



# Non-GAAP to GAAP Reconciliation<sup>©</sup>

Understanding Generally Accepted Accounting Principles

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## Background – Chaka Patterson



- Partner at Alston & Bird (and former Partner at Jenner & Block and Jones Day)
- Professor at University of Chicago Law School
- Former General Counsel of a Fortune 1000 Global Education Company
- Former Treasurer & VP for Investor Relations of a Fortune 100 Energy Company
- JD from Harvard Law School
- MBA from University of Chicago Booth School of Business

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The University of Chicago Booth School of Business

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CHICAGO  
THE LAW SCHOOL

# — Non-GAAP to GAAP Reconciliation

**GAAP:** The generally accepted accounting principles (GAAP) are the standardized set of principles that public companies in the U.S. must follow.

- Financial Accounting Standards Board (FASB) sets GAAP
- SEC has delegated its authority to set accounting standards to FASB
- SEC maintains the authority to enforce accounting standards

# — Non-GAAP to GAAP Reconciliation

**Non-GAAP:** There are instances in which GAAP reporting fails to accurately portray the operations of a business.

- Companies are allowed to display their own accounting figures, as long as they are disclosed as non-GAAP and provide a reconciliation between the adjusted and regular results.

A measure becomes a non-GAAP measure and is subject to the SEC's non-GAAP rules and interpretive guidance when it excludes amounts that are included in (or includes amounts that are excluded from) the most directly comparable GAAP measure.

# Non-GAAP to GAAP Reconciliation

Some common non-GAAP measures are:

**EBITDA** – earnings before interest, taxes, depreciation, and amortization

**Adjusted earnings or adjusted EBITDA** – removes various additional items (e.g., stock-based compensation, restructuring charges, and other unusual charges) from earnings or EBITDA

**Adjusted earnings per share** – a non-GAAP performance measure (e.g., adjusted earnings) on a per share basis

**Free cash flow** – typically calculated as cash flows from operating activities less capital expenditures

# Key Takeaways



Represent key financial metrics on which investment community and others rely



Inaccuracies in these metrics present significant legal, regulatory, and reputational risk to the business



Can determine whether your contractual counterparties or litigation adversaries are “cooking the books”



## Non-GAAP to GAAP Reconciliation<sup>®</sup>

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