EITF ABSTRACTS

Issue No. 99-7

Title: Accounting for an Accelerated Share Repurchase Program

Dates Discussed: July 22, 1999; September 23, 1999

References: FASB Statement No. 128, *Earnings per Share*
FASB Statement No. 141, *Business Combinations*
FASB Statement No. 141 (revised 2007), *Business Combinations*
APB Opinion No. 16, *Business Combinations*
SEC Staff Accounting Bulletin No. 96, *Treasury Stock Acquisition Following Consummation of a Business Combination Accounted for as a Pooling-of-Interests*

ISSUE

1. An accelerated share repurchase program is a combination of transactions that permits an entity to purchase a targeted number of shares immediately with the final purchase price of those shares determined by an average market price over a fixed period of time. An accelerated share repurchase program is intended to combine the immediate share retirement benefits of a tender offer with the market impact and pricing benefits of a disciplined daily open market stock repurchase program. The implications of an accelerated share repurchase program for earnings-per-share (EPS) calculations and an entity's ability to account for a business combination as a pooling of interests differ, depending on how the accelerated share repurchase program is accounted for. [Note: See STATUS section.]

2. The following transaction illustrates an accelerated share repurchase program:

Treasury Stock *Purchase*

Investment Banker, an unrelated third party, borrows 1,000,000 shares of Company A common stock from investors, becomes the owner of record of those shares, and sells the shares short to Company A on July 1, 1999, at the current market value of $50 per share. Company A pays $50,000,000 in cash to Investment Banker on July 1, 1999, to settle the purchase transaction. The shares are held in treasury. Company A has legal title to the shares, and no other party has the right to vote those shares.

Forward Contract

Company A simultaneously enters into a forward contract with Investment Banker on 1,000,000 shares of its own common stock. On the October 1, 1999 settlement date, if the volume-weighted average daily market price of Company A's common stock during the contract period (July 1, 1999 to October 1, 1999) exceeds the $50 initial purchase price (net of a commission fee to Investment Banker), Company A will deliver to Investment Banker cash or shares of common stock (at Company A's option) equal to the price difference multiplied by 1,000,000. If the volume-weighted average daily market price of Company A's common stock during the contract period is less than the $50 initial purchase price (net of a commission fee to Investment Banker), Investment Banker will deliver to Company A cash equal to the price difference multiplied by 1,000,000.

3. The issue is how an entity should account for an accelerated share repurchase program.

EITF DISCUSSION

4. The Task Force reached a consensus that an entity should account for an accelerated share repurchase program as two separate transactions: (a) as shares of common stock acquired in a treasury stock transaction recorded on the acquisition date (July 1, 1999 in the above example) and (b) as a forward contract indexed to its own common stock. Pursuant to Issue No. 99-3, "Application of Issue No. 96-13 to Derivative Instruments with Multiple Settlement Alternatives," an entity would classify the forward contract in the above example as an equity instrument because the entity will receive cash when the contract is in a gain position but pay cash or stock when the contract is in a loss position. [Note: See STATUS section.] Changes in the fair value of the forward contract would not be recorded, and the settlement of the forward contract would be recorded in equity.

5. The treasury stock transaction would result in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for both basic and diluted EPS. The effect of the forward contract on diluted EPS would be calculated in accordance with Statement 128, as interpreted by Topic No. D-72, "Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share."

[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), paragraph 6 is deleted.]

6. With regard to the impact of the treasury stock component of the accelerated share repurchase program on an entity's ability to account for a business combination as a pooling of interests, the entity should consider the share repurchase date (July 1, 1999 in the above example) or, with respect to postconsummation repurchases, the date on which the intent to repurchase shares is formulated to determine whether the treasury stock acquisition results in a violation of either paragraph 47(d) or paragraph 48(a) (as interpreted by SAB 96) of Opinion 16. Any resulting preconsummation tainted treasury shares could be "cured" by issuing the same amount of common stock between the purchase date (July 1, 1999 in the above example) and the date of consummation of the business combination. [Note: See STATUS section.]

[Note: After the adoption of Statement 141(R) (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), paragraph 7 is deleted.]

7. The Task Force also discussed the effects of the forward contract in the accelerated share repurchase program on an entity's ability to account for a business combination as a pooling of interests but was not asked to reach a consensus. The Task Force agreed to discuss the impact of derivative financial instruments indexed to, and potentially settled

in, a company's own stock on pooling-of-interests transactions as a separate EITF Issue at a future meeting. [Note: See STATUS section.]

STATUS

8. At the September 20-21, 2000 meeting, the Task Force reached a consensus supporting the codification of the consensuses in Issues No. 96-13, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," No. 99-3, and No. 00-7, "Application of Issue No. 96-13 to Equity Derivative Instruments That Contain Certain Provisions That Require Net Cash Settlement If Certain Events outside the Control of the Issuer Occur," as presented in Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

9. Statement 141, which superseded Opinion 16, was issued in June 2001. Statement 141 prohibited the use of the pooling-of-interests method for all business combinations initiated after June 30, 2001. Statement 141(R), issued in December 2007, replaces Statement 141 and continues to prohibit the use of the pooling-of-interests method of accounting for business combinations.

10. No further EITF discussion is planned.

Suggested Index Entries for EITF Issue No. 99-7, "Accounting for an Accelerated Share Repurchase Program"