeffrey P. Bezos, 2000 letter (ir.aboutamazon.com)
- Jeffrey P. Bezos, 2001 letter (ir.aboutamazon.com)
- Reading packet and question sheet for this theme

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