Extraordinary Items

23.1 APPLICABLE AUTHORITATIVE PRONOUNCEMENTS

FASB Codification Sections: **FASB ASC 225-20-15** ; **FASB ASC 225-20-50** ; **FASB ASC 815-30-35** ; **FASB ASC 225-30-50**

ASU No. 2015-01

IAS 1

Note: Pursuant to FASB ASC 225-20, *Income Statement- Unusual or Infrequently Occurring Items*, the following guidance becomes mandatorily effective for both public and private companies covering fiscal years (and interim periods within such years) beginning after December 15, 2015. Early application is permitted, provided it is applied from the beginning of the fiscal year of initial adoption.

- The entire concept of an extraordinary item has been eliminated.
- The nature and effects of an event or transaction deemed unusual in nature or that is expected to occur infrequently must be disclosed on the face of the income statement as a separate component of income from continuing operations or, alternatively, in notes to the financial statements.

Any references to extraordinary items in the following discussion, computational examples, and disclosure requirements remain applicable until adoption of the new US GAAP rules.

23.2 OVERVIEW

Extraordinary items are those that are both unusual and infrequent. An extraordinary item should be presented on the face of the income statement net of any income tax effect.

23.3 MEASUREMENT PRINCIPLES

23.3.1 Criteria for Extraordinary Status

To qualify as an extraordinary item, *both* of the following criteria must exist:

- It must be unusual in nature (the underlying event or transaction must be abnormal and unrelated, or incidentally related, to the ordinary activities of the business); and
- It must occur infrequently (the underlying event or transaction would not reasonably be expected to occur in the foreseeable future).

Generally, an event or transaction is presumed to be an ordinary and usual activity of the company unless the evidence clearly supports it as extraordinary and it meets both of the above criteria.

23.3.2 Unusual Nature

In determining whether an item is extraordinary, the following factors should be considered:

- Type of business
- Scope of operations
- Operating policies
- Lines of business

The environment in which the company operates is a primary consideration in determining the status of the underlying event or transaction. The environment includes characteristics of the industry, geographical location, and the nature and extent of government regulation. It is possible, therefore, that the same item may be ordinary for one company yet extraordinary for another. For example, a tornado may be considered ordinary for a company that operates in Kansas but extraordinary for one that operates in Florida. Note that "unusual nature" is not established by the fact that an event or transaction is beyond management's control.

As a further example, a gain or loss on the extinguishment of debt should not be considered unusual if the underlying transaction is part of the entity's ongoing activities to manage interest rate risk. Conversely, in other circumstances, a debt extinguishment can be deemed an extraordinary event (with any resulting gain or loss reported as an extraordinary item) if the transaction qualified as both unusual in nature and infrequent in expected occurrence.

23.3.3 Infrequent Occurrence

The environment in which a company operates must be considered in determining the probability of recurrence of a specific event or transaction. As with "unusual nature," the same item may be considered ordinary to one company but extraordinary to another. The past provides some evidence for the future. In the case of a tornado in Kansas, the past indicates that one may be likely to occur relatively frequently (if not regularly), and thus the financial effects of a tornado would ordinarily not be considered an extraordinary item.

23.3.4 Judgment

Judgment is necessary, of course, in determining the status of an item. It is therefore possible that the financial effects of an event might be reported as ordinary by one company and extraordinary by another company operating in the same or a similar environment. The importance of making a "correct" assessment of the circumstances lies solely in the placement of the item in reporting the economic impact of the underlying event. If it is deemed to be ordinary, it is reported above the caption in the income statement "Income from operations." If considered extraordinary, it is reported below that caption.

23.3.5 Items Not to Be Considered Extraordinary

The following items should not be reported as extraordinary because, by definition, they are usual in nature and may be expected to recur in the normal course of operations:

- Write-down or write-off of receivables, inventories, equipment leased to others, or intangible assets
- Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations
- Gains or losses on disposal of a component of an entity
- Other gains or losses from the sale or abandonment of property, plant, and equipment
- Effects of a strike, including those against competitors and major suppliers
- Adjustment of accruals on long-term contracts
- Costs in defense of a takeover attempt and costs incurred as part of a standstill agreement

There may be rare situations in which an event that meets both criteria for extraordinary status gives rise to a gain or loss that includes one or more of the items above that are not to be reported as extraordinary. In these cases, the gain or loss may be reported as extraordinary if it is a direct result of a *major* casualty (e.g., a flood in a location where the occurrence of a flood is not considered likely), an expropriation, or a prohibition under a newly enacted law. However, any related gain or loss that would have occurred if there were no major casualty should be considered ordinary.

23.3.6 Exceptions to Meeting Both Criteria

Even though they do not meet both criteria, the following items should be reported as extraordinary:

- Gains and losses that would otherwise not qualify as extraordinary (e.g., write-down of receivables or inventories, foreign exchange gains or losses, or gains or losses on disposal of a business segment) if the event that gave rise to such gains or losses is itself considered extraordinary.
- The investor's share of an investee's extraordinary items (This should be reported as part of the investor's extraordinary items.)
- Adjustments made in the current period of items classified as extraordinary in prior periods.
- The net effect of discontinuing the application of FASB ASC 980-10.
- The remaining excess of fair value of net assets acquired over cost in a business combination.

The EITF has reached a consensus regarding the classification of gain or loss resulting from the previous hedge of debt that is ultimately extinguished. The Task Force concluded that the amount reclassified from accumulated other comprehensive income to current earnings resulting from a cash flow hedge of debt (or of a forecasted debt transaction) should not be classified as an extraordinary item when the debt is extinguished.

The following examples illustrate application of the EITF consensus.

Example 1. Extinguished Debt Previously Subject to a Fair Value Hedge

FACTS

Assume that, on January 1, 20x1, Client Company, Inc. issues $10 million of debt with a coupon rate of 10%. The debt is payable on December 31, 20x7 and is callable at par beginning on January 1, 20x4. On January 1, 20x3, Client Company enters into a contract with EMW, Inc. to hedge the debt's embedded call feature. Under the terms of the contract, Client Company will pay EMW an amount equal to the fair value change in the debt resulting from a decrease in interest rates, and EMW will pay Client Company an amount equal to the change in the debt's fair value caused by an increase in interest rates. Also assume that interest rates have increased during 20x3 such that Client Company has a gain on the hedging instrument in the amount of $500,000 and a corresponding loss on the embedded call option.

Note that to be classified as extraordinary, the gain must meet both criteria for extraordinary status.

SOLUTION

Pursuant to FASB ASC 815-10, the carrying value of the debt is increased by $500,000, and current earnings for 20x3 is charged in the same amount. On January 1, 20x4, when Client Company calls the debt (early extinguishment), the $500,000 gain will be recognized.

Example 2. Extinguished Debt Previously Subject to a Cash Flow Hedge

FACTS

Assume that Client Company, Inc. issues $10 million of debt payable on January 1, 20x1. The interest rate is variable based on three-month LIBOR. The debt is payable on December 31, 20x5 but is callable at par beginning on January 1, 20x2. When the debt was issued, Client Company entered into a transaction with TGBT, Inc. qualifying as a cash flow hedge of interest payments. Also assume that LIBOR increases during 20x1 resulting in a $100,000 gain on the hedging instrument, which is recognized in other comprehensive income. Finally, assume that Client Company calls the debt on January 1, 20x2.

SOLUTION

In accordance with FASB ASC 815-10, the $100,000 gain is credited to other comprehensive income. When the debt is extinguished on January 1, 20x2, FASB ASC 815-10 requires that the $100,000 gain be transferred to current earnings from accumulated other comprehensive income. Pursuant to the EITF consensus, that amount should not be classified as extraordinary (i.e., it is thus excluded from the computation of extinguishment gain or loss).

Example 3. Extinguished Debt Previously Subject to a Cash Flow Hedge of a Forecasted Transaction

FACTS

Assume that, on January 1, 20x1, Client Company, Inc. plans to issue $10 million of fixed rate debt one year hence. To lock in a rate of 8%, Client Company enters into a cash flow hedge with GL, Inc. against future interest payments. Assume that rates have increased between January 1, 20x1 and January 1, 20x2 such that Client Company has a $200,000 gain on the hedging contract. Also assume that one year after the increase, on January 1, 20x3, the debt is extinguished.

SOLUTION

In accordance with FASB ASC 815-10, in 20x1, the $200,000 gain is recognized as other comprehensive income. When the debt is extinguished, on January 1, 20x3, the $200,000 gain is transferred to current earnings and, pursuant to the EITF consensus, it is not included in the computation of the gain or loss on extinguishment and it is not classified as an extraordinary item.

23.4 DISCLOSURES

23.4.1 In General

The following information should be disclosed on the face of the income statement:

The amount of income or loss before extraordinary items. (This caption will require modification if there are discontinued operations of a business segment and/or accounting changes.)

The amount of each significant item. Each item should be appropriately described under the general caption "Extraordinary items."

The amount of income tax attributable to each item. This disclosure may be made in a note (Customarily, the amount of income tax is parenthetically noted on the face of the income statement.).

The amount of net income.

Earnings per share amounts before extraordinary items, and net income (Often, the per-share amounts of extraordinary items, either individually or in the aggregate, are also disclosed, although GAAP does not require such disclosure.).

In addition, the nature of each significant item should be described in a footnote.

23.4.2 Unusual or Infrequent Item

Virtually any significant transaction or event that is *either* unusual *or* infrequent (but not both) may be presented as a separate line item either in a multi-step or single-step income statement. Its position depends on the degree of emphasis desired, as long as it is a component of income from operations.

Regarding the impact of the terrorist attacks of September 11, 2001, the following information should be disclosed:

- A description of the circumstances of the losses and the amounts of such losses (and related insurance recoveries) that have been recognized in the financial statements.
- A description of contingencies not yet recorded that are reasonably expected to have an impact on the financial statements (e.g., future losses and/or probable future insurance recoveries).
- Applicable information pursuant to **SOP No. 94-6** , Disclosure of Risks and Uncertainties, and pursuant to **SOP No. 96-1** , Environmental Remediation Liabilities (see Section 33, CONTINGENCIES).

23.4.3 Examples

EAT AT JOES LTD. (2012 FORM 10-K)

Example .

Notes to Financial Statements

NOTE - EXTRAORDINARY ITEMS

As of December 31, 2012, the Company recognized an extraordinary gain of $2,043,702 due to the write-off of the Company's convertible debentures. On July 31, and September 2, 1998, the Company sold its 8% convertible debenture in the aggregate principal amount of $1,500,000 to an accredited investor pursuant to an exemption from registration under Section 4(2) and/or Regulation D.

The material terms of the Company' convertible debentures provide for the payment of interest at 8% per annum payable quarterly, mandatory redemption after 3 years from the date of issuance at 130% of the principal amount. Subject to adjustment, the debentures are convertible into Common Stock at the lower of a fixed conversion price ($1.82 per share for $900,000 principal amount of debentures; $1.61 per share for $600,000 principal amount of debentures) or 75% of the average closing bid price for the Company's Common Stock for the 5 trading days preceding the date of the conversion notice. Repayment of the indebtedness is secured by a general lien on the assets of the Company and guarantee by five of the Company's subsidiaries. On January 14, 2000, $150,000 of the debenture was converted to 500,000 shares of the Company's common stock.

Since approximately 2004, the Company has tried repeatedly to contact the lender and its principals regarding the remaining balance owed by the Company on the convertible debenture. The Company continued to accrue interest on the debenture through December 31, 2005, when it was determined less than probable that any further payments would be made. No claims have been filed against the Company regarding these debentures. The Company's attorney has determined the six year statute of limitations under New York state law has expired, and that no further payments are due from the Company. Based on this information, the Company has written off the balance of the convertible debenture on the balance sheet of $2,043,702 and recorded an extraordinary gain of the same amount.

As of December 31, 2012, the Company also determined that notes payable $172,870, and other liabilities of $138,416 related to its Ontario restaurants should be written-off and recorded as extraordinary gain. The Company had two restaurants in Ontario, Canada, that were closed in 2002. No claims have ever been filed against the Company relating to these liabilities. The Company has determined the statute of limitations related to these liabilities has expired and that no further payments are due from the Company. An extraordinary gain of $311,286 was recognized in the financial statements at December 31, 2012.

LIFETIME BRANDS, INC. (2012 FORM 10-K)

Example .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Extraordinary item

In December 2010, the Company paid $2.5 million to ARC International SA for all outstanding consideration remaining due or payable related to its 2008 acquisition of the business and certain assets of Mikasa ®, Inc. As a result of the payment of this amount to ARC, the Company adjusted the remaining book value of the acquired Mikasa ® intangible assets, including the trade name and associated deferred tax liability, to zero and the negative goodwill balance to approximately $2.5 million. Concurrently, the remaining balance of negative goodwill was eliminated resulting in an extraordinary gain in the amount of $2.5 million in 2010.

[***Author's Note:*** In the following example, the company identifies and explains items deemed unusual or infrequent and thus not qualifying as extraordinary. **]**

GENCORP, INC. (2012 FORM 10-K)

Example .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 14. Unusual Items

Total unusual items expense, a component of other expense, net in the consolidated statements of operations was as follows:

	Year Ended		
	2012	**2011**	**2010**
		(In millions)	
Aerospace and Defense:			
Loss on legal matters and settlements	$ 0.7	$ 4.1	$ 2.8
Aerospace and defense	0.7	4.1	2.8

	Year Ended		
	2012	2011	2010
unusual items			
Corporate:			
Rocketdyne Business acquisition related costs	11.6	-	-
Executive severance agreements	-	-	1.4
Loss on debt repurchased	0.4	0.2	1.2
Loss on bank amendment	-	1.3	0.7
Gain on legal settlement	-	-	(2.7)
Corporate unusual items	12.0	1.5	0.6
Total unusual items	$ 12.7	$ 5.6	$ 3.4

Fiscal 2012 Activity:

The Company recorded $0.7 million for realized losses and interest associated with the failure to register with the SEC the issuance of certain of the Company's common shares under the defined contribution 401(k) employee benefit plan.

The Company incurred expenses of $11.6 million, including internal labor costs of $2.0 million, related to the proposed Rocketdyne Business acquisition announced in July 2012.

The Company redeemed $75.0 million of its 9 1/2% Notes at a redemption price of 100% of the

principal amount. The redemption resulted in a charge of $0.4 million associated with the write-off of the 9 1/2% Notes deferred financing costs.

Fiscal 2011 Activity:

The Company recorded a charge of $3.3 million related to a legal settlement and $0.8 million for realized losses and interest associated with the failure to register with the SEC the issuance of certain of its common shares under the defined contribution 401(k) employee benefit plan.

During fiscal 2011, the Company repurchased $22.0 million principal amount of its 2 1/4% Debentures at various prices ranging from 99.0% of par to 99.6% of par resulting in a loss of $0.2 million.

In addition, during fiscal 2011, the Company recorded $1.3 million of losses related to an amendment to the Senior Credit Facility.

Fiscal 2010 Activity:

In fiscal 2010, the Company recorded $1.4 million associated with executive severance. In addition, the Company recorded a charge of $1.9 million related to the estimated unrecoverable costs of legal matters and $0.9 million for realized losses and interest associated with the failure to register with the SEC the issuance of certain of its common shares under the defined contribution 401(k) employee benefit plan. Further, the Company recorded a $2.7 million gain related to a legal settlement.

In addition, during fiscal 2010, the Company recorded $0.7 million of losses related to an amendment to the Senior Credit Facility.

A summary of the Company's losses on the 2 1/4% Debentures repurchased during fiscal 2010 is as follows (in millions):

Principal amount repurchased	$ 77.8
Cash repurchase price	(74.3)
	3.5
Write-off of the associated debt discount	(6.3)
Portion of the 2 1/4% Debentures repurchased attributed to the equity component	2.9
Write-off of the deferred financing costs	(0.4)
Loss on 2 1/4% Debentures repurchased	$ (0.3)

A summary of the Company's losses on the 9 1/2% Notes repurchased during fiscal 2010 is as follows (in millions):

Principal amount repurchased	$ 22.5
Cash repurchase price	(23.0)
Write-off of the deferred financing costs	(0.4)
Loss on 9 1/2% Notes repurchased	$ (0.9)

23.5 SIGNIFICANT DIFFERENCES BETWEEN US GAAP AND IFRS

Measurement Principles- IAS 1 , *Presentation of Financial Statements*

- Under IAS, extraordinary items do not exist, whereas, under US GAAP, such items must be both unusual in nature and infrequent in occurrence. Note, however, that effective for fiscal years (and interim periods within such years) beginning after December 15, 2015, with early application permitted, the entire concept of an extraordinary item has been eliminated from US GAAP.

23.6 RELATED TOPICS

Section 10 , NOTES PAYABLE, BONDS, AND OTHER DEBT

Section 21 , INCOME TAXES

Section 24 , DISCONTINUED OPERATIONS

Section 25 , EARNINGS PER SHARE

Section 28 , BUSINESS COMBINATIONS

Section 38 , FOREIGN OPERATIONS

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