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Letter of Comment No: 12
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MP&T Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Standards Earnings per Share – an amendment of FAS 128 (File Reference 1200-200)

I appreciate the opportunity to comment on the above-captioned exposure draft. Specific comments follow.

1. I agree with changing the number of shares included in the denominator for year-to-date and annual periods from the sum of the individual quarterly computations to a new computation based on the average market price of the company's stock for the period presented.
2. The ED does not require the disclosure of any difference between the sum of the quarterly amounts and the year-to-date amounts (no matter how large) – paragraph B4. The Exposure Draft assumes that every investor will know the reason for this discrepancy, and certainly merely saying that the sum of the quarterly amounts does not equal the annual (or cumulative) per share amount does not contain any important information.

While the example in the proposal shows a 5% discrepancy in basic EPS (between the sum of the quarterly amounts and the amount for the year), there will be those situations where the difference will be much greater. I therefore recommend that the final statement require disclosure of the difference, and an explanation concerning the impact of share transactions on the weighting of shares entering into the computations.

3. Proposed change to paragraph 29. I agree with the elimination of the rebuttable presumption that a contract that can be settled in either cash or stock at the option of either the entity or the holder is presumed to be settled in stock if the effect is more

dilutive. Diluted EPS should be adjusted only upon the event, i.e., when the contract is settled for cash after the balance sheet date.

However, what is not clear is the reason for the wording change from 'presumed' to 'assumed.' What nuance should be read into this? Should all Statements of Financial Accounting Standards that use the word 'presumed' (and there are many) be amended and use its synonym 'assumed'?

4. Re mandatorily convertible securities. Since this is a Statement (and not an Interpretation), the illustration in Appendix B should include an example of how this type of security will impact diluted and basic EPS assuming it becomes convertible during 20X1. To make the example useful, the security should have a capped appreciation feature (i.e., where the conversion rate is unchanged up to a stated common stock price of appreciation, and after that level, the conversion rate is reduced).

A new section should be added to paragraph 26 to say:

The if converted method applied to mandatorily convertible securities, from the predetermined conversion date, is to be included in basic EPS, whether or not dilutive. Prior period EPS shall not be adjusted.

I will be pleased to discuss these comments or answer any questions that you may have. Please contact me at 212-468-7820.

Sincerely,

Robert N. Waxman, CPA