

SECURITIES AND EXCHANGE COMMISSION**17 CFR Part 211****[Release No. SAB 112]****Staff Accounting Bulletin No. 112****AGENCY:** Securities and Exchange Commission.**ACTION:** Publication of Staff Accounting Bulletin.

SUMMARY: This staff accounting bulletin amends or rescinds portions of the interpretive guidance included in the Staff Accounting Bulletin Series in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. Specifically, the staff is updating the Series in order to bring existing guidance into conformity with recent pronouncements by the Financial Accounting Standards Board, namely, Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*, and Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements*.

DATES: *Effective Date:* June 10, 2009.

FOR FURTHER INFORMATION CONTACT: Eric C. West, Associate Chief Accountant, Office of the Chief Accountant, at (202) 551-5314, or Steven C. Jacobs, Associate Chief Accountant, Division of Corporation Finance, at (202) 551-3403, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549.

SUPPLEMENTARY INFORMATION: The statements in staff accounting bulletins are not rules or interpretations of the Commission, nor are they published as bearing the Commission's official approval. They represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the Federal securities laws.

June 4, 2009.

Elizabeth M. Murphy,
Secretary.

List of Subjects in 17 CFR Part 211

Accounting, Reporting and recordkeeping requirements, Securities.

PART 211—[AMENDED]

■ Accordingly, Part 211 of Title 17 of the Code of Federal Regulations is amended by adding Staff Accounting

Bulletin No. 112 to the table found in Subpart B.

Staff Accounting Bulletin No. 112

This staff accounting bulletin amends or rescinds portions of the interpretive guidance included in the Staff Accounting Bulletin Series in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission ("Commission") rules and regulations. Specifically, the staff is updating the Series in order to bring existing guidance into conformity with recent pronouncements by the Financial Accounting Standards Board ("FASB"), namely, Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("Statement 141(R)"), and Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("Statement 160").

The following describes the changes made to the Staff Accounting Bulletin Series that are presented at the end of this release:

1. Topic 2: Business Combinations

a. Topic 2.A is retitled. It previously referred to the "purchase method," which is a term rendered obsolete by Statement 141(R). That accounting method is now referred to as the "Acquisition Method."

b. Topic 2.A.5 is removed. This topic provided guidance on assigning acquisition cost to loans receivable acquired in a business combination. In a business combination, Statement 141(R) requires an entity to measure acquired receivables, including loans, at their acquisition-date fair value. Paragraph A57 of Statement 141(R) provides new guidance that precludes an acquirer from recognizing a separate valuation allowance as of the acquisition date for assets acquired in a business combination that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure.

c. Topic 2.A.6 is amended to conform to the requirement in paragraph 59 of Statement 141(R) that acquisition-related costs be accounted for as expenses in the period in which the costs are incurred and services are received, except for costs incurred to issue debt or equity securities which are recognized in accordance with other applicable generally accepted accounting principles ("GAAP").

d. Topic 2.A.7 is removed. This topic provided guidance on how an acquirer

should account for and disclose contingent liabilities that have been assumed in a business combination. Statement 141(R), as amended by FASB Staff Position 141(R)-1 ("FSP 141(R)-1"), provides guidance on the recognition, measurement and disclosure of assets and liabilities arising from contingencies.

e. Topic 2.A.8 is amended to remove the reference to Emerging Issues Task Force ("EITF") Issue No. 88-16, *Basis in Leveraged Buyout Transactions*, which was superseded by Statement 141(R).

f. Topic 2.A.9 is removed. This topic provided guidance on cash flow estimates used to determine the fair value of a contingent liability assumed in a business combination and referenced the need for disclosures in Management's Discussion and Analysis ("MD&A") for any adjustments made to the historical financial statements of the acquired entity. This guidance is no longer necessary because: Statement 141(R), as amended by FSP 141(R)-1, provides guidance on the recognition, measurement and disclosure of assets and liabilities arising from contingencies; Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("Statement 157"), provides guidance on fair value measurements; Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*, provides guidance on error correction and disclosure; and Item 303 of Regulation S-K provides guidance on MD&A disclosures.

g. Topic 2.D is amended to remove the guidance on determining the basis of properties in "exchange offers" (also referred to as "roll-ups" or "put-togethers"). This guidance is no longer necessary since Statement 141(R) provides measurement guidance for business combinations.

2. Topic 5: Miscellaneous Accounting

a. Topic 5.E is amended to reflect the issuance of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"), Statement 157, and Statement 160. Topic 5.E (as modified) expresses the views of the staff regarding the accounting for the divestiture of a subsidiary or other business operation.

b. Topic 5.H is removed. This topic provided guidance on the accounting for the direct sale of unissued shares by a consolidated subsidiary that resulted in a decrease in the parent's ownership percentage without resulting in deconsolidation of the subsidiary. Under this guidance, when an offering

takes the form of a subsidiary's direct sale of its unissued shares, the parent could adopt an accounting policy whereby the amount in excess of the parent's carrying value received may be reflected as a gain in the parent's consolidated financial statements. Paragraphs 32 and 33 of Accounting Research Bulletin ("ARB") 51, as amended by Statement 160, provide new guidance on the accounting for a change in a parent's ownership interest when the parent retains its controlling financial interest. That guidance requires that changes in a parent's ownership interest that do not result in deconsolidation shall be accounted for as equity transactions. Therefore, no gain or loss shall be recognized on the direct sale of unissued shares by a consolidated subsidiary if the parent does not deconsolidate the subsidiary.

c. Topic 5.J is amended, in response to Statement 160, to clarify the basis of accounting for purchased assets and liabilities that should be used to establish a new accounting basis when a substantially wholly-owned subsidiary presents separate financial statements.

d. Topic 5.U is removed. This topic provided guidance on the recognition of gains in certain exchanges in which the seller received non-cash proceeds, such as securities issued by the buyer, as consideration for the assets transferred. This guidance is no longer necessary due to the issuance of FIN 45, Statement 157, and Statement 160.

3. Topic 6: Interpretations of Accounting Series Releases and Financial Reporting Releases

Topic 6.G.1.a and 2.a is amended to conform terminology to the Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies [Release Nos. 33-9026; 34-59775; FR-79 (April 15, 2009)] that the Commission adopted to conform to Statement 141(R) and Statement 160.

Accordingly, the staff hereby amends the Staff Accounting Bulletin Series as follows:

Note: The text of SAB 112 will not appear in the Code of Federal Regulations.

Topic 2: Business Combinations

A. Acquisition Method

* * * * *

5. Removed by SAB 112

6. Debt Issue Costs

Facts: Company A is to acquire the net assets of Company B in a transaction to be accounted for as a business combination. In connection with the

transaction, Company A has retained an investment banker to provide advisory services in structuring the acquisition and to provide the necessary financing. It is expected that the acquisition will be financed on an interim basis using "bridge financing" provided by the investment banker. Permanent financing will be arranged at a later date through a debt offering, which will be underwritten by the investment banker. Fees will be paid to the investment banker for the advisory services, the bridge financing, and the underwriting of the permanent financing. These services may be billed separately or as a single amount.

Question 1: Should total fees paid to the investment banker for acquisition-related services and the issuance of debt securities be allocated between the services received?

Interpretive Response: Yes. Fees paid to an investment banker in connection with a business combination or asset acquisition, when the investment banker is also providing interim financing or underwriting services, must be allocated between acquisition related services and debt issue costs.

When an investment banker provides services in connection with a business combination or asset acquisition and also provides underwriting services associated with the issuance of debt or equity securities, the total fees incurred by an entity should be allocated between the services received on a relative fair value basis. The objective of the allocation is to ascribe the total fees incurred to the actual services provided by the investment banker.

Statement 141(R) provides guidance for the portion of the costs that represent acquisition-related services. The portion of the costs pertaining to the issuance of debt or equity securities should be accounted for in accordance with other applicable GAAP.

Question 2: May the debt issue costs of the interim "bridge financing" be amortized over the anticipated combined life of the bridge and permanent financings?

Interpretive Response: No. Debt issue costs should be amortized by the interest method over the life of the debt to which they relate. Debt issue costs related to the bridge financing should be recognized as interest cost during the estimated interim period preceding the placement of the permanent financing with any unamortized amounts charged to expense if the bridge loan is repaid prior to the expiration of the estimated period. Where the bridged financing consists of increasing rate debt, the consensus reached in EITF Issue 86-15,

Increasing Rate Debt, should be followed.¹

7. Removed by SAB 112

8. Business Combinations Prior to an Initial Public Offering

Facts: Two or more businesses combine in a single combination just prior to or contemporaneously with an initial public offering.

Question: Does the guidance in SAB Topic 5.G apply to business combinations entered into just prior to or contemporaneously with an initial public offering?

Interpretive Response: No. The guidance in SAB Topic 5.G is intended to address the transfer, just prior to or contemporaneously with an initial public offering, of nonmonetary assets in exchange for a company's stock. The guidance in SAB Topic 5.G is not intended to modify the requirements of Statement 141(R). Accordingly, the staff believes that the combination of two or more businesses should be accounted for in accordance with Statement 141(R).

9. Removed by SAB 112

* * * * *

D. Financial Statements of Oil and Gas Exchange Offers

Facts: The oil and gas industry has experienced periods of time where there have been a significant number of "exchange offers" (also referred to as "roll-ups" or "put-togethers") to form a publicly held company, take an existing private company public, or increase the size of an existing publicly held company. An exchange offer transaction involves a swap of shares in a corporation for interests in properties, typically limited partnership interests. Such interests could include direct interests such as working interests and royalties related to developed or undeveloped properties and indirect interests such as limited partnership interests or shares of existing oil and gas companies. Generally, such transactions are structured to be tax-free to the individual or entity trading the property interest for shares of the corporation. Under certain circumstances, however, part or all of the transaction may be taxable. For purposes of the discussion in this Topic, in each of these situations, the entity (or entities) or property (or properties) are deemed to constitute a business.

¹ As noted in the "Status" section of the Abstract to Issue 86-15, the term-extending provisions of the debt instrument should be analyzed to determine whether they constitute an embedded derivative requiring separate accounting in accordance with Statement 133 (as amended).

One financial reporting issue in exchange transactions involves deciding which prior financial results of the entities should be reported.

Question 1: In Form 10-K filings with the Commission, the staff has permitted limited partnerships to omit certain of the oil and gas reserve value information and the supplemental summary of oil and gas activities disclosures required by Statement 69 in some circumstances. Is it permissible to omit these disclosures from the financial statements included in an exchange offering?

Interpretive Response: No. Normally full disclosures of reserve data and related information are required. The exemptions previously allowed relate only to partnerships where value-oriented data are otherwise available to the limited partners pursuant to the partnership agreement. The staff has previously stated that it will require all of the required disclosures for partnerships which are the subject of exchange offers.¹³ These disclosures may, however, be presented on a combined basis if the entities are under common control.

The staff believes that the financial statements in an exchange offer registration statement should provide sufficient historical reserve quantity and value-based disclosures to enable offerees and secondary market public investors to evaluate the effect of the exchange proposal. Accordingly, in all cases, it will be necessary to present information as of the latest year-end on reserve quantities and the future net revenues associated with such quantities. In certain circumstances, where the exchange is accounted for using the acquisition method of accounting, the staff will consider, on a case-by-case basis, granting exemptions from (i) the disclosure requirements for year-to-year reconciliations of reserve quantities, and (ii) the requirements for a summary of oil and gas producing activities and a summary of changes in the net present value of reserves. For instance, the staff may consider requests for exemptions in cases where the properties acquired in the exchange transaction are fully explored and developed, particularly if the management of the emerging company has not been involved in the exploration and development of such properties.

Question 2: If the exchange company will use the full cost method of accounting, does the full cost ceiling limitation apply as of the date of the financial statements reflecting the exchange?

Interpretive Response: Yes. The full cost ceiling limitation on costs capitalized does apply. However, as discussed under Topic 12.D.3, the Commission has stated that in unusual circumstances, registrants may request an exemption if as a result of a major purchase, a write-down would be required even though it can be demonstrated that the fair value of the properties clearly exceeds the unamortized costs.

Question 3: How should "common control accounting" be applied to the specific assets and liabilities of the new exchange company?

Interpretive Response: Consistent with SAB Topic 12.C.2, under "common control accounting" the various accounting methods followed by the offeree entities should be conformed to the methods adopted by the new exchange company. It is not appropriate to combine assets and liabilities accounted for on different bases. Accordingly, all of the oil and gas properties of the new entity must be accounted for on the same basis (either full cost or successful efforts) applied retrospectively.

Question 4: What pro forma financial information is required in an exchange offer filing?

Interpretive Response: The requirements for pro forma financial information in exchange offer filings are the same as in any other filings with the Commission and are detailed in Article 11 of Regulation S-X.¹⁴ Rule 11-02(b) specifies the presentation requirements, including periods presented and types of adjustments to be made. The general criteria of Rule 11-02(b)(6) are that pro forma adjustments should give effect to events that are (i) directly attributable to the transaction, (ii) expected to have a continuing impact on the registrant, and (iii) factually supportable. In the case of an exchange offer, such adjustments typically are made to:

(1) Show varying levels of acceptance of the offer.

(2) Conform the accounting methods used in the historical financial statements to those to be applied by the new entity.

(3) Recompute the depreciation, depletion and amortization charges, in cases where the new entity will use full-cost accounting, on a combined basis. If this computation is not practicable, and the exchange offer is accounted for as a transaction among entities under common control, historical depreciation, depletion and

amortization provisions may be aggregated, with appropriate disclosure.

(4) Reflect the acquisition in the pro forma statements where the exchange offer is accounted for using the acquisition method of accounting, including depreciation, depletion and amortization based on the measurement guidance in Statement 141(R).

(5) Provide pro forma reserve information comparable to the disclosures required by paragraphs 10 through 17 and 30 through 34 of SFAS 69.

(6) Reflect significant changes, if any, in levels of operations (revenues or costs), or in income tax status and to reflect debt incurred in connection with the transaction.

In addition, the depreciation, depletion and amortization rate which will apply for the initial period subsequent to consummation of the exchange offer should be disclosed.

Question 5: Are there conditions under which the presentation of other than full historical financial statements would be acceptable?

Interpretive Response: Generally, full historical financial statements as specified in Rules 3-01 and 3-02 of Regulation S-X are considered necessary to enable offerees and secondary market investors to evaluate the transaction. Where securities are being registered to offer to the security holders (including limited partners and other ownership interests) of the businesses to be acquired, such financial statements are normally required pursuant to Rule 3-05 of Regulation S-X, either individually for each entity or, where appropriate, separately for the offeror and on a combined basis for other entities, generally excluding corporations. However, certain exceptions may apply as explained in the outline below:

A. Acquisition Method Accounting

1. If the registrant can demonstrate that full historical financial statements of the offeree businesses are not reasonably available, the staff may permit presentation of audited Statements of Combined Gross Revenues and Direct Lease Operating Expenses for all years for which an income statement would otherwise be required. In these circumstances, the registrant should also disclose in an unaudited footnote the amounts of total exploration and development costs, and general and administrative expenses along with the reasons why presentation of full historical financial statements is not practicable.

2. The staff will consider requests to waive the requirement for prior year

¹³ See SAB 40, Topic 12.A.3.c.

¹⁴ As announced in Financial Reporting Release No. 2 (July 9, 1982).

financial statements of the offerees and instead allow presentation of only the latest fiscal year and interim period, if the registrant can demonstrate that the prior years' data would not be meaningful because the offerees had no material quantity of production.

B. Common Control Accounting

The staff would expect that the full historical financial statements as specified in Rules 3–01 and 3–02 of Regulation S–X would be included in the registration statement for exchange offers accounted for as transactions among entities under common control, including all required supplemental reserve information. The presentation of individual or combined financial statements would depend on the circumstances of the particular exchange offer.

Registrants are also reminded that wherever historical results are presented, it may be appropriate to explain the reasons why historical costs are not necessarily indicative of future expenditures.

* * * * *

Topic 5: Miscellaneous Accounting

* * * * *

E. Accounting for Divestiture of a Subsidiary or Other Business Operation

Facts: Company X transferred certain operations (including several subsidiaries) to a group of former employees who had been responsible for managing those operations. Assets and liabilities with a net book value of approximately \$8 million were transferred to a newly formed entity—Company Y—wholly owned by the former employees. The consideration received consisted of \$1,000 in cash and interest bearing promissory notes for \$10 million, payable in equal annual installments of \$1 million each, plus interest, beginning two years from the date of the transaction. The former employees possessed insufficient assets to pay the notes and Company X expected the funds for payments to come exclusively from future operations of the transferred business. Company X remained contingently liable for performance on existing contracts transferred and agreed to guarantee, at its discretion, performance on future contracts entered into by the newly formed entity. Company X also acted as guarantor under a line of credit established by Company Y.

The nature of Company Y's business was such that Company X's guarantees were considered a necessary predicate to obtaining future contracts until such time as Company Y achieved profitable

operations and substantial financial independence from Company X.

Question: If deconsolidation of the subsidiaries and business operations is appropriate, can Company X recognize a gain?

Interpretive Response: Before recognizing any gain, Company X should identify all of the elements of the divestiture arrangement and allocate the consideration exchanged to each of those elements. In this regard, we believe that Company X would recognize the guarantees at fair value in accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others*; the contingent liability for performance on existing contracts in accordance with Statement 5, *Accounting for Contingencies*; and the promissory notes in accordance with APB 21, *Interest on Receivables and Payables*, and Statements 114, *Accounting by Creditors for Impairment of a Loan*, and 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*.

* * * * *

H. Removed by SAB 112

* * * * *

J. New Basis of Accounting Required in Certain Circumstances

Facts: Company A (or Company A and related persons) acquired substantially all of the common stock of Company B in one or a series of purchase transactions.

Question 1: Must Company B's financial statements presented in either its own or Company A's subsequent filings with the Commission reflect the new basis of accounting arising from Company A's acquisition of Company B when Company B's separate corporate entity is retained?

Interpretive Response: Yes. The staff believes that purchase transactions that result in an entity becoming substantially wholly owned (as defined in Rule 1–02(aa) of Regulation S–X) establish a new basis of accounting for the purchased assets and liabilities.

When the form of ownership is within the control of the parent, the basis of accounting for purchased assets and liabilities should be the same regardless of whether the entity continues to exist or is merged into the parent's operations. Therefore, Company B's separate financial statements should reflect the new basis of accounting recorded by Company A upon acquisition (i.e., “pushed down” basis).

Question 2: What is the staff's position if Company A acquired less

than substantially all of the common stock of Company B or Company B had publicly held debt or preferred stock at the time Company B became wholly owned?

Interpretive Response: The staff recognizes that the existence of outstanding public debt, preferred stock or a significant noncontrolling interest in a subsidiary might impact the parent's ability to control the form of ownership. Although encouraging its use, the staff generally does not insist on the application of push down accounting in these circumstances.

Question 3: Company A borrows funds to acquire substantially all of the common stock of Company B. Company B subsequently files a registration statement in connection with a public offering of its stock or debt.⁶ Should Company B's new basis (“push down”) financial statements include Company A's debt related to its purchase of Company B?

Interpretive Response: The staff believes that Company A's debt,⁷ related interest expense, and allocable debt issue costs should be reflected in Company B's financial statements included in the public offering (or an initial registration under the Exchange Act) if: (1) Company B is to assume the debt of Company A, either presently or in a planned transaction in the future; (2) the proceeds of a debt or equity offering of Company B will be used to retire all or a part of Company A's debt; or (3) Company B guarantees or pledges its assets as collateral for Company A's debt. Other relationships may exist between Company A and Company B, such as the pledge of Company B's stock as collateral for Company A's debt.⁸ While in this latter situation, it may be clear that Company B's cash flows will service all or part of Company A's debt, the staff does not insist that the debt be reflected in Company B's financial statements providing there is full and prominent disclosure of the relationship between Companies A and B and the actual or potential cash flow commitment. In this regard, the staff

⁶ The guidance in this SAB should also be considered for Company B's separate financial statements included in its public offering following Company B's spin-off or carve-out from Company A.

⁷ The guidance in this SAB should also be considered where Company A has financed the acquisition of Company B through the issuance of mandatory redeemable preferred stock.

⁸ The staff does not believe Company B's financial statements must reflect the debt in this situation because in the event of default on the debt by Company A, the debt holder(s) would only be entitled to Company B's stock held by Company A. Other equity or debt holders of Company B would retain their priority with respect to the net assets of Company B.

believes that Statements 5 and 57 as well as Interpretation 45 require sufficient disclosure to allow users of Company B's financial statements to fully understand the impact of the relationship on Company B's present and future cash flows. Rule 4-08(e) of Regulation S-X also requires disclosure of restrictions which limit the payment of dividends.

Therefore, the staff believes that the equity section of Company B's balance sheet and any pro forma financial information and capitalization tables should clearly disclose that this arrangement exists.⁹ Regardless of whether the debt is reflected in Company B's financial statements, the notes to Company B's financial statements should generally disclose, at a minimum: (1) The relationship between Company A and Company B; (2) a description of any arrangements that result in Company B's guarantee, pledge of assets¹⁰ or stock, etc. that provides security for Company A's debt; (3) the extent (in the aggregate and for each of the five years subsequent to the date of the latest balance sheet presented) to which Company A is dependent on Company B's cash flows to service its debt and the method by which this will occur; and (4) the impact of such cash flows on Company B's ability to pay dividends or other amounts to holders of its securities. Additionally, the staff believes Company B's Management's Discussion and Analysis of Financial Condition and Results of Operations should discuss any material impact of its servicing of Company A's debt on its own liquidity pursuant to Item 303(a)(1) of Regulation S-K.

* * * * *

U. Removed by SAB 112

* * * * *

Topic 6: Interpretations of Accounting Series Releases and Financial Reporting Releases

* * * * *

⁹ For example, the staff has noted that certain registrants have indicated on the face of such financial statements (as part of the stockholder's equity section) the actual or potential financing arrangement and the registrant's intent to pay dividends to satisfy its parent's debt service requirements. The staff believes such disclosures are useful to highlight the existence of arrangements that could result in the use of Company B's cash to service Company A's debt.

¹⁰ A material asset pledge should be clearly indicated on the face of the balance sheet. For example, if all or substantially all of the assets are pledged, the "assets" and "total assets" captions should include parenthetically: "pledged for parent company debt—See Note X."

G. Accounting Series Releases 177 and 286—Relating to Amendments to Form 10-Q, Regulation S-K, and Regulations S-X Regarding Interim Financial Reporting.

* * * * *

1. Selected Quarterly Financial Data (Item 302(a) of Regulation S-K)

a. Disclosure of Selected Quarterly Financial Data

Facts: Item 302(a)(1) of Regulation S-K requires disclosure of net sales, gross profit, income before extraordinary items and cumulative effect of a change in accounting, per share data based upon such income (loss), net income (loss), and net income (loss) attributable to the registrant for each full quarter within the two most recent fiscal years and any subsequent interim period for which financial statements are included. Item 302(a)(3) requires the registrant to describe the effect of any disposals of components of an entity¹¹ and extraordinary, unusual or infrequently occurring items recognized in each quarter, as well as the aggregate effect and the nature of year-end or other adjustments which are material to the results of that quarter. Furthermore, Item 302(a)(2) requires a reconciliation of amounts previously reported on Form 10-Q to the quarterly data presented if the amounts differ.

* * * * *

2. Amendments to Form 10-Q

a. Form of Condensed Financial Statements

Facts: Rules 10-01(a)(2) and (3) of Regulation S-X provide that interim balance sheets and statements of income shall include only major captions (i.e., numbered captions) set forth in Regulation S-X, with the exception of inventories where data as to raw materials, work in process and finished goods shall be included, if applicable, either on the face of the balance sheet or in notes thereto. Where any major balance sheet caption is less than 10% of total assets and the amount in the caption has not increased or decreased by more than 25% since the end of the preceding fiscal year, the caption may be combined with others. When any major income statement caption is less than 15% of average net income attributable to the registrant for the most recent three fiscal years and the amount in the caption has not increased or decreased by more than 20% as compared to the corresponding interim

period of the preceding fiscal year, the caption may be combined with others. Similarly, the statement of cash flows may be abbreviated, starting with a single figure of cash flows provided by operations and showing other changes individually only when they exceed 10% of the average of cash flows provided by operations for the most recent three years.

Question 1: If a company previously combined captions in a Form 10-Q but is required to present such captions separately in the Form 10-Q for the current quarter, must it retroactively reclassify amounts included in the prior-year financial statements presented for comparative purposes to conform with the captions presented for the current-year quarter?

Interpretive Response: Yes.

Question 2: If a company uses the gross profit method or some other method to determine cost of goods sold for interim periods, will it be acceptable to state only that it is not practicable to determine components of inventory at interim periods?

Interpretive Response: The staff believes disclosure of inventory components is important to investors. In reaching this decision, the staff recognizes that registrants may not take inventories during interim periods and that managements, therefore, will have to estimate the inventory components. However, the staff believes that management will be able to make reasonable estimates of inventory components based upon their knowledge of the company's production cycle, the costs (labor and overhead) associated with this cycle as well as the relative sales and purchasing volume of the company.

Question 3: If a company has years during which operations resulted in a net outflow of cash and cash equivalents, should it exclude such years from the computation of cash and cash equivalents provided by operations for the three most recent years in determining what sources and applications must be shown separately?

Interpretive Response: Yes. Similar to the determination of average net income, if operations resulted in a net outflow of cash and cash equivalents during any year, such amount should be excluded in making the computation of cash flow provided by operations for the three most recent years unless operations resulted in a net outflow of cash and cash equivalents in all three years, in which case the average of the

¹¹ See question 5 for a discussion of the meaning of components of an entity as used in Item 302(a)(2).

net outflow of cash and cash equivalents should be used for the test.

* * * * *

[FR Doc. E9-13511 Filed 6-9-09; 8:45 am]

BILLING CODE 8010-01-P

DEPARTMENT OF THE TREASURY

Fiscal Service

31 CFR Part 285

RIN 1510-AB22

Disbursing Official Offset

AGENCY: Financial Management Service, Fiscal Service, Treasury.

ACTION: Interim final rule.

SUMMARY: The Department of the Treasury, Financial Management Service, is amending its regulations governing the offset of Federal payments to collect nontax debts owed to the United States and States through the Treasury Offset Program. This amendment changes the priorities for collecting debt when a debtor owes more than one debt which has been referred to the Treasury Offset Program for collection by offset, consistent with a change in the statute on which the priority is based. The statutory change, enacted as part of the Deficit Reduction Act of 2005, amends the priority given to the collection of certain past-due support debts.

DATES: This final rule is effective June 10, 2009.

ADDRESSES: The Financial Management Service participates in the U.S. government's eRulemaking Initiative by publishing rulemaking information on www.regulations.gov. Regulations.gov offers the public the ability to comment on, search, and view publicly available rulemaking materials, including comments received on rules.

Comments on this rule, identified by docket FISCAL-FMS-2008-0005, should only be submitted using the following methods:

- **Federal eRulemaking Portal:** www.regulations.gov. Follow the instructions on the Web site for submitting comments.
- **Mail:** Thomas Dungan, Policy Analyst, Financial Management Service, 401 14th Street, SW., Washington, DC 20227.

The fax and e-mail methods of submitting comments on rules to FMS have been retired.

Instructions: All submissions received must include the agency name ("Financial Management Service") and docket number FISCAL-FMS-2008-

0005 for this rulemaking. In general, comments will be published on Regulations.gov without change, including any business or personal information provided. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not enclose any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may also inspect and copy this rule at: Treasury Department Library, Freedom of Information Act (FOIA) Collection, Room 1428, Main Treasury Building, 1500 Pennsylvania Avenue, NW., Washington, DC 20220. Before visiting, you must call (202) 622-0990 for an appointment.

FOR FURTHER INFORMATION CONTACT: Thomas Dungan, Policy Analyst, at (202) 874-6660 or Tricia Long, Senior Attorney, at (202) 874-6680.

SUPPLEMENTARY INFORMATION:

I. Background

The Deficit Reduction Act of 2005 (Pub. L. 109-171) amended section 6402 of the Internal Revenue Code (26 U.S.C. 6402) by changing the order of priority for collecting debt when a debtor owes more than one debt which is subject to collection by tax refund offset. Prior to this change, the order of priority was as follows: (1) Past-due support debts which had been assigned to a State under section 402(a)(26) or 471(a)(17) of the Social Security Act; (2) nontax debt owed to Federal agencies; (3) other past-due support debts; and (4) other reductions allowed by law. Effective October 1, 2008, the order of priority is: (1) All past-due support debts; (2) nontax debt owed to Federal agencies and (3) other reductions allowed by law.

The changes to this rule conform to the statutory change by reordering the order of priority for collecting debt through the Treasury Offset Program. Although the statutory change is directed to the offset of tax refund payments, the portions of this rule that govern offset of nontax payments are also being changed to conform to the new priority order. This is necessary for operational consistency and to create uniformity in how offsets are conducted.

II. Procedural Analyses

Administrative Procedures Act

This rule is being issued without prior public notice and comment as to tax refund payments, because the changes to the rule are being made to conform to statutory requirements. As to other

payments, the change does not adversely affect the rights of the public. Under 5 U.S.C. 553(b) and (d)(3), good cause exists to determine that notice and comment rulemaking is unnecessary and contrary to the public interest. The amendments made by this rule regarding the offset of tax refund payments are required due to amendments enacted into law. The amendments made by this rule regarding the offset of nontax payments mirror those statutory amendments and are necessary to achieve consistency in how non-judicial offsets are conducted. These changes relate to procedures between and among agencies that are owed delinquent debt; therefore, public comment is not necessary. Further delay in making these amendments is contrary to the public interest because it would create an inconsistency both between the law and the regulations and between the regulations themselves, and would cause confusion.

Request for Comment on Plain Language

Executive Order 12866 requires each agency in the Executive branch to write regulations that are simple and easy to understand. We invite comment on how to make the proposed rule clearer. For example, you may wish to discuss: (1) Whether we have organized the material to suit your needs; (2) whether the requirements of the rules are clear; or (3) whether there is something else we could do to make these rules easier to understand.

Regulatory Planning and Review

The final rule does not meet the criteria for a "significant regulatory action" as defined in Executive Order 12866. Therefore, the regulatory review procedures contained therein do not apply.

Regulatory Flexibility Act Analysis

Because no notice of rulemaking is required, the provisions of the Regulatory Flexibility Act (5 U.S.C. *et seq.*) do not apply.

List of Subjects in 31 CFR Part 285

Administrative practice and procedure, Child support, Child welfare, Claims, Credits, Debts, Disability benefits, Federal employees, Garnishment of wages, Hearing and appeal procedures, Loan programs, Privacy, Railroad retirement, Railroad unemployment insurance, Salaries, Social Security benefits, Supplemental Security Income (SSI), Taxes, Veteran's benefits, Wages.

■ For the reasons set forth in the preamble, we are amending 31 CFR part 285 as follows: