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ACCOUNTING STANDARDS UPDATE

No. 2009-08
September 2009

Earnings Per Share

Amendments to Section 260-10-S99

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116

Securities and Exchange Commission (SEC) Content

Earnings Per Share

Amendments to Section 260-10-S99

This Codification Update represents technical corrections to Topic 260-10-S99, Earnings per Share, based on EITF Topic D-53, *Computation of Earnings Per Share for a Period that Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock* and EITF Topic D-42, *The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*.

1. Amend paragraphs 260-10-S99-2 and 260-10-S99-3, with no link to transition paragraph, as follows:

> > Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings

> > > SEC Staff Announcement: The Effect on the Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock

S99-2 The following is the text of SEC Staff Announcement: The Effect on Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock.

~~Dates Discussed: January 20, 1994; November 17, 1994; September 11-12, 2002; July 31, 2003~~

~~The SEC Observer made the following announcement of the SEC staff's position on the effect on the calculation of earnings per share for the redemption or induced conversion of preferred stock:~~

~~The SEC staff has noted an increase in the number of registrants that are either redeeming outstanding shares of preferred stock for cash, other securities issued by the registrant, or other consideration or inducing the conversion of outstanding shares of preferred stock into other securities issued by the registrant.~~

~~The SEC staff has been asked whether the redemption or induced conversion of preferred stock would have an impact on the determination of net earnings available to common shareholders in the calculation of earnings per share.~~

~~If a registrant redeems its preferred stock, the SEC staff believes that the excess of (1) fair value of the consideration transferred to the holders of the preferred stock over (2) the carrying amount of the preferred stock in the registrant's balance sheet should be subtracted from net earnings to arrive at net earnings available to common shareholders in the calculation of earnings per share. [Note: See Subsequent Developments section below.] The staff believes that the excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the registrant's balance sheet represents a return to the preferred stockholder and, therefore, should be treated in a manner similar to the treatment of dividends paid to the holders of the preferred stock in the calculation of earnings per share. Dividends on preferred stocks are deducted from net earnings to arrive at net earnings available to common shareholders. (Likewise, an excess of the carrying amount of preferred stock over the fair value of the consideration transferred to the holders of the preferred stock would be added to net earnings to arrive at net earnings available to common shareholders.)~~

~~If convertible preferred stock is converted to other securities issued by the registrant pursuant to an inducement offer, the staff believes that the excess of (1) the fair value of all securities and other consideration transferred in the transaction by the registrant to the holders of the convertible preferred stock over (2) the fair value of securities issuable pursuant to the original conversion terms should be subtracted from net earnings to arrive at net earnings available to common shareholders in the calculation of earnings per share. Registrants should look to the guidance provided in FASB Statement No. 84, Induced Conversions of Convertible Debt, to determine whether the conversion of preferred stock is pursuant to an inducement offer.~~

~~The staff would expect registrants to comply with the staff's views on these transactions beginning with transactions, or offers of transactions, announced on or after January 20, 1994.~~

Subsequent Developments

~~At the November 17, 1994 meeting, the SEC Observer responded to an inquiry from a Task Force member concerning the SEC staff announcement above. The inquiry related to accounting for the redemption of an "in-the-money" convertible preferred stock (in other words, the underlying common stock appreciated since the date of issuance). The SEC Observer stated that the guidance in the above announcement covering redemptions of preferred stock applies to all classes of preferred stock and that the entire excess of the redemption amount over the carrying amount should be deducted from earnings available to common stockholders.~~

~~At the September 18-19, 1996 meeting, the SEC Observer made an announcement of the SEC staff's position on the computation of earnings per share for a period that includes a redemption or an induced conversion of a portion of a class of preferred stock. (See Topic D-53 for details of the announcement.)~~

~~At the September 11-12, 2002 meeting, the Task Force reached a consensus on Issue No. 02-15, "Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84," that Subtopic Statement 84 applies to all conversions of convertible debt that (1) occur pursuant to changed conversion privileges that are exercisable only for a limited period of time and (2) include the issuance of all of the equity securities issuable pursuant to conversion privileges included in the terms of the debt at issuance for each debt instrument that is converted, regardless of the party that initiates the offer or whether the offer relates to all debt holders.~~

~~In May 2003, the FASB issued FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The Statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or as an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. Statement 150 was issued in May 2003 and, for public entities, is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the interim period beginning after June 15, 2003.~~

~~The guidance contained in this announcement is partially nullified by Statement 150 that requires that mandatorily redeemable preferred stock, as defined in the scope of that Statement, be classified as a liability. Consequently, when a registrant redeems mandatorily redeemable preferred stock, the excess (shortfall) of the fair value transferred over (under) the carrying amount of the preferred stock would be accounted for as a loss (gain) on extinguishment of debt and reflected in the registrant's net income (and thus in the numerator when calculating earnings per share). Statement 150 does not impact the SEC staff's views, as expressed above, regarding preferred stock or convertible preferred stock that is not mandatorily redeemable as defined in Statement 150.~~

~~At the July 31, 2003 meeting, the SEC Observer clarified that for the purposes of calculating the excess of (1) the fair value of the consideration transferred to the holders of the preferred stock over (2) the carrying amount of the preferred stock in the registrant's balance sheet, the carrying amount of the preferred stock should be reduced by the issuance costs of the preferred stock, regardless of where in the stockholders' equity section those costs were initially classified on~~

issuance. This clarification of Topic D-42 should be reflected retroactively in financial statements for reporting periods ending after September 15, 2003, by restating the financial statements of prior periods in accordance with the provisions of paragraphs 27-30 of APB Opinion No. 20, Accounting Changes. Earlier application is encouraged.

Scope

This SEC staff announcement applies to redemptions and induced conversions of equity-classified preferred stock instruments. For purposes of this announcement: [>>Author-generated text<<]

1. Modifications and exchanges of preferred stock instruments that are accounted for as extinguishments, resulting in a new basis of accounting for the modified or exchanged preferred stock instrument, are considered redemptions. [>>Author-generated text<<]
2. A preferred stock instrument classified within temporary equity pursuant to the guidance in ASR 268 and paragraph 480-10-S99-3A is considered equity-classified, and redemptions and induced conversions of such securities would be subject to this guidance. [>>Author-generated text<<]
3. If an equity-classified security is subsequently required to be reclassified as a liability based on the provisions of other GAAP (for example, because a preferred share becomes mandatorily redeemable pursuant to Subtopic 480-10), the reclassification is considered a redemption of equity by issuance of a debt instrument. [>>Author-generated text<<]

The accounting for conversions of preferred stock instruments into other equity-classified securities pursuant to conversion privileges provided in the terms of the instruments at issuance is not affected by this announcement. [>>Author-generated text<<]

The Effect on Income Available to Common Stockholders of a Redemption or Induced Conversion of Preferred Stock

If a registrant redeems its preferred stock, the SEC staff believes that the difference between (1) the fair value of the consideration transferred to the holders of the preferred stock and (2) the carrying amount of the preferred stock in the registrant's balance sheet (net of issuance costs) should be subtracted from (or added to) net income to arrive at income available to common stockholders in the calculation of earnings per share. The SEC staff believes that the difference between the fair value of the consideration transferred to the holders of the preferred stock and the carrying amount of the preferred stock in the registrant's balance sheet represents a return to (from) the preferred stockholder that should be treated in a manner similar to the treatment of dividends paid on preferred stock. [>>EITF D-042, Sequence 5<<] This

calculation guidance applies to redemptions of convertible preferred stock regardless of whether the embedded conversion feature is “in-the-money” or “out-of-the-money” at the time of redemption. The fair value of the consideration transferred is reduced by the commitment date intrinsic value of the conversion option if the redemption includes the reacquisition of a previously recognized beneficial conversion feature in a convertible preferred stock instrument. [>>Author-generated<<]

If convertible preferred stock is converted into other securities issued by the registrant pursuant to an inducement offer, the SEC staff believes that the excess of (1) the fair value of all securities and other consideration transferred in the transaction by the registrant to the holders of the convertible preferred stock over (2) the fair value of securities issuable pursuant to the original conversion terms should be subtracted from net income to arrive at income available to common stockholders in the calculation of earnings per share. Registrants should consider the guidance provided in Subtopic 470-20 to determine whether the conversion of preferred stock is pursuant to an inducement offer. [>>EITF D-042, Sequence 6<<]

The Effect on Diluted Earnings per Share of a Redemption or Induced Conversion of Only a Portion of a Class of Preferred Stock

When a registrant effects a redemption or induced conversion of only a portion of the outstanding securities of a class of preferred stock, the SEC staff believes that, for the purpose of determining whether the “if-converted” method is dilutive for the period, the shares redeemed or converted should be considered separately from the other shares of the same class that are not redeemed or converted. The SEC staff does not believe that it is appropriate to aggregate securities with different effective dividend yields when determining whether the “if-converted” method is dilutive, which would be the result if a single, aggregate computation was made for the entire series of preferred stock. [>>EITF D-053, Sequence 4<<]

For example, assume a registrant has 100 shares of convertible preferred stock outstanding at the beginning of the period. The convertible preferred stock was issued at fair value, which was equal to its par value of \$10 per share, and has a stated dividend of 5 percent, and each share of preferred stock is convertible into 1 share of common stock. During the period, 20 preferred shares were redeemed by the registrant for \$12 per share. [>>EITF D-053, Sequence 5<<]

In this example, the SEC staff believes that the registrant should determine whether conversion is dilutive (1) for 80 of the preferred shares by applying the “if-converted” method from the beginning of the period to the end of the period using the stated dividend of 5 percent and (2) for 20 of the preferred shares by applying the “if-converted” method from the beginning of the period to the date of

redemption using both the stated dividend of 5 percent and the \$2 per share redemption premium. [>>EITF D-053, Sequence 6<<]

Accordingly, assuming that the dividend for the period for the preferred stock was \$0.125 per share, a determination of whether the 20 redeemed shares are dilutive should be made by comparing the \$2.125 per-share effect of assuming those shares are not converted to the effect of assuming those 20 shares were converted into 20 shares of common stock, weighted for the period for which they were outstanding. The determination of the "if-converted" effect of the 80 shares not redeemed should be made separately, by comparing the EPS effect of the \$0.125 per-share dividend to the effect of assuming conversion into 80 shares of common stock. [>>EITF D-053, Sequence 7<<]

~~>>> SEC Staff Announcement: Computation of Earnings Per Share for a Period that Includes a Redemption of an Induced Conversion of a Portion of a Class of Preferred Stock~~

S99-3 [NOT USED] The following is the text of SEC Staff Announcement: Computation of Earnings Per Share for a Period that Includes a Redemption of an Induced Conversion of a Portion of a Class of Preferred Stock.

Date Discussed: September 18-19, 1996

The SEC Observer made the following announcement of the SEC staff's position on the computation of earnings per share (EPS) for a period that includes a redemption or an induced conversion of a portion of a class of preferred stock:

As summarized in EITF Abstracts, Appendix D, Topic No. D-42, "The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock," the SEC staff has taken the position that the excess of the fair value of the consideration transferred to holders of preferred stock over the carrying amount of the preferred stock (excess consideration) represents a return to the preferred stockholders. Topic D-42 also sets forth the staff's position that the excess of the fair value of the consideration transferred to holders of preferred stock, pursuant to an inducement offer, over the fair value of securities issuable pursuant to the original conversion terms (excess consideration) represents a return to the preferred stockholders. In both cases, the excess consideration is treated in a manner similar to the treatment of dividends paid to the holders of preferred stock in the computation of EPS. Topic D-42 further expresses the staff's view that when the excess consideration is a negative amount (that is, when a redemption or conversion is effected at a discount to the carrying amount or original terms of the preferred security), the computation of EPS should reflect that negative amount.

~~When a registrant effects a redemption or induced conversion of only a portion of the outstanding securities of a class of preferred stock, the SEC staff believes that any excess consideration should be attributed to those shares that are redeemed or converted. Accordingly, consistent with the guidance provided in AICPA Accounting Interpretation 44, "If Converted Method at Actual Conversion," of APB Opinion No. 15, Earnings Per Share, the staff believes that, for the purpose of determining whether the "if converted" method is dilutive for the period, the shares redeemed or converted should be considered separately from those shares that are not redeemed or converted. The staff does not believe that it is appropriate to aggregate securities with differing effective dividend yields when determining whether the "if converted" method is dilutive, which would be the result if a single, aggregate computation was made for the entire series of preferred stock.~~

~~To illustrate the SEC staff's application of Topic D 42 to a partial redemption, assume that a registrant has shares of common stock and 100 shares of convertible preferred stock outstanding at the beginning of the period. The convertible preferred stock was issued at fair value, which was equal to its par value of \$10 per share, and has a stated dividend of 5 percent, and each share of preferred stock is convertible into 1 share of common stock. During the period, 20 preferred shares were redeemed by the registrant for \$12 per share.~~

~~In this example, the SEC staff believes that the registrant should determine whether conversion is dilutive (1) for 80 of the preferred shares by applying the "if converted" method from the beginning of the period to the end of the period using the stated dividend of 5 percent and (2) for 20 of the preferred shares by applying the "if converted" method from the beginning of the period to the date of redemption using both the stated dividend of 5 percent and the \$2 per share redemption premium.~~

~~Accordingly, assuming that the dividend for the period for the preferred stock was \$0.125 per share, a determination of whether the 20 redeemed shares are dilutive should be made by comparing the \$2.125 per share effect of assuming those shares are not converted to the effect of assuming those 20 shares were converted into 20 shares of common stock, weighted for the period for which they were outstanding. The determination of the "if converted" effect of the 80 shares not redeemed should be made separately, by comparing the EPS effect of the \$0.125 per share dividend to the effect of assuming conversion into 80 shares of common stock.~~

2. Amend paragraph 260-10-S55-2, with no link to transition paragraph, as follows:

> Effect on Earnings Per Share (EPS) Calculation for a Period That Includes the Redemption or Induced Conversion of Preferred Stock

S55-2 See paragraph 260-10-S99-2, SEC Staff Announcement: ~~The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Earnings Per Share~~ The Effect on the Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock, for SEC Staff views on this topic.

3. Amend paragraph 260-10-S55-3, with no link to transition paragraph, as follows:

> Redemption or Induced Conversion of a Portion of a Class of Preferred Stock

S55-3 See paragraph 260-10-S99-23, SEC Staff Announcement: ~~The Effect on the Calculation of Earnings Per Share for a Period That Includes the Redemption or Induced Conversion of Preferred Stock~~ Computation of Earnings Per Share for a Period that Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock, for SEC Staff views on this topic.

4. Amend paragraph 260-10-S00-1 as follows:

Paragraph Number	Action	Accounting Standards Update	Date
260-10-S55-2	Amended	2009-08	09/16/2009
260-10-S55-3	Amended	2009-08	09/16/2009
260-10-S99-2	Amended	2009-08	09/16/2009
260-10-S99-3	Superseded	2009-08	09/16/2009