

Topic: Application of SEC Staff Guidance on Discontinued Operations Cash Flows To Non-Calendar Year End Companies

Note: On February 15, 2006 the Center for Public Company Audit Firms (CPCAF) released Alert #90, *SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations* (Alert #90). While the SEC Staff believes registrants using any presentation format inconsistent with Statement of Financial Accounting Standard No.95, Statement of Cash Flows, should revise their presentation through restating prior periods as correction of an error, Alert #90 indicates that the SEC Staff will not object to registrants retrospectively modifying their presentation similar to a change in accounting method (without referring to the change as the correction of an error), if the registrant makes the change in its next periodic report filed subsequent to February 15, 2006. Alert # 90 indicates that if the issue is discovered and corrected in a later interim or annual period, the SEC staff would expect the modifications to be treated as a correction of an error, and would expect the prior filing(s) to be amended. As discussed in Alert #90, registrants who choose to retrospectively modify their presentation must provide enhanced disclosures such that readers are aware that the cash flow presentation has been modified, including specific disclosure in the footnotes. Additionally, depending on the type of revised presentation selected by a registrant, the column heading and/or marginal heading should indicate the change by the label “revised” or “restated”. Characterizing the change as “reclassified” in the column or marginal heading would not be acceptable. CPCAF Alert #90 can be found at the following URL:

<http://cpcf.aicpa.org/NR/rdonlyres/76E47731-3BEF-4A27-AAC1-2CC0AF0A966D/0/CPCAFAlert90.pdf>

At the April 4th meeting, the SEC staff agreed to the following additional transitional guidance:

Periodic Reporting (Applies to all Non-Calendar Year End Companies)

The first periodic report filed after February 15, 2006 for a company with a fiscal year end other than December 31, 2005 would generally be a Form 10-Q. Under the guidance in CPCAF Alert #90 and Rule 10-01(a)(5) of Regulation S-X, the company should, in that Form 10-Q:

- Present the year-to-date information using the presentation guidance in Alert #90; and
- Revise the comparative prior year condensed Statements of Cash Flows to reflect the guidance in Alert #90 and label information “revised” or “restated” (if the company has not previously filed revised prior year cash flow information).

If a non-calendar year end company does not file a registration or proxy statement before its next annual report on Form 10-K is due, the company is not required to provide audited revised Statements of Cash Flows for previously filed annual periods until it files its 2006 Form 10-K. However, the company should disclose in its first interim period filing (Form 10-Q) after February 15, 2006:

- its intent to revise its previously issued annual Statements of Cash Flows in its next annual report;
- the reasons for the revisions; and
- the quantitative effect of the revision on the three latest fiscal years.

The disclosure should be transparent and provide sufficient information for the reader to understand the nature and quantified effect of the future revisions. The disclosure may take the form of an unaudited revised condensed Statement of Cash Flows. Where a single line item below financing cash flows was previously used to present cash flows related to discontinued operations, quantitative disclosure may be limited to expansion of that line into operating, investing and financing categories. Revised Statements of Cash Flows for prior years included in the 2006 Form 10-K would be labeled “revised” or “restated” as discussed in Alert #90.

Additional Considerations for Calendar and Non-Calendar Year End Companies Related to Registration and Proxy Statements into which Exchange Act Reports are Incorporated by Reference

Company files Registration or Proxy Statement before Filing Its First Periodic Report after February 15, 2006

If a calendar or non-calendar year end company files a registration/proxy statement before its first periodic report after February 15, 2006 is filed (e.g., August 31 year end company files a registration statement March 10, 2006 that incorporates by reference its Form 10-K for the year ended August 31, 2005 and Form 10-Q for the quarterly period ended November 30, 2005, neither of which reflect the revised cash flow presentation), the company should disclose in the registration/proxy statement or a report incorporated by reference into the registration/proxy statement:

- its intent to revise its previously issued annual Statements of Cash Flows in its next annual report;
- the reasons for the revisions; and
- the quantitative effect of the revision on the three latest fiscal years and most recent interim-to-date period.

The disclosure should be transparent and provide sufficient information for the reader to understand the nature and quantified effect of the revisions. The disclosure may take the form of an unaudited revised condensed annual Statement of Cash Flows. Where a single

line item below financing cash flows was previously used to present cash flows related to discontinued operations, quantitative disclosure may be limited to expansion of that line into operating, investing and financing categories. Revised Statements of Cash Flows for prior years included in the next Form 10-K would be labeled “revised” or “restated” as discussed in Alert #90.

Company files Registration or Proxy Statement after Filing a Periodic Report that Includes Revised Cash Flow Information for All Interim Periods Presented

If a non-calendar year end company files a registration/proxy statement before filing its next annual report on Form 10-K but after filing a periodic report that includes revised current and prior year comparative interim period cash flow information (e.g., August 31 year end company files a registration statement March 10, 2006 that incorporates by reference its Form 10-K for the year ended August 31, 2005 that does not reflect the revised cash flow presentation and Form 10-Q for the quarterly period ended November 30, 2005 that reflects the revised cash flow presentation, but for only the interim periods to date), the company should disclose in the registration/proxy statement or a report incorporated by reference into the registration/proxy statement:

- its intent to revise its previously issued annual Statements of Cash Flows in its next annual report;
- the reasons for the revisions; and
- the quantitative effect of the revision on the three latest fiscal years.

The disclosure should be transparent and provide sufficient information to understand the nature and quantified effect of the revisions. The disclosure may take the form of an unaudited revised condensed annual Statement of Cash Flows. Where a single line item below financing cash flows was previously used to present cash flows related to discontinued operations, quantitative disclosure may be limited to expansion of that line into operating, investing and financing categories. Revised Statements of Cash Flows for prior years included in the 2006 Form 10-K would be labeled “revised” or “restated” as discussed in Alert #90.

Labeling of Quarterly Information Following Filing of Annual Report with Revised Statements of Cash Flows

Calendar year end companies that file annual reports with revised Statements of Cash Flows will present the 2005 fiscal year cash flow information on a corrected basis but such basis may be inconsistent with how quarterly cash flow information throughout 2005 was reported in the company’s Form 10-Q’s. In quarterly reports on Form 10-Q that will be filed throughout 2006 the prior year comparative period column will need to be labeled “revised” or “restated” since those periods will be reported on a revised basis for the first time in each Form 10-Q.