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**Essential Principles of Accounting and Finance in Business Litigation
Syllabus**

Fall Semester 2012

Thursday 8:00 – 9:50 Room 244

George H. Brown

Introductory Note.

Accounting and finance rules and concepts often influence significantly the outcome of business disputes. Courts and lawyers grapple with these concepts to varying degrees of success. The case law suggests that some judges frequently display a deep understanding of the underlying principles, while others could have benefited from more background on the topics of accounting and finance. A great deal rides on an appropriate understanding of accounting and finance in business disputes. Clients stand to win or lose cases based on interpretations of accounting and finance principles, often with the future of the underlying business dependent upon the outcome.

The goal of this course is to introduce students to the most important accounting and finance concepts that impact the outcomes of business disputes. We will study cases that apply a particular accounting rule or concept and review primary source materials where appropriate. We may have occasional guest lecturers who have expertise on particular subjects. We will also review actual company SEC filings and financial disclosures, to see how the accounting and finance principles are actually disclosed and explained. Students who take this course will develop greater comfort with reading and understanding financial statements and SEC filings, and a greater understanding of some of the key concepts in accounting and finance.

The course will review the sources and authoritative weight of Generally Accepted Accounting Principles, including the role of the SEC, PCAOB, and the accounting profession in setting rules and standards. We will also cover key concepts such as revenue recognition, depreciation and amortization, fair value accounting, loss contingencies, and asset and goodwill impairment. We will review and discuss basic valuation principles, and see how they are applied in litigation settings.

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Grading in the course will be based on a final exam. The class is open to all students; however, prior coursework in business organizations or basic accounting and finance would be helpful.

Assignments will be posted each week on bspace, along with any required reading. My plan, subject to change based on unforeseen events, is to circulate each week an advance note consisting of 3-4 pages of background and context for the upcoming class, and to post any additional reading materials on bspace. After each week's class I will also post on bspace the notes, slides, and materials I display in class.

Week 1. Review of Fundamental Concepts

Reading:

- a. Week one advance notes
- b. Apple Inc. - SEC Form 8-K filed July 24, 2012
- c. Hewlett-Packard Company - Financial Statement Excerpts

Week 2. I Know It When I See It: Revenue Recognition

Reading:

- a. Week two advance notes
- b. IMAX Corp. excerpts from SEC filings disclosures re revenue recognition
- c. *In re IMAX Sec. Litig.*, 587 F.Supp.2d 471 (S.D.NY 2008)
- d. Apple Inc. – SEC Form 10-Q for quarter ending June 30, 2012

Week 3. Timing is Everything: Assets, Expenses and the Matching Principle

Reading:

- a. Week three advance notes
- b. Apple Inc. - SEC Form 10-K for year ending September 23, 2011;
- c. *In the Matter of Navistar Int'l.*, SEC Rel. no. 3165, 2010 WL 3071892

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Week 4. Long Live the King!: An Introduction to Discounted Cash Flow

Reading:

- a. Week four advance notes
- b. Financial Statement excerpts: TBD
- c. Handout re basic valuation concepts
- d. *Gearreald v. Just Care, Inc.*, 2012 WL 1569818 (Del. Ch. 2012)

Week 5. Maybe, probably, possibly, unlikely: Accounting for Contingencies

Reading:

- a. Week five advance notes
- b. BP SEC Form 20-F for year ending December 31, 2010
- c. Case excerpt: TBD

Week 6. Accounts Receivable/ Loan Loss Reserves

Reading:

- a. Week six advance notes
- b. Countrywide Financial Corp. SEC Form 10-Q for quarter ending September 30, 2007
- c. *In re Countrywide Financial Corp. Sec. Litig.*, 588 F.Supp.2d 1132 (C.D. Cal. 2008)

Week 7. Goodwill and Asset Impairment

Reading:

- a. Week seven advance notes
- b. CBS Corporation Form 10-Q for quarter ending June 30 2008
- c. CBS Corporation Form 10-Q for quarter ending Sept. 30 2008
- d. Hewlett Packard Form 8-K filed August 8, 2012
- e. *City of Omaha v. CBS Corporation*, 2011 U.S. Dist. LEXIS 57647 (S.D.NY 2011)

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- f. *Fait v. Regions Financial Corp.*, 2011 U.S. App. LEXIS 17517 (2d. Cir. 2011)

Week 8. Valuation of Companies and Stocks

Reading:

- a. Week eight advance notes
- b. Financial Statement excerpts: TBD
- c. Handout re basic valuation concepts
- d. *Global GT LP et al v. Golden Telecom, Inc.*, 993 A.2d 497 (Del. Ch. 2010)

Week 9. Measuring Investor Losses in Securities Class Actions – Part I

Reading:

- a. Week 9 advance notes
- b. Excerpts of expert materials
- c. Handout re Efficient Capital Markets Hypothesis
- d. Case excerpt: *Green vs. Occidental Petroleum Corp.*, 541 F.2d 1335 (9th Cir. 1976) (Sneed J., concurring)
- e. Case excerpt: *In re LTV Sec. Litig.* 88 F.R.D. 134 (N.D. Tex. 1980)
- f. Article: Bradford Cornell, and R. Gregory Morgan, *Using Finance Theory to Measure Damages in Fraud on the Market Cases*, 37 UCLA L. Rev. 883 (1990)
- g. Case excerpt: *Basic Inc. vs. Levinson*, 485 U.S. 224, 108 S.Ct. 978 (1988)

Week 10. Measuring Investor Losses in Securities Class Actions – Part II

Reading:

- a. Week ten advance notes.
- b. Excerpts of expert materials
- c. Case excerpt: *Dura Pharmaceuticals, Inc. vs. Broudo*, 544 U.S. 336 (2005);
- d. Case excerpt: *In re William Sec. Litig. – WCG Subclass*, 558 F.3d 1130 (10th Cir. 2009) [See also, the District Court decision re summary judgment]

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Week 11. Internal Controls – Foreign Corrupt Practices Act

Reading:

- a. Week eleven advance notes
- a. Sarbanes Oxley Act of 2002, Sections 404; 302, 906
- b. PCAOB Auditing Standard No. 5
- c. Financial Statement Excerpts: Google Inc. 2011 Form 10-K; Apple Inc. 2010 Form 10-K
- b. Foreign Corrupt Practices Act of 1974 [internal controls sections]
- c. *In the Matter of Watts Water Technologies, Inc. et al.*, SEC Rel. no. 3328, 2011 WL 4860051 (October 13, 2011)

Week 12. The Great Stock Option Debacle of 2006

Reading:

- a. Excerpts from Accounting Principles Board Opinion No. 25
- b. Excerpts from SFAS 123
- c. Excerpts from SFAS 123R
- d. Handouts re excerpts of pre- 2004 speeches and statements by technology industry executives against changes in accounting for stock option compensation;
- e. Excerpts from May 2006 – October 2006 company disclosures re stock option backdating investigations
- f. Wall Street Journal articles re stock option backdating
- g. Excerpts from FASB codification [Current rules]
- h. Financial Statement excerpts: Google Inc. 2001 Form 10-K; Apple Inc. 2010 Form 10-K
- i. *U.S. v Reyes*, (9th Cir. October 13, 2011)

Week 13. Auditing Part I

- a. Week 13 advance notes
- b. Excerpts from professional auditing standards

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- c. Handout re auditing techniques
- d. Excerpts re selected PCAOB Auditing Standards
- e. Audit Report in SEC filings [TBD]

Week 14. Auditing Part II – Auditor Liability

- a. Week 14 advance notes
- b. Excerpts from PCAOB Auditing Standards
- c. Financial Statement Excerpts [TBD]
- d. *In re Worldcom, Inc. Sec. Litig.*, 352 F.Supp.2d 472 (S.D.NY 2005)
- e. Selected SEC enforcement releases