REVISED SEC STAFF ANNOUNCEMENT

Topic: *EITF Abstracts*, Topic No. 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"

Date Discussed: September 7, 2006

Topic D-53 contains references to AICPA Accounting Interpretation 44, "If Converted Method at Actual Conversion," which is an interpretation of the superseded APB Opinion No. 15, *Earnings per Share*. While FASB Statement No. 128, *Earnings per Share*, supersedes Opinion 15, it does not address the issues considered in Topic D-53. Therefore, the SEC staff announced the deletion of the references to Interpretation 44 and Opinion 15 and the addition of a reference to Statement 128. For convenience, Topic D-53 is included below in its entirety (additions are underscored and deletions are ~~struck through~~).

Topic No. D-53

Topic: 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

Dates Discussed: September 18–19, 1996; September 7, 2006

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.

Subsequent Developments

FASB Statement No. 128, *Earnings per Share*, was issued in February 1997. Statement 128 supersedes APB Opinion No. 15, *Earnings per Share*, and AICPA Accounting Interpretation 44, "If Converted Method at Actual Conversion"; however, Statement 128 does not address how to determine whether a convertible security is anti-dilutive when there has been a partial redemption or conversion (refer to paragraph 172). Therefore, the guidance in this Topic continues to be applicable.