

**FASB Emerging Issues Task Force**

**Issue No. 07-4**

**Title:** Application of the Two-Class Method under FASB Statement No. 128, *Earnings per Share*, to Master Limited Partnerships

**Document:** Examples illustrating informal comment in paragraph 4 of Issue Summary No.1, Supplement No. 2\*

**Facts:** Assume Partnership ABC has 9,800 Common Units outstanding held by the LPs and 200 GP units outstanding held by the GP for each year. The allocation of net income (or loss) to the capital accounts of the GP and LPs is based on their ownership percentages (98 percent and 2 percent, respectively) after giving effect to any priority income allocations to the IDR holder(s).

The GP also holds IDRs, which are non-voting limited partnership interests that entitle the holder to cash distributions when certain thresholds are achieved. The GP is obligated to distribute 100 percent of the partnership's Available Cash at the end of each quarter based on a distribution waterfall specified in the partnership agreement.

**EXAMPLE 1:**

At the end of the first 5 annual periods the partnership had Available Cash of \$0, \$50,000, \$0, \$65,000, and \$10,000, and Net Income of \$25,000, \$25,000, \$25,000, \$50,000, and \$0, respectively. The following table compares Available Cash distributed over the life of the partnership to the earnings that would be allocated under View A' and View B' in Issue Summary No. 1, Supplement No. 1, over the life of the partnership. The computation of earnings per unit under View A' and View B' for each year including the computation of Available Cash that would be distributed to the Common Units, GP Interest, and IDRs at each of the thresholds based on the distribution waterfall in Partnership ABC's partnership agreement for each year are included in Appendix A.

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\* These examples are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.

			<b>View A'</b>	<b>View B'</b>
		Available Cash Distributed	Earnings Allocated	Earnings Allocated
Year 1	IDR	-	3,447.06	-
	LP	-	21,052.94	24,500
	GP	-	500	500
	Subtotal	-	25,000	25,000
Year 2	IDR	12,664.71	12,664.71	12,664.71
	LP	36,335.29	11,835.29	11,835.29
	GP	1,000.00	500.00	500.00
	Subtotal	50,000.00	25,000.00	25,000.00
Year 3	IDR	-	3,447.06	-
	LP	-	21,052.94	24,500
	GP	-	500	500
	Subtotal	-	25,000	25,000
Year 4	IDR	19,864.71	19,864.71	19,864.71
	LP	43,835.29	29,135.29	29,135.29
	GP	1,300.00	1,000.00	1,000.00
	Subtotal	65,000.00	50,000.00	50,000.00
Year 5	IDR	650.00	650.00	650.00
	LP	9,150.00	(650.00)	(650.00)
	GP	200.00	-	-
	Subtotal	10,000.00	-	-
<b>Totals</b>	<b>IDR</b>	<b>33,179.42</b>	<b>40,073.54</b>	<b>33,179.42</b>
	<b>LP</b>	<b>89,320.58</b>	<b>82,426.46</b>	<b>89,320.58</b>
	<b>GP</b>	<b>2,500.00</b>	<b>2,500.00</b>	<b>2,500.00</b>
	<b>Total</b>	<b>125,000.00</b>	<b>125,000.00</b>	<b>125,000.00</b>

**EXAMPLE 2:**

At the end of the first 5 annual periods the partnership had Available Cash of \$40,000, \$10,000, \$0, \$65,000, and \$10,000, and Net Income of \$25,000, \$25,000, \$25,000, \$50,000, and \$0, respectively. The following table compares Available Cash distributed over the life of the partnership to the earnings that would be allocated under View A' and View B' in Issue Summary No. 1, Supplement No. 1, over the life of the partnership. The computation of earnings per unit under View A' and View B' for each year including the computation of Available Cash that would be distributed to the Common Units, GP Interest, and IDRs at each of the thresholds based on the distribution waterfall in Partnership ABC's partnership agreement for each year are included in Appendix A.

			<b>View A'</b>	<b>View B'</b>
		Available Cash Distributed	Earnings Allocated	Earnings Allocated
Year 1	IDR	7,864.71	7,864.71	7,864.71
	LP	31,335.29	16,635.29	16,635.29
	GP	800.00	500.00	500.00
	Subtotal	40,000.00	25,000.00	25,000.00
Year 2	IDR	650.00	3,447.06	650.00
	LP	9,150.00	21,052.94	23,850.00
	GP	200.00	500.00	500.00
	Subtotal	10,000.00	25,000.00	25,000.00
Year 3	IDR	-	3,447.06	-
	LP	-	21,052.94	24,500.00
	GP	-	500.00	500.00
	Subtotal	-	25,000.00	25,000.00
Year 4	IDR	19,864.71	19,864.71	19,864.71
	LP	43,835.29	29,135.29	29,135.29
	GP	1,300.00	1,000.00	1,000.00
	Subtotal	65,000.00	50,000.00	50,000.00
Year 5	IDR	650.00	650.00	650.00
	LP	9,150.00	(650.00)	(650.00)
	GP	200.00	-	-
	Subtotal	10,000.00	-	-
<b>Totals</b>	<b>IDR</b>	<b>29,029.42</b>	<b>35,273.54</b>	<b>29,029.42</b>
	<b>LP</b>	<b>93,470.58</b>	<b>87,226.46</b>	<b>93,470.58</b>
	<b>GP</b>	<b>2,500.00</b>	<b>2,500.00</b>	<b>2,500.00</b>
	<b>Total</b>	<b>125,000.00</b>	<b>125,000.00</b>	<b>125,000.00</b>

## Appendix A

### EXAMPLE 1

At the end of the first 5 annual periods the partnership had Available Cash of \$0, \$50,000, \$0, \$65,000, and \$10,000, and Net Income of \$25,000, \$25,000, \$25,000, \$50,000, and \$0, respectively. The following tables illustrate the amount of Available Cash that would be distributed to the Common Units, GP Interest, and IDRs at each of the thresholds based on the distribution waterfall in Partnership ABC's partnership agreement for each year:

**Year 1:** No distributions as Available Cash = \$0

**Year 2:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Cumulative Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$29,400.00	\$722.59	\$6,006.82	\$36,129.41
Thereafter	N/A	50%	2%	48%	\$36,335.29	\$1,000.00	\$12,664.71	\$50,000.00

**Year 3:** No distributions as Available Cash = \$0

**Year 4:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$29,400.00	\$722.59	\$6,006.82	\$36,129.41
Thereafter	N/A	50%	2%	48%	\$43,835.29	\$1,300.00	\$19,864.71	\$65,000.00

**Year 5:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$9,150.00	\$200.00	\$650.00	\$10,000.00
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$0	\$0	\$0	\$0
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

**Application of the Two-Class Method under the Consensus-for-Exposure (View A' of Issue Summary No. 1, Supplement No. 1)**

	<u><b>Year 1</b></u>
Net Income	\$25,000
Less distributions paid:	
Incentive Distribution Rights	\$0
General Partner	0
Limited Partners	<u>0</u>
	<u>0</u>
Undistributed earnings	<u>\$25,000</u>

Allocation of undistributed earnings via waterfall (refer below for computation of allocation to each security):

*To incentive distribution rights:*  
 Waterfall × \$25,000 = \$3,447.06

*To general partner:*  
 Waterfall × \$25,000 = \$500  
 \$500 ÷ 200 units = \$2.50 per unit

*To limited partners:*  
 Waterfall × \$25,000 = \$21,052.94  
 \$21,052.94 ÷ 9,800 units = \$2.15 per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$0.00	\$0.00
Undistributed earnings	<u>2.50</u>	<u>2.15</u>
Total	<u>\$2.50</u>	<u>\$2.15</u>

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$21,052.94	\$500.00	\$3,447.06	\$25,000.00
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

	<u>Year 2</u>
Net Income	\$25,000.00
Less distributions paid:	
Incentive Distribution Rights	\$12,664.71
General Partner	1,000.00
Limited Partners	<u>36,335.29</u>
	<u>50,000.00</u>
Undistributed earnings (loss)	<u>(\$25,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$25,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$25,000) = (\$500)

(\$500)  $\div$  200 units = (\$2.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$25,000) = (\$24,500)

(\$24,500)  $\div$  9,800 units = (\$2.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$5.00	\$3.71
Undistributed earnings (loss)	<u>(2.50)</u>	<u>(2.50)</u>
Total	<u>\$2.50</u>	<u>\$1.21</u>

	<u><b>Year 3</b></u>
Net Income	\$25,000
Less distributions paid:	
Incentive Distribution Rights	\$0
General Partner	0
Limited Partners	<u>0</u>
	<u>0</u>
Undistributed earnings	<u>\$25,000</u>

Allocation of undistributed earnings via waterfall (refer below for computation of allocation to each security):

*To incentive distribution rights:*  
Waterfall × \$25,000 = \$3,447.06

*To general partner:*  
Waterfall × \$25,000 = \$500  
\$500 ÷ 200 units = \$2.50 per unit

*To limited partners:*  
Waterfall × \$25,000 = \$21,052.94  
\$21,052.94 ÷ 9,800 units = \$2.15 per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$0.00	\$0.00
Undistributed earnings	<u>2.50</u>	<u>2.15</u>
Total	<u>\$2.50</u>	<u>\$2.15</u>

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$21,052.94	\$500.00	\$3,447.06	\$25,000.00
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

	<u>Year 4</u>
Net Income	\$50,000.00
Less distributions paid:	
Incentive Distribution Rights	\$19,864.71
General Partner	1,300.00
Limited Partners	<u>43,835.29</u>
	<u>65,000.00</u>
Undistributed earnings (loss)	<u>(\$15,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$15,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$15,000) = (\$300)

(\$300)  $\div$  200 units = (\$1.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$15,000) = (\$14,700)

(\$14,700)  $\div$  9,800 units = (\$1.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$6.50	\$4.47
Undistributed earnings (loss)	<u>(1.50)</u>	<u>(1.50)</u>
Total	<u>\$5.00</u>	<u>\$2.97</u>

	<u>Year 5</u>
Net Income	\$0.00
Less distributions paid:	
Incentive Distribution Rights	\$650.00
General Partner	200.00
Limited Partners	<u>9,150.00</u>
	<u>10,000.00</u>
Undistributed earnings (loss)	<u>(\$10,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$10,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$10,000) = (\$200)

(\$200)  $\div$  200 units = (\$1.00) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$10,000) = (\$9,800)

(\$9,800)  $\div$  9,800 units = (\$1.00) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$1.00	\$0.93
Undistributed earnings (loss)	<u>(1.00)</u>	<u>(1.00)</u>
Total	<u>\$0.00</u>	<u>(\$0.07)</u>

**Application of the Two-Class Method under View B'<sup>1</sup> of Issue Summary No. 1, Supplement No. 1**

	<u><b>Year 1</b></u>
Net Income	\$25,000
Less distributions paid:	
Incentive Distribution Rights	\$ 0
General Partner	0
Limited Partners	<u>0</u>
	<u>0</u>
Undistributed earnings	<u><u>\$25,000</u></u>

Allocation of undistributed earnings:

*To incentive distribution rights:*

0% ownership interest × \$25,000 = \$0

*To general partner:*

2% ownership interest × \$25,000 = \$500

\$500 ÷ 200 units = \$2.50 per unit

*To limited partners:*

98% ownership interest × \$25,000 = \$24,500

\$24,500 ÷ 9,800 units = \$2.50 per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$0.00	\$0.00
Undistributed earnings	<u>2.50</u>	<u>2.50</u>
Total	<u><u>\$2.50</u></u>	<u><u>\$2.50</u></u>

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<sup>1</sup> This view assumes that based on an analysis of the contractual arrangement the entity concludes that the distribution of available cash meets the definition of a contractual threshold as discussed in Issue 3 and Example F of EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128."

	<u>Year 2</u>
Net Income	\$25,000.00
Less distributions paid:	
Incentive Distribution Rights	\$12,664.71
General Partner	1,000.00
Limited Partners	<u>36,335.29</u>
	<u>50,000.00</u>
Undistributed earnings (loss)	<u>(\$25,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$25,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$25,000) = (\$500)

(\$500)  $\div$  200 units = (\$2.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$25,000) = (\$24,500)

(\$24,500)  $\div$  9,800 units = (\$2.50) per unit

Basic EPU amounts:

	General <u>Partner</u>	Limited <u>Partners</u>
Distributed earnings	\$5.00	\$3.71
Undistributed earnings (loss)	<u>(2.50)</u>	<u>(2.50)</u>
Total	<u>\$2.50</u>	<u>\$1.21</u>

	<u><b>Year 3</b></u>
Net Income	\$25,000
Less distributions paid:	
Incentive Distribution Rights	\$ 0
General Partner	0
Limited Partners	<u>0</u>
	<u>0</u>
Undistributed earnings	<u>\$25,000</u>

Allocation of undistributed earnings:

*To incentive distribution rights:*

0% ownership interest  $\times$  \$25,000 = \$0

*To general partner:*

2% ownership interest  $\times$  \$25,000 = \$500

\$500  $\div$  200 units = \$2.50 per unit

*To limited partners:*

98% ownership interest  $\times$  \$25,000 = \$24,500

\$24,500  $\div$  9,800 units = \$2.50 per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$0.00	\$0.00
Undistributed earnings	<u>2.50</u>	<u>2.50</u>
Total	<u>\$2.50</u>	<u>\$2.50</u>

	<u>Year 4</u>
Net Income	\$50,000.00
Less distributions paid:	
Incentive Distribution Rights	\$19,864.71
General Partner	1,300.00
Limited Partners	<u>43,835.29</u>
	<u>65,000.00</u>
Undistributed earnings (loss)	<u>(\$15,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$15,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$15,000) = (\$300)

(\$300)  $\div$  200 units = (\$1.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$15,000) = (\$14,700)

(\$14,700)  $\div$  9,800 units = (\$1.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$6.50	\$4.47
Undistributed earnings (loss)	<u>(1.50)</u>	<u>(1.50)</u>
Total	<u>\$5.00</u>	<u>\$2.97</u>

	<u>Year 5</u>
Net Income	\$0.00
Less distributions paid:	
Incentive Distribution Rights	\$650.00
General Partner	200.00
Limited Partners	<u>9,150.00</u>
	<u>10,000.00</u>
Undistributed earnings (loss)	<u>(\$10,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$10,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$10,000) = (\$200)

(\$200)  $\div$  200 units = (\$1.00) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$10,000) = (\$9,800)

(\$9,800)  $\div$  9,800 units = (\$1.00) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$1.00	\$0.93
Undistributed earnings (loss)	<u>(1.00)</u>	<u>(1.00)</u>
Total	<u>\$0.00</u>	<u>(\$0.07)</u>

**EXAMPLE 2**

At the end of the first 5 annual periods the partnership had Available Cash of \$40,000, \$10,000, \$0, \$65,000, and \$10,000, and Net Income of \$25,000, \$25,000, \$25,000, \$50,000, and \$0, respectively. The following tables illustrate the amount of Available Cash that would be distributed to the Common Units, GP Interest, and IDRs at each of the thresholds based on the distribution waterfall in Partnership ABC's partnership agreement for each year:

**Year 1:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$29,400.00	\$722.59	\$6,006.82	\$36,129.41
Thereafter	N/A	50%	2%	48%	\$31,335.29	\$800.00	\$7,864.71	\$40,000.00

**Year 2:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$9,150.00	\$200.00	\$650.00	\$10,000.00
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$0	\$0	\$0	\$0
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

**Year 3:** No distributions as Available Cash = \$0

**Year 4:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$29,400.00	\$722.59	\$6,006.82	\$36,129.41
Thereafter	N/A	50%	2%	48%	\$43,835.29	\$1,300.00	\$19,864.71	\$65,000.00

**Year 5:** Refer below for computation of distribution to each security

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$9,150.00	\$200.00	\$650.00	\$10,000.00
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$0	\$0	\$0	\$0
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

**Application of the Two-Class Method under the Consensus-for-Exposure (View A' of Issue Summary No. 1, Supplement No. 1)**

	<u>Year 1</u>
Net Income	\$25,000.00
Less distributions paid:	
Incentive Distribution Rights	\$7,864.71
General Partner	800.00
Limited Partners	<u>31,335.29</u>
	<u>40,000.00</u>
Undistributed earnings (loss)	<u>(\$15,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest × (\$15,000) = \$0

*To general partner:*

2% ownership interest × (\$15,000) = (\$300)

(\$300) ÷ 200 units = (\$1.50) per unit

*To limited partners:*

98% ownership interest × (\$15,000) = (\$14,700)

(\$14,700) ÷ 9,800 units = (\$1.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$4.00	\$3.20
Undistributed earnings (loss)	<u>(1.50)</u>	<u>(1.50)</u>
Total	<u>\$2.50</u>	<u>\$1.70</u>

	<b><u>Year 2</u></b>
Net Income	\$25,000.00
Less distributions paid:	
Incentive Distribution Rights	\$650.00
General Partner	200.00
Limited Partners	<u>9,150.00</u>
	<u>10,000.00</u>
Undistributed earnings	<u>\$15,000.00</u>

Allocation of undistributed earnings via waterfall (refer below for computation of allocation to each security):

*To incentive distribution rights:*

$$[\text{Waterfall} \times \$25,000] - \$650 \text{ (distributed earnings)} = \$2,797.06$$

*To general partner:*

$$[\text{Waterfall} \times \$25,000] - \$200 \text{ (distributed earnings)} = \$300$$

$$\$300 \div 200 \text{ units} = \$1.50 \text{ per unit}$$

*To limited partners:*

$$[\text{Waterfall} \times \$25,000] - \$9,150 \text{ (distributed earnings)} = \$11,902.94$$

$$\$11,902.94 \div 9,800 \text{ units} = \$1.22 \text{ per unit}$$

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$1.00	\$0.93
Undistributed earnings	<u>1.50</u>	<u>1.22</u>
Total	<u>\$2.50</u>	<u>\$2.15</u>

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$21,052.94	\$500.00	\$3,447.06	\$25,000.00
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

	<u><b>Year 3</b></u>
Net Income	\$25,000
Less distributions paid:	
Incentive Distribution Rights	\$0
General Partner	0
Limited Partners	<u>0</u>
	<u>0</u>
Undistributed earnings	<u>\$25,000</u>

Allocation of undistributed earnings via waterfall (refer below for computation of allocation to each security):

*To incentive distribution rights:*  
Waterfall × \$25,000 = \$3,447.06

*To general partner:*  
Waterfall × \$25,000 = \$500  
\$500 ÷ 200 units = \$2.50 per unit

*To limited partners:*  
Waterfall × \$25,000 = \$21,052.94  
\$21,052.94 ÷ 9,800 units = \$2.15 per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$0.00	\$0.00
Undistributed earnings	<u>2.50</u>	<u>2.15</u>
Total	<u>\$2.50</u>	<u>\$2.15</u>

	Distribution per Common Units	Waterfall Percentage			Distribution by Interest			
		LP	GP	IDR	LP	GP	IDR	Total
1 <sup>st</sup> Threshold	\$0.50	98%	2%	0%	\$4,900.00	\$100.00	\$0.00	\$5,000.00
2 <sup>nd</sup> Threshold	\$1.50	85%	2%	13%	\$14,700.00	\$330.59	\$1,498.82	\$16,529.41
3 <sup>rd</sup> Threshold	\$3.00	75%	2%	23%	\$21,052.94	\$500.00	\$3,447.06	\$25,000.00
Thereafter	N/A	50%	2%	48%	\$0	\$0	\$0	\$0

	<u>Year 4</u>
Net Income	\$50,000.00
Less distributions paid:	
Incentive Distribution Rights	\$19,864.71
General Partner	1,300.00
Limited Partners	<u>43,835.29</u>
	<u>65,000.00</u>
Undistributed earnings (loss)	<u>(\$15,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$15,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$15,000) = (\$300)

(\$300)  $\div$  200 units = (\$1.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$15,000) = (\$14,700)

(\$14,700)  $\div$  9,800 units = (\$1.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$6.50	\$4.47
Undistributed earnings (loss)	<u>(1.50)</u>	<u>(1.50)</u>
Total	<u>\$5.00</u>	<u>\$2.97</u>

	<u>Year 5</u>
Net Income	\$0.00
Less distributions paid:	
Incentive Distribution Rights	\$650.00
General Partner	200.00
Limited Partners	<u>9,150.00</u>
	<u>10,000.00</u>
Undistributed earnings (loss)	<u>(\$10,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest × (\$10,000) = \$0

*To general partner:*

2% ownership interest × (\$10,000) = (\$200)

(\$200) ÷ 200 units = (\$1.00) per unit

*To limited partners:*

98% ownership interest × (\$10,000) = (\$9,800)

(\$9,800) ÷ 9,800 units = (\$1.00) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$1.00	\$0.93
Undistributed earnings (loss)	<u>(1.00)</u>	<u>(1.00)</u>
Total	<u>\$0.00</u>	<u>(\$0.07)</u>

**Application of the Two-Class Method under View B'<sup>2</sup> of Issue Summary No. 1, Supplement No. 1**

	<u>Year 1</u>
Net Income	\$25,000.00
Less distributions paid:	
Incentive Distribution Rights	\$7,864.71
General Partner	800.00
Limited Partners	<u>31,335.29</u>
	<u>40,000.00</u>
Undistributed earnings (loss)	<u>(\$15,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$15,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$15,000) = (\$300)

(\$300)  $\div$  200 units = (\$1.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$15,000) = (\$14,700)

(\$14,700)  $\div$  9,800 units = \$(1.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$4.00	\$3.20
Undistributed earnings (loss)	<u>(1.50)</u>	<u>(1.50)</u>
Total	<u>\$2.50</u>	<u>\$1.70</u>

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<sup>2</sup> This view assumes that based on an analysis of the contractual arrangement the entity concludes that the distribution of available cash meets the definition of a contractual threshold as discussed in Issue 3 and Example F of EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128."

	<u>Year 2</u>
Net Income	\$25,000.00
Less distributions paid:	
Incentive Distribution Rights	\$650.00
General Partner	200.00
Limited Partners	<u>9,150.00</u>
	<u>10,000.00</u>
Undistributed earnings	<u>\$15,000.00</u>

Allocation of undistributed earnings:

*To incentive distribution rights:*

0% ownership interest  $\times$  \$15,000 = \$0

*To general partner:*

2% ownership interest  $\times$  \$15,000 = \$300

\$300  $\div$  200 units = \$1.50 per unit

*To limited partners:*

98% ownership interest  $\times$  \$15,000 = \$14,700

\$14,700  $\div$  9,800 units = \$1.50 per unit

Basic EPU amounts:

	General Partner	Limited Partners
Distributed earnings	\$1.00	\$0.93
Undistributed earnings	<u>1.50</u>	<u>1.50</u>
Total	<u>\$2.50</u>	<u>\$2.43</u>

	<u><b>Year 3</b></u>
Net Income	\$25,000
Less distributions paid:	
Incentive Distribution Rights	\$ 0
General Partner	0
Limited Partners	<u>0</u>
	<u>0</u>
Undistributed earnings	<u>\$25,000</u>

Allocation of undistributed earnings:

*To incentive distribution rights:*

0% ownership interest × \$25,000 = \$0

*To general partner:*

2% ownership interest × \$25,000 = \$500

\$500 ÷ 200 units = \$2.50 per unit

*To limited partners:*

98% ownership interest × \$25,000 = \$24,500

\$24,500 ÷ 9,800 units = \$2.50 per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$0.00	\$0.00
Undistributed earnings	<u>2.50</u>	<u>2.50</u>
Total	<u>\$2.50</u>	<u>\$2.50</u>

	<u>Year 4</u>
Net Income	\$50,000.00
Less distributions paid:	
Incentive Distribution Rights	\$19,864.71
General Partner	1,300.00
Limited Partners	<u>43,835.29</u>
	<u>65,000.00</u>
Undistributed earnings (loss)	<u>(\$15,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$15,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$15,000) = (\$300)

(\$300)  $\div$  200 units = (\$1.50) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$15,000) = (\$14,700)

(\$14,700)  $\div$  9,800 units = (\$1.50) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$6.50	\$4.47
Undistributed earnings (loss)	<u>(1.50)</u>	<u>(1.50)</u>
Total	<u>\$5.00</u>	<u>\$2.97</u>

	<u>Year 5</u>
Net Income	\$0.00
Less distributions paid:	
Incentive Distribution Rights	\$650.00
General Partner	200.00
Limited Partners	<u>9,150.00</u>
	<u>10,000.00</u>
Undistributed earnings (loss)	<u>(\$10,000.00)</u>

Allocation of undistributed earnings (loss):

*To incentive distribution rights:*

0% ownership interest  $\times$  (\$10,000) = \$0

*To general partner:*

2% ownership interest  $\times$  (\$10,000) = (\$200)

(\$200)  $\div$  200 units = (\$1.00) per unit

*To limited partners:*

98% ownership interest  $\times$  (\$10,000) = (\$9,800)

(\$9,800)  $\div$  9,800 units = (\$1.00) per unit

Basic EPU amounts:

	<u>General Partner</u>	<u>Limited Partners</u>
Distributed earnings	\$1.00	\$0.93
Undistributed earnings (loss)	<u>(1.00)</u>	<u>(1.00)</u>
Total	<u>\$0.00</u>	<u>(\$0.07)</u>