



DUFF & PHELPS

Goodwill Impairments

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Contents

Executive Summary	1
Introduction	3
Theoretical Constructs Behind Goodwill Impairment	4
Key Ratios for Goodwill Impairments	5
Research Methodology and Sector Analysis	6
Chart 1: Goodwill Impairments by Sector	6
Goodwill Intensity	7
Chart 2: Goodwill Intensity	7
Loss Intensity – I/G	9
Chart 3: Percentage of Goodwill Written Off During 2008	9
Loss Intensity – I/A	11
Chart 4: Goodwill Impairment Loss Divided by Total Assets	11
Industry Analysis	12
Recognition and Measurement of an Impairment Loss	14
Survey Results	15
Interviews on Goodwill Impairment in Practice	28
Harris Interactive	29
Borg Warner Incorporated	31
TRW Automotive	33
The Hershey Company	34
Morgan Stanley	36
E.I. du Pont de Nemours & Co.	38
Appendix	
Table 1: List of Industries by Sector	39
About Duff & Phelps	45
About the Authors	45
About Financial Executives Research Foundation, Inc.	46

Executive Summary

The Financial Accounting Standards Board's (FASB's) standard for the accounting for goodwill, Accounting Standards Codification (ASC) Topic 350, specifies that goodwill and other intangible assets must be periodically tested for impairment. How did companies respond to the recent recession with their recognition of goodwill impairments?

This research report looks at recent goodwill impairments from three related perspectives:

- An empirical analysis of goodwill impairments recognized by the entire population of U.S. publicly-traded companies in 2008;
- A survey of senior financial executives to better understand the reasons for goodwill impairments and the valuation techniques used; and
- Interviews of senior financial executives to better understand the process used to measure goodwill impairment.

Empirical Analysis

The analysis started with the entire population of U.S. publicly traded companies in the CapitalIQ database. Companies that closed, merged, or were acquired were eliminated resulting in a population of 5,951 companies.

Total 2008 impairments in this population amounted to \$260.4 billion. The greatest goodwill impairment losses were recorded in the following industry sectors:

- Consumer Discretionaries (\$84.4 billion)
- Energy (\$38.8 billion)
- Financials (\$37.5 billion)
- Information Technology (\$37.1 billion) and
- Industrials (\$29.0 billion)

Lower goodwill impairment losses were recorded in:

- Materials (\$14.5 billion)
- Consumer Staples (\$8.3 billion)
- Healthcare (\$7.3 billion)
- Telecommunications (\$1.9 billion) and
- Utilities (\$1.6 billion)

The empirical analysis then calculated the following ratios for the industries in 10 different industry sectors:

- Goodwill intensity: goodwill as a percentage of total assets;
- Loss intensity - goodwill impairment loss during 2008:
 - as a percentage of total assets at December 31, 2007; and
 - as a percentage of total goodwill at December 31, 2007

Information Technology had the highest goodwill intensity at the end of 2007 (22.4%), though Healthcare had the highest goodwill intensity at the end of 2008 (20.6%).

Consumer Discretionary had the greatest loss intensity when goodwill impairment loss was measured as a percentage of total goodwill (23.8%). It also had the greatest loss intensity when goodwill impairment loss was measured as a percentage of total assets (5.0%).

Survey Results

During the month of October 2009, we conducted an electronic survey on goodwill impairments to a sample of 2,500 members of FEI associated with publicly-held companies.

Over two-thirds (67.9%) of the respondents indicated that their companies had recognized an impairment of goodwill, and about one-third (32.1%) said that their companies had not.

Of those companies that recognized an impairment:

- Almost one-half (47.4%) were from the manufacturing sector;
- 42.1% said that the economic decline was the triggering event for the Step 1 assessment;
- 73.7% used both discounted cash flows and market comparables as their goodwill valuation techniques;
- 42.1% impaired all of their goodwill; and
- 73.7% used a valuation consultant.

Finally, when asked “What was the biggest challenge you faced in the most recent asset impairment?” as an open ended question, many of the responses from the companies that impaired goodwill mentioned auditor issues.

Interviews

Finally, to better understand the process by which goodwill is measured and impaired, we interviewed senior financial executives responsible for the impairment process at six companies, not necessarily among the survey respondents.

The executives were asked a series of questions regarding:

- What triggered an impairment test;
- What valuation techniques were used;
- Whether competitors were researched;
- To what extent the board or upper management was involved;
- Whether they used a valuation consultant; and
- The role played by their current market capitalization.

Introduction

During calendar year 2008, the Dow Jones Industrial Average declined from 13,262 to 8,776, and the venerable firms of Bear Stearns and Lehman Brothers closed. The FDIC recorded 25 bank failures, including IndyMac and Washington Mutual.

In December 2008, the National Bureau of Economic Research announced that the U.S. economy had officially entered a recession in December 2007. This downturn posed the first major test of the Financial Accounting Standards Board's (FASB's) standard for the accounting for goodwill, Accounting Standards Codification (ASC) Topic 350, "Intangibles – Goodwill and Other," formerly Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, issued June 2001, with an effective date for fiscal years beginning after December 31, 2001.

ASC Topic 350 specifies that goodwill and other intangible assets must be periodically tested for impairment. How did companies respond to the recession with their recognition of goodwill impairments?

In order to make reasonable professional judgments about the valuation of their company's goodwill, it is important to understand how other U.S. companies recorded impairments of goodwill during 2008. This information, including comparisons between different companies, will not only facilitate the comparability of financial statements, it will give managers useful feedback for understanding generally accepted practices for impairing goodwill.

This study first compiles information about 2008 goodwill impairments recorded by the population of U.S. publicly traded companies. On an individual-industry level, the study considers how goodwill impairments affected U.S. companies' asset book values and net income. Secondly, the study surveyed senior financial executives about how they conducted tests for goodwill impairments and how they determined the amounts of those impairments. Lastly, the study examines how individual companies recorded their goodwill impairments, based on direct interviews and surveys of corporate financial executives.

Theoretical Constructs Behind Goodwill Impairment

According to the theoretical model developed by Edwards & Bell, write-offs of goodwill should have no subsequent cash effects.¹ Goodwill results from a previous cash outflow (made to acquire another company) that will ultimately be recorded as an expense on the income statement when it is deemed to be impaired. That impairment itself would not create any subsequent cash inflows or outflows for the company. Thus, according to this theoretical model, goodwill impairments are a “paper entry” with no cash flow effects nor any economic substance.

However, applying the Feltham-Ohlson model for relating accounting information to stock market values, goodwill is a financial asset that provides returns for investors.² The act of writing off goodwill indicates to investors that management believes that these financial assets have lost value and will provide lower returns in the future. Accordingly, goodwill impairments should reduce a company’s stock-market value. When management records an impairment of goodwill, it conveys important information about its assessment of the value of goodwill assets and expected return on those assets.

Academic research about goodwill impairments indicates that goodwill impairments are associated with overpaying for corporate acquisitions, as impairments are most likely to be recorded when acquiring companies pay too much for targets.³ Impairments are associated with low market returns before the impairment, indicating that market investors anticipate goodwill impairments.⁴ Impairments are negatively associated with corporate performance after the impairment, indicating that goodwill, once written off, does not continue to produce operating income.⁵

¹ Edwards, E. and P. Bell. 1961. *The Theory and Measurement of Business Income*. Berkeley and Los Angeles: University of California Press.

² Feltham G. and J. Ohlson. 1995. “Valuation and Clean Surplus Accounting for Operating and Financial Activities.” *Contemporary Accounting Research* (Spring): 689-731.

³ Henning, S., B. Lewis, and W. Shaw. 2000. “Valuation of the Components of Purchased Goodwill,” *Journal of Accounting Research* 38: 375-386.

⁴ Alciatore, M., P. Easton, and N. Spear. 2000. “Accounting for the Impairment of Long-Lived Assets: Evidence from the Petroleum Industry,” *Journal of Accounting and Economics* 29: 151-172.

Henning, S., B. Lewis, and W. Shaw. 2000. “Valuation of the Components of Purchased Goodwill,” *Journal of Accounting Research* 38: 375-386.
Herschey, M., and V. Richardson. 2003. “Investor Underreaction to Goodwill Write-Offs,” *Financial Analysts Journal*, November/December: 75-84.

⁵ Li, Z. P. Shroff, R. Venkataraman. 2006. “Goodwill Impairment Loss: Causes and Consequences.” University of Minnesota Working Paper.

Key Ratios for Goodwill Impairments

Based on the population of **all** US publicly-traded companies, we measured the following ratios⁶.

			How?	Why?
Goodwill intensity	Which industries had/have the most goodwill on their balance sheets?	G/A	Goodwill as a percentage of total assets, measured at December 31, 2007 and December 31, 2008 ⁷	Indicates how significant an industry's goodwill is in relation to total assets, before and after the impairment losses.
Loss intensity	Which industries' balance sheets got hit hardest by the impairments?	I/A	Goodwill impairment loss (during 2008) as a percentage of total assets at December 31, 2007.	Indicates how 2008 losses impacted each industry's total assets.
	Which industries' goodwill got hit hardest by the impairments?	I/G	Goodwill impairment loss (during 2008) as a percentage of total goodwill at December 31, 2007.	Indicates how 2008 losses impacted each industry's goodwill.

The percentage of assets impaired (I/A) combines the other two ratios used in our analysis:

$$\begin{array}{ccccc}
 \text{G/A} & & \text{I/G} & & \text{I/A} \\
 \frac{\text{Goodwill}}{\text{Assets}} & \times & \frac{\text{Impairments}}{\text{Goodwill}} & = & \frac{\text{Impairments}}{\text{Assets}}
 \end{array}$$

Accordingly, this measure of loss intensity is more comprehensive than just impairments divided by goodwill. We can call it “the bigger they are the harder they fall” ratio, because companies with the greatest goodwill intensity will take the biggest balance sheet hits when recording goodwill impairments.

⁶ We do not exclude companies with significant goodwill on their balance sheets that did not record impairments last year.

⁷ For non-calendar year companies, we use the most recently filed annual report available, as of May 2009.

Research Methodology and Sector Analysis

This research report looks at recent goodwill impairments from three related perspectives:

- An empirical analysis of goodwill impairments as recognized by the entire population of U.S. publicly-traded companies in 2008;
- A survey of senior financial executives; and
- Interviews of senior financial executives.

For the empirical analysis, we started with the entire population of U.S. publicly traded companies in the CapitalIQ database. We then eliminated companies that closed, merged, were acquired, or did not file financial statements in either 2007 and/or 2008. This resulted in a population of 5,951 companies.

In this section, we explain how 2008 goodwill impairments affected different sectors of the economy.

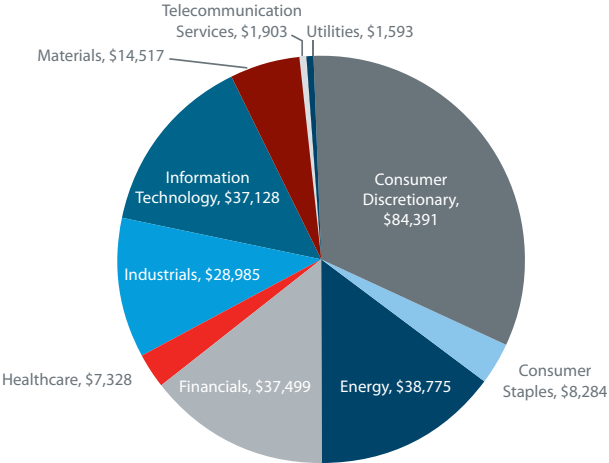
Total 2008 impairments in our population amounted to \$260.4 billion. As shown in Chart 1, the greatest goodwill impairment losses were recorded in the following industry sectors:

- Consumer Discretionaries (\$84.4 billion)
- Energy (\$38.8 billion)
- Financials (\$37.5 billion)
- Information Technology (\$37.1 billion) and
- Industrials (\$29.0 billion)

Lower goodwill impairment losses were recorded in:

- Materials (\$14.5 billion)
- Consumer Staples (\$8.3 billion)
- Healthcare (\$7.3 billion)
- Telecommunications (\$1.9 billion) and
- Utilities (\$1.6 billion)

Chart 1: Goodwill Impairments by Sector in 2008 (\$ in millions)



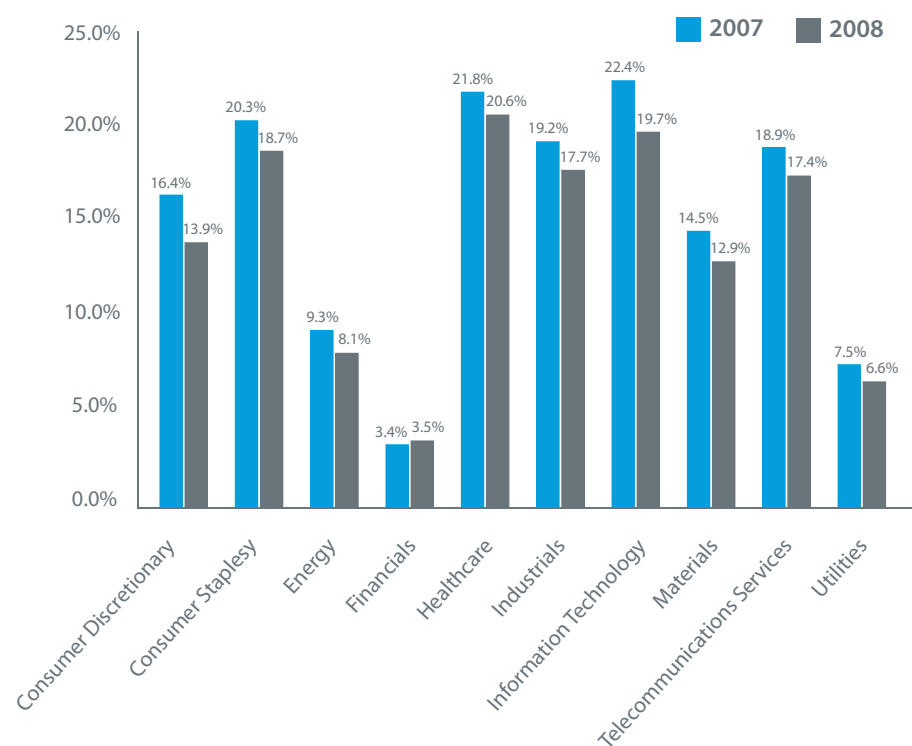
Goodwill Intensity

G/A = Goodwill divided by Total Assets

Our first ratio measure considers the goodwill intensity of different industry sectors, dividing goodwill by total assets (G/A). We focus on goodwill intensity at the beginning of the year in order to measure how much goodwill companies had on their balance sheets prior to the 2008 write-offs. Accordingly, we measure goodwill intensity at December 31, 2007, for companies with calendar fiscal years. This would be the amount of goodwill tested for impairment in 2008.

Because goodwill is recorded with corporate acquisitions, goodwill intensity is the greatest in industry sectors with significant mergers and acquisition activity. Chart 2 indicates the goodwill intensity of different sectors. Ranked in order of 2007 goodwill intensity (i.e., goodwill at the beginning of the year, to be tested for impairment in 2008), you can see that Information technology had the highest goodwill intensity in 2007, though Healthcare, Consumer Staples, Industrials and Telecommunication Services also fell in the same range. Consumer Discretionary and Materials had lower goodwill intensity, while Energy, Utilities and Financials had the lowest goodwill intensity.

Chart 2: Goodwill Intensity in 2007 and 2008



The following table explains how goodwill intensity changed in each sector during 2008. It shows beginning of the year statistics (2007) and end of the year statistics (2008), and the change in each industry, shown as a percentage of assets.

Summary of goodwill intensity by sector in 2007 and 2008

G/A	2007	2008	Increase (Decrease)
Information Technology	22.4%	19.7%	(2.7%)
Healthcare	21.8%	20.6%	(1.2%)
Consumer Staples	20.3%	18.7%	(1.6%)
Industrials	19.2%	17.7%	(1.5%)
Telecommunication Services	18.9%	17.4%	(1.5%)
Consumer Discretionary	16.4%	13.9%	(2.5%)
Materials	14.5%	12.9%	(1.6%)
Energy	9.3%	8.1%	(1.2%)
Utilities	7.5%	6.6%	(0.9%)
Financials	3.4%	3.5%	0.1%
Average	15.4%	14.1%	(1.3%)

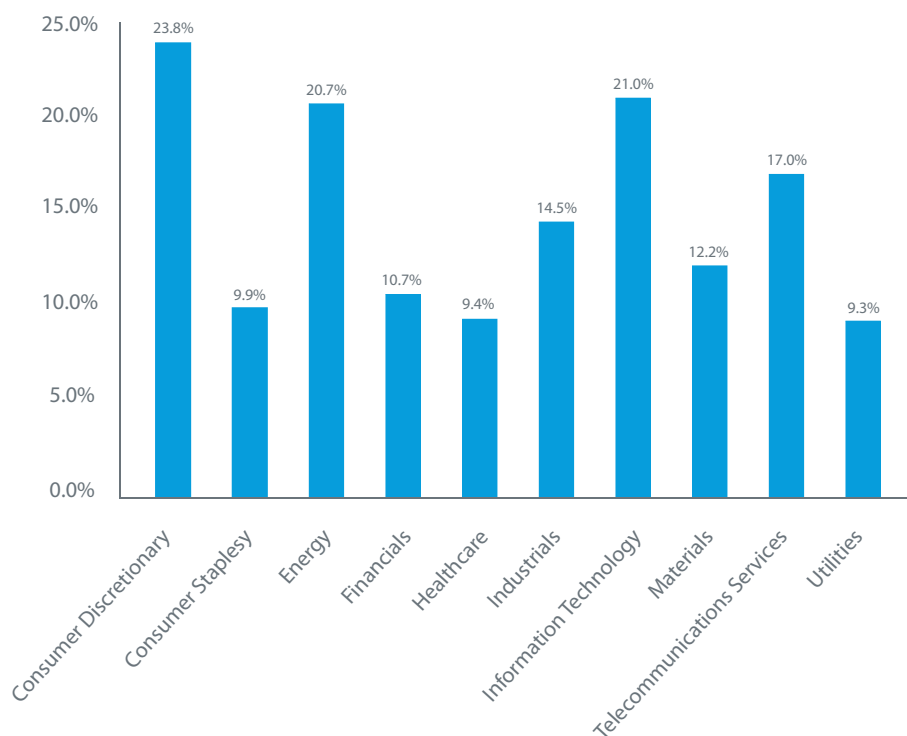
Note that average goodwill intensity decreased from 15.4% in 2007 to 14.1% in 2008. Goodwill intensity decreased for all sectors in 2008 except for Financials. If Financials recorded other asset write-downs during this period, then the relative percentage of goodwill on their balance sheets could be expected to increase.

Loss Intensity I/G

I/G = Goodwill Impairment Loss divided by Total Goodwill

Our first measure of loss intensity divides goodwill impairments by total goodwill (I/G). This ratio measures the percentage of goodwill written off during 2008. See Chart 3.

Chart 3: Percentage of Goodwill Written Off During 2008



The average goodwill impairment loss, as a percentage of total goodwill, was 15.8%. The greatest loss intensity was experienced by:

- Consumer Discretionary (23.8%)
- Information Technology (21.0%); and
- Energy (20.7%).

Consumer Discretionary and Information Technology losses were probably driven by the recession. Energy losses were probably caused by decreases in energy prices.

Lower losses were recorded by:

- Telecommunication Services (17.0%)
- Industrials (14.5%); and
- Materials (12.2%)

The lowest proportion of goodwill impairment losses were recorded by

- Financials (10.7%)
- Consumer Staples (9.9%)
- Healthcare (9.4%); and
- Utilities (9.3%).

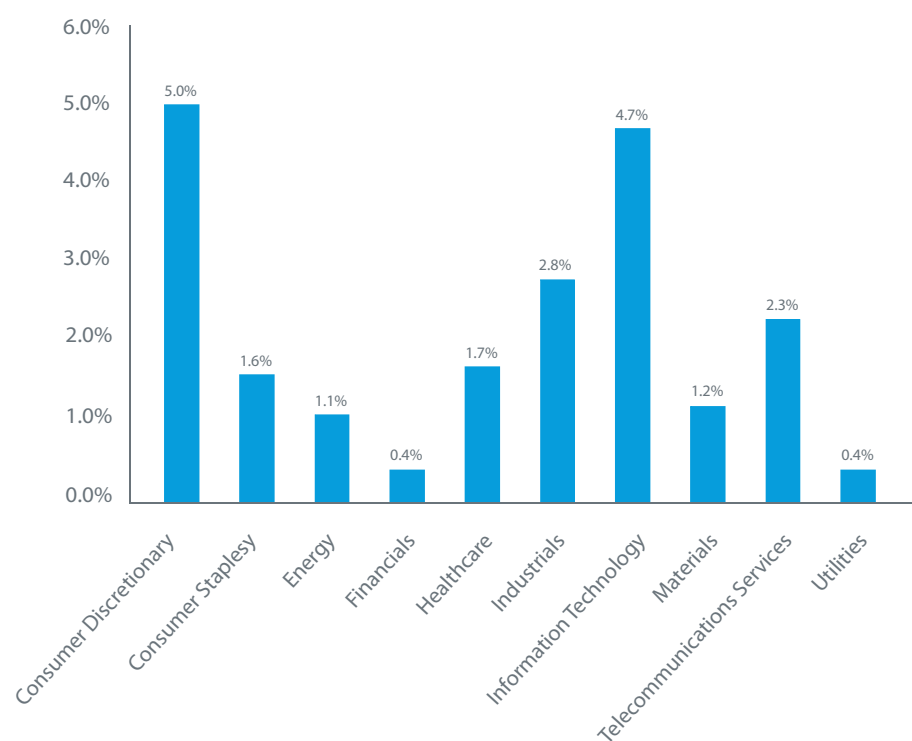
The lower goodwill impairments in Consumer Staples, Healthcare and Utilities are to be expected because of inelastic demand for these services, but the lower level by Financials is difficult to understand. Financial sector companies experiencing the greatest losses were removed from our population of companies as they were acquired or closed. Accordingly, the companies measured here were the survivors, which most likely recorded fewer losses. This may have been caused by either (i) a reduction in carrying value only for purposes of quantifying the amount of goodwill impairment, if any, of assets such as loans held to maturity, which are not required to be adjusted to its market value, or (ii) a recognition of an impairment relating to various certain finite (e.g., customer relationships) and indefinite lived assets (e.g., mutual fund contracts). Once such a reduction in carrying value or an impairment loss for other assets are recognized then the carrying value of the reporting units is reduced. This reduction in the carrying value would provide an additional cushion, whereby a low fair value of the reporting unit may still exceed the adjusted carrying value of the reporting unit, resulting in no goodwill impairment being recognized at that time. Further, operating losses or impairment losses may result in the carrying value being negative, whereby a qualitative assessment would be required to ascertain if the fair value exceeds the carrying value of the reporting unit, which may conclude that no impairment of goodwill is required at the current time.

Loss Intensity I/A

I/A = Goodwill Impairment Loss divided by Total Assets

Goodwill impairments divided by total assets (I/A) is a more comprehensive measure than impairments divided by just total goodwill. It helps explain how impairments affected a company's overall financial position. See Chart 4.

Chart 4: Goodwill Impairment Loss Divided by Total Assets During 2008



The average amount of impairments divided by total assets (I/A) was 2.54%. Consumer Discretionary (5.0%) and Information Technology (4.7%) recorded the highest impairment losses. Both of these sectors had high goodwill intensity and high percentages of goodwill impaired. Lower impairment losses were recorded by Industrials (2.8%) and Telecommunications Services (2.3%). The lowest impairment losses were recorded by Healthcare (1.7%), Consumer Staples (1.6%), Materials (1.2%), Energy (1.1%), Financials (0.4%), and Utilities (0.4%).

Industry Analysis

Information about individual industries is provided in Table 1 (page 40).

Consumer Discretionaries incurred the highest loss intensity of all sectors. The most goodwill intensity was in Advertising (30.9% at the beginning of 2008) and Catalog retail (31.1% at the beginning of 2008). The largest dollar value of losses was recorded in Broadcasting (\$22.5 billion). The highest impairments as a percentage of assets were recorded in the Cable and Satellite industry (61.7%). The highest percentage of impairments as a percentage of goodwill was recorded in Photographic Products (73.4%), Tires and Rubber (52.1%), Homebuilding (47.9%), and Department Stores (47.4%).

Consumer Staples, another sector with fairly high goodwill intensity, incurred relatively lower impairment losses. Food Distributors recorded relatively higher impairments of goodwill as a percentage of goodwill (28.6%), as did Agricultural Products (20.1%).

In the **Energy** sector, major goodwill impairments as a percentage of total goodwill were recorded by Oil and Gas Drilling (63.8%) and Coal and Consumable Fuels (37.5%).

Among **Financials**, Insurance Brokers had the highest goodwill intensity (28.6% at the beginning of 2008, increasing to 32.8% by the end 2008), followed closely by Real Estate Services (22.5% at the beginning of 2008) and Asset Management and Custody Banks (19.3% at the beginning of 2008). The largest write-offs were recorded by Regional Banks (\$15.1 billion) and Other Diversified Financial Services (\$9.6 billion). Diversified Real Estate Activities and Real Estate Development industries both wrote off 100% of their goodwill. However, this goodwill comprised a very small percentage of their assets.

While the **Healthcare** sector is goodwill intensive, companies recorded few goodwill impairments.

Among **Industrials**, Marine Parts and Services impaired 100% of their goodwill. Airlines impaired 65% of their goodwill. Trucking impaired 34.3%, and Human Resource and Employment Services impaired 29.3% of their goodwill.

Information Technology has the highest goodwill intensity as well as a very high loss intensity. The largest dollar value write-offs were recorded by Systems Software (\$7.6 billion) and Semiconductors (\$7.6 billion).

The greatest impairment losses, as a percentage of goodwill, were recorded by Home Entertainment Software (40%), Semiconductor Equipment (37.4%), Semiconductors (35.9%), Electronic Manufacturing Services (35.1%), and Technology Distributors (30.8%).

Industry Analysis

In the **Materials** sector, Forest products wrote off 97.5% of their goodwill and Aluminum wrote off 33.3% of their goodwill.

Among **Telecommunications Services**, Alternative Carriers had the highest goodwill intensity (22.5% at the beginning of 2008). Alternative Carriers also had the highest percentage of goodwill written off (36.2%).

In the **Utilities** sector, Gas Utilities had the highest goodwill intensity (12.9% at the beginning of 2008), but they recorded no impairments of goodwill. However, Independent Power Producers and Energy impaired 36.7% of their goodwill.

Recognition and Measurement of a Goodwill Impairment

The recognition and measurement of a goodwill impairment loss is specified in paragraphs 4 through 13 of ASC 350-20-35:

Step 1

§350-20-35-4 The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill.

§350-20-35-5 The guidance in paragraphs 350-20-35-22 through 35-24 shall be considered in determining the fair value of a reporting unit.

§350-20-35-6 If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary.

§350-20-35-7 In determining the carrying amount of a reporting unit, deferred income taxes shall be included in the carrying value of the reporting unit, regardless of whether the fair value of the reporting unit will be determined assuming it would be bought or sold in a taxable or nontaxable transaction.

§350-20-35-8 If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any.

Step 2

§350-20-35-9 The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill.

§350-20-35-10 The guidance in paragraphs 350-20-35-14 through 35-17 shall be used to estimate the implied fair value of goodwill.

§350-20-35-11 If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

§350-20-35-12 After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis.

§350-20-35-13 Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is recognized.

Survey Results

During the month of October 2009, we conducted an electronic survey on goodwill impairments to a sample of 2,500 members of FEI associated with publicly-held companies. Members were asked to respond to the survey if they had impaired goodwill during 2008 or 2009. We did this survey to better understand the reasons for goodwill impairments and the valuation techniques that were used.

Percentages in these tables reflect the percentages of total responses. Over two-thirds (67.9%) of the responses indicated that their companies had recognized an impairment of goodwill, and about one-third (32.1%) of whom said that their companies had not. The responses to the questions are segregated between these two groups.

About the Respondents:

What is your title?

	Impairment	No Impairment	Total
Corporate CFO	28.6%	7.0%	35.6%
Corporate Controller	17.9%	10.7%	28.6%
Chief Accounting Officer	10.7%	3.6%	14.3%
Assistant Controller	0	3.6%	3.6%
Divisional Controller	0	3.6%	3.6%
Director	7.1%	3.6%	10.7%
Other	3.6%	0	3.6%
Total	67.9%	32.1%	100.0%

What is your company's industry?

	Impairment	No Impairment	Total
Manufacturing	32.0%	3.6%	35.6%
Distribution	3.5%	3.6%	7.1%
Energy/Utilities/Oil & Gas	0	7.1%	7.1%
Medical/Pharmaceutical	3.6%	3.5%	7.1%
Professional Services	3.6%	3.6%	7.2%
Retail	0	7.1%	7.1%
Automotive	3.6%	0	3.6%
Banking/Financial Services	3.6%	0	3.6%
Education	3.6%	0	3.6%
Real Estate	3.6%	0	3.6%
Service	3.6%	0	3.6%
Technology	0	3.6%	3.6%
Transportation	3.6%	0	3.6%
Wholesale	3.6%	0	3.6%
Total	67.9%	32.1%	100.0%

What is the revenue for your company?

	Impairment	No Impairment	Total
Less than \$100 million	7.1%	0	7.1%
\$100 to \$499 million	14.3%	7.1%	21.4%
\$500 million to \$1 billion	14.4%	0	14.4%
Over \$1 billion	32.1%	25.0%	57.1%
Total	67.9%	32.1%	100.0%

Survey Results:

What date do you use for your annual impairment testing?

	Impairment	No Impairment	Total
April 30	3.6%	0	3.6%
May 31	3.6%	0	3.6%
June 30	14.3%	3.6%	17.9%
August 31	3.6%	3.5%	7.1%
September 30	10.7%	3.6%	14.3%
October 31	10.7%	10.7%	21.4%
November 30	10.7%	0	10.7%
December 31	7.1%	7.2%	14.3%
Other	3.6%	3.5%	7.1%
Total	67.9%	32.1%	100.0%

If an interim test was required in 2008 or 2009, in which quarter did you report the impairment?

	Impairment	Total
Q1 2008	0.0%	0.0%
Q2 2008	4.2%	4.2%
Q3 2008	12.5%	12.5%
Q4 2008	29.2%	29.2%
Q1 2009	25.0%	25.0%
Q2 2009	16.6%	16.6%
Q3 2009	8.3%	8.3%
Q4 2009	4.2%	4.2%
Total	100.0%	100.0%

These numbers reflect the number of goodwill impairment announcements made by the responding companies during the indicated quarter as a percentage of the total number of announcements made by all of the responding companies. For example, one manufacturing company reported interim impairments in four different quarters, and four companies reported impairments in two different quarters.

What was the nature of the triggering event?

	Impairment	No Impairment	Total
Economic declines	28.6%	0	28.6%
Reduced stock price	14.3%	7.1%	21.4%
Reduced cash flows	10.7%	0	10.7%
Both reduced stock price and cash flows	10.7%	0	10.7%
Financial crisis	0	7.1%	7.1%
Closed an operation	3.6%	0	3.6%
No response	0	17.9%	17.9%
Total	67.9%	32.1%	100.0%

Although no quarterly goodwill impairment was recorded by 32.1% of the responding companies, they did experience a triggering event that resulted in a Step 1 assessment.

Were competitors researched to assess whether a recent impairment was recognized?

	Impairment	No Impairment	Total
Yes	32.2%	10.7%	42.9%
No	32.2%	17.8%	50.0%
No response	3.5%	3.6%	7.1%
Total	67.9%	32.1%	100.0%

In the most recent impairment test, which valuation techniques were applied?

	Impairment	No Impairment	Total
Discounted cash flow	14.3%	10.7%	25.0%
Market comparable approach	3.6%	3.5%	7.1%
Both	50.0%	14.3%	64.3%
Market cap exceeded carrying value, so no valuation was performed	0	3.6%	3.6%
Total	67.9%	32.1%	100.0%

To what extent was the board or upper management involved in the process?

	Impairment	No Impairment	Total
Heavily involved	21.4%	7.2%	28.6%
Somewhat involved	35.8%	14.2%	50.0%
Not involved	10.7%	10.7%	21.4%
Total	67.9%	32.1%	100.0%

Do you use a valuation consultant?

	Total
Yes	64.3%
No	35.7%
Total	100.0%

Impairment outcome for companies that used a valuation consultant:

	Total
Goodwill Impairment	77.8%
No Impairment	22.2%
Total	100.0%

Impairment outcome for companies that did not use a valuation consultant:

	Total
Goodwill Impairment	50.0%
No Impairment	50.0%
Total	100.0%

How significant a role did the current market capitalization play in the assessment?

	Impairment	No Impairment	Total
Very significant	35.7%	10.7%	46.4%
Somewhat significant	10.8%	7.1%	17.9%
Not significant	21.4%	14.3%	35.7%
Total	67.9%	32.1%	100.0%

Were you required to explicitly reconcile to the overall market capitalization?

	Impairment	No Impairment	Total
Yes	46.4%	17.9%	64.3%
No	21.5%	14.2%	35.7%
Total	67.9%	32.1%	100.0%

If a reconciliation to market capitalization (equity) was performed, which of these were considered? (To the extent that you concluded the market capitalization on the testing date was not appropriate.)

	Impairment	No Impairment	Total
Historical market capitalization levels	7.1%	0	7.1%
Analyst estimates of future share prices	0	0	0
Recent share price trends for comparable companies	14.3%	7.1%	21.4%
Historical market cap levels and analyst estimates	3.6%	0	3.6%
Historical market cap levels and recent share price trends	0	7.1%	7.1%
All of above three options were considered	10.7%	3.6%	14.3%
No response	32.2%	14.3%	46.5%
Total	67.9%	32.1%	100.0%

Do you anticipate additional goodwill or other asset impairments during the next annual test?

	Impairment	No Impairment	Total
Yes	7.2%	0	7.2%
No	57.1%	28.6%	85.7%
No response	3.6%	3.5%	7.1%
Total	67.9%	32.1%	100.0%

Do you anticipate additional goodwill or other asset impairments on an interim basis prior to the next annual test?

	Impairment	No Impairment	Total
Yes	10.7%	0	10.7%
No	53.6%	28.5%	82.1%
No response	3.6%	3.6%	7.2%
Total	67.9%	32.1%	100.0%

Was the Step 1 test of the goodwill impairment test performed by comparing the fair value of the Equity or the Enterprise Value to their respective carrying amounts?

	Impairment	No Impairment	Total
Equity Value	17.9%	7.1%	25.0%
Enterprise Value	50.0%	25.0%	75.0%
Neither	0	0	0
Total	67.9	32.1%	100.0%

To the extent that a reconciliation to the market capitalization was performed, was the fair value or book value of debt used in the reconciliation?

	Impairment	No Impairment	Total
Fair Value of Debt	17.9%	10.7%	28.6%
Book Value of Debt	21.4%	10.7%	32.1%
N/A	28.6%	10.7%	39.3%
Total	67.9%	32.1%	100.0%

If the fair value of debt was used, how was it estimated?

	Impairment	No Impairment	Total
Current market value	37.5%	37.5%	75.0%
Considering debt covenants	12.5%	0	12.5%
Other	12.5%	0	12.5%
Total	62.5%	37.5%	100.0%

"Other" was described as discounted cash flow.

If control premiums were considered in the analysis, which approach was used?

	Impairment	No Impairment	Total
Control premium was derived from market-based studies	35.7%	14.3%	50.0%
Analysis of incremental cash flows from improving current operations	0	0	0
Analysis of incremental cash flows by combining operations of reporting unit with the buyer	3.6%	3.5%	7.1%
A combination of the above	17.9%	0	17.9%
No response	10.7%	14.3%	25.0%
Total	67.9%	32.1%	100.0%

In preparing the expected cash flow projections, were any distress scenarios (such as liquidation) considered, or was it assumed the reporting units would continue as a going concern

	Impairment	No Impairment	Total
Distress scenarios considered	3.6%	0	3.6%
Assumed going concern	64.3%	28.5%	92.8%
No response	0	3.6%	3.6%
Total	67.9%	32.1%	100.0%

The following questions were just for those responding companies that recognized a goodwill impairment in either 2008 or 2009.

When did you recognize the asset impairment?

	Impairment
2008	26.3%
2009	47.4%
Both	21.1%
No response	5.2%
Total	100.0%

Was the impairment taken as part of annual testing, or was it done on an interim basis?

	Impairment
Annual testing	15.8%
Interim test	78.9%
No response	5.3%
Total	100.0%

To the extent that it was an interim test, was the triggering event the result of the market capitalization being less than the book value of the entity?

	Impairment
Yes	46.7%
No	53.3%
Total	100.0%

*What types of assets did you impair?
(Check all that apply)*

	Impairment
Goodwill	100.0%
Long-lived assets	47.4%
Indefinite lived assets	10.5%
Financial assets	5.3%
Other	0

What was the primary cause of the recent impairment?

	Impairment
General industry downturn	36.8%
Overall market downturn	36.8%
Factors specific to the reporting unit	15.8%
Poor acquisition	5.3%
Other factors	5.3%
Total	100.0%

How does the impairment charge taken compare to industry peers?

	Impairment
Greater than what other industry peers have taken	21.1%
In line with industry peers	36.8%
Smaller than what other industry peers have taken	5.3%
Not sure	36.8%
Total	100.0%

A “Not sure” response by over a third of the responding companies is comparable to the response to the question “Were competitors researched to assess whether a recent impairment was recognized?” highlighted on page 19.

If goodwill was impaired, what was the percentage impairment?

	Impairment
Less than 10%	10.6%
11% to 25%	15.8%
26% to 50%	10.5%
51% to 75%	10.5%
76% to 99%	10.5%
100%	42.1%
Total	100.0%

Nearly half of the responding companies impaired all of their goodwill.

If assets other than goodwill were impaired, what was the percentage impairment?

	Impairment
Less than 10%	53.8%
11% to 25%	15.4%
26% to 50%	7.7%
51% to 75%	7.7%
76% to 99%	7.7%
100%	7.7%
Total	100.0%

Did the impairment have an effect on your company's stock price?

	Impairment
Yes	5.3%
No	94.7%
Total	100.0%

One of the responding companies that said that the goodwill impairment affected its stock price is in the manufacturing industry, and has annual revenues of less than \$100 million. It noted that its stock price "declined significantly, from \$3 to \$0.30.

Was the impairment taken pre or post the implementation of FAS 141R?

	Impairment
Pre	47.4%
Post	52.6%
Total	100.0%

If post, please indicate how the new standard impacted your Step 2 test.

	Impairment
Significantly	20.0%
Somewhat	30.0%
No impact	50.0%
Total	100.0%

If impairment was taken pre implementation of FAS 141R, how do you believe this new standard will impact Step 2 impairment tests in the future?

	Impairment
Significantly	0
Somewhat	44.4%
No impact	55.6%
Total	100.0%

What was the biggest challenge you faced in the most recent asset impairment?

(Open ended question)

Responses can be grouped as follows:

Auditor issues:

"Getting the experts to agree - auditors vs company experts."

"Coordination of external auditor expectations, timing of and responding to the external auditor review comments."

"The theory as explained by external auditors is not anywhere that we can find in GAAP. That market cap reconciliation is a requirement in measuring impairment and the premium can not exceed."

"Explaining why market cap reconciliation is not always relevant to the value of the underlying reporting units."

"The entire process was a challenge, because our auditors would not get comfortable with us assuming a temporary decline in market cap. Two weeks after the impairment our market cap exceeded required levels."

Forecasting future cash flows:

"Forecasting cash flows which are reasonable. Growth rates and discount rates were easier to support."

"Forecasting the future in these uncertain economic conditions."

"Projecting cash flows."

Determining the appropriate discount rate

Timing Issues:

"Timing to complete the analysis prior to reporting results for the quarter."

"Timing and effort involved because of stock price trigger that is now much higher."

Interviews on Goodwill Impairment in Practice

To better understand the process by which goodwill is measured and impaired, we interviewed senior financial executives responsible for the impairment process at several companies, shown in the table below.

Sector	Industry	Company
Consumer Discretionary	Market Research	Harris Interactive
	Auto Parts	Borg Warner
		TRW Automotive
Consumer Staples	Packaged Foods	The Hershey Company
Financials	Investment Banking	Morgan Stanley
Materials	Chemicals	DuPont

The executives were asked a series of questions regarding:

- What triggered an impairment test;
- What valuation techniques were used;
- Whether competitors were researched;
- To what extent the board or upper management was involved;
- Whether they used a valuation consultant; and
- The role played by their current market capitalization.

Harris Interactive

Primary Sector: Consumer Discretionary

Primary Industry: Market Research

Michael Burns

Vice President, Investor Relations & External Reporting

Harris Interactive does market research, both online and by telephone. The Harris Poll is one of the longest running opinion polls in the U.S.

Harris Interactive's fiscal year end is June 30, and it does its annual goodwill impairment test as of June 30. Harris took its first goodwill impairment charge as of June 30, 2008. As stated in Note 2 of its June 30, 2008, 10-K:

"At June 30, 2008, the Company performed the initial step of its impairment evaluation by comparing the fair market value of its reporting unit, as determined using a discounted cash flow model, to its carrying value. As the carrying amount exceeded the fair value, the Company performed the second step of its impairment evaluation to calculate impairment and as a result, recorded a pre- tax goodwill impairment charge of \$86,497. The primary reason for the impairment charge was the sustained decline of the Company's stock price during the second half of fiscal 2008."

Harris then decided to do an interim test as of December 31, 2008. As stated in Note 6 of its December 31, 2008, 10-Q:

"As part of its closing process for the three months ended December 31, 2008, the Company considered the following factors in determining whether an impairment review outside of its annual impairment evaluation date was necessary:

- operating losses in its reporting unit for the fiscal quarters ended September 30, 2008 and December 31, 2008,
- potential declines in market research spending for calendar year 2009 based on industry analyst forecasts,
- headcount reductions and related charges as announced in October and December 2008, the details of which are described in Note 4, "Restructuring and Other Charges" to these unaudited consolidated financial statements, and
- a 62% decline in the Company's per share stock price from \$1.73 at September 30, 2008 to \$0.65 at December 31, 2008, which resulted in a market capitalization that, based on the Company's per share stock price as of market close on December 31, 2008, was below the carrying value of its reporting unit's net assets at that date."

“Based on its consideration of the above-noted factors, the Company concluded that an interim period goodwill impairment evaluation was necessary at December 31, 2008. Accordingly, the Company performed the initial step of its impairment evaluation and determined that the carrying value of its reporting unit’s net assets exceeded their fair value. The fair value of the reporting unit was determined using a discounted cash flow analysis, which used a discount rate based on the Company’s best estimate of the after-tax weighted average cost of capital.”

“In the second step of its impairment evaluation, the Company determined the implied fair value of goodwill and compared it to the carrying value of the goodwill. The fair value of its reporting unit was allocated to all of its assets and liabilities as if it had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. This allocation resulted in no implied fair value of goodwill. Therefore, the Company recognized an impairment charge of \$40,250, the remaining amount of its previously reported goodwill.”

The obvious triggering event for the interim impairment test was the drop in its stock price. According to Michael Burns, Vice President, Investor Relations & External Reporting at Harris, market capitalization played a significant role in the assessment “because market capitalization started the process. We also looked at the economy in general in making our decision.”

Were competitors researched to assess whether a goodwill impairment should be recognized? “No,” said Burns, “because our direct competitors are not SEC registrants.”

To what extent was the board or upper management involved in the process? According to Burns, “The CFO, the Global Controller and I are involved in the process. We then review our decision with the Audit Committee, so that they can understand the process.”

Borg Warner Incorporated

Primary Sector: Consumer Discretionary

Primary Industry: Auto Parts

Jeffrey Obermayer

Vice President & Controller

Borg Warner Inc. is a product leader in highly engineered components and systems for vehicle powertrain applications in engines and automatic transmissions. Its fiscal year end is December 31.

In 2005, the company acquired approximately 69.4% of the outstanding shares of BERU Aktiengesellschaft ("BERU"), headquartered in Ludwigsburg, Germany. By 2008, it had gained full control. In each phase of this multi-step acquisition, goodwill was recorded, representing the excess of the purchase agreement over the fair value of assets acquired and liabilities assumed.

Borg Warner uses December 31 as the date to do its annual impairment test, but decided to do an interim impairment test as of September 30, 2008, primarily because of the decline in European market conditions.

However, Borg Warner followed this with an annual impairment test as of December 31, 2008. In both tests, Borg Warner used a discounted cash flow to value the goodwill. As stated in its 12/31/08 10-K:

SFAS No. 142 "requires us to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The cash flows are estimated over a significant future period of time, which makes those estimates and assumptions subject to an even higher degree of uncertainty. We also use market valuation models and other financial ratios, which require us to make certain assumptions and estimates regarding the applicability of those models to our assets and businesses." (page 38)

"As of September 30, 2008 and December 31, 2008, the Company recorded an impairment charge of \$146.8 million and \$10.0 million, respectively, to adjust BERU's goodwill to its estimated fair value." (Note 7)

Were competitors researched to assess whether an impairment should be recognized? "This research was not applicable," said Jeffrey Obermayer, Vice President & Controller. "We do a discounted cash flow (DCF) based impairment analysis."

We asked Obermayer to explain their DCF analysis. "We compare the DCF to its carrying value for each of the business units. We also compare the DCF in total to the Company's market cap to ensure the DCF methodology is grounded in fair value reality. We also test the DCF methodology to an EBITDA multiple method for reasonableness. Finally, we ensure that our DCF and market cap exceed our total Company carrying value." They assumed that the engine unit would continue as a going concern.

To what extent was the board or upper management involved in the process? “The evaluation was performed at the corporate finance staff level,” said Obermayer, “the results of which were widely communicated in an appropriate manner.”

Do you utilize a valuation consultant? “For fixed asset impairments we have used outside valuation expertise, but not for goodwill impairment,” explains Obermayer. “For initial acquisition valuation, we generally use outside valuation expertise to assign the excess of purchase price over the net book value of assets acquired to the various asset categories, including intangibles, fixed assets and goodwill.”

TRW Automotive

Primary Sector: Consumer Discretionary

Primary Industry: Auto Parts

Tammy Mitchell

Vice President, Corporate Controller

TRW Automotive is among the world's largest automotive suppliers and is one of the top financial performers in the industry, with 2008 sales of \$15 billion. TRW's fiscal year end is December 31, and it does its annual goodwill impairment test as of October 31.

Tammy Mitchell, Vice President, Corporate Controller, described the goodwill impairment decision:

"TRW Automotive is a standalone automotive parts supplier. In 2003, the Blackstone Group purchased TRW from Northrop Grumman. TRW did an IPO in 2004, but the Blackstone Group still owns 45% of TRW.

"We have been looking at the goodwill on our balance sheet for several quarters. As of our quarter date, September 26, 2008, we did a mini evaluation, and decided that we did not have a triggering event and did not need to impair any of the goodwill.

"However, the company's market cap declined in October, so an impairment loss of \$458 million was recognized during its annual impairment test on October 31, due to new facts and circumstances that became available in the fourth quarter."

Were competitors researched when you did your impairment test? "No," states Mitchell, "but we were aware of what was happening in the auto industry and the economy in general."

To what extent was the board or upper management involved in the process? "The CFO was very involved in the process," explains Mitchell. "Our stock price was down to \$3.60 at year end, the lowest in history, and had been as high as \$40. The auditors pushed us to look at our forecasts because the SEC was looking at companies' market caps and impairment charges. We did a lot of work to explain why we did not take an additional impairment at December 31. The Audit Committee got a full briefing, and the full board relied on the judgment of the Audit Committee." Mitchell does not anticipate another goodwill impairment in the next six to 12 months.

Do you utilize a valuation consultant? Mitchell stated that they do use an independent valuation consultant.

In preparing the expected cash flow projections, was it assumed the reporting units would continue as a going concern? "We assumed going concern," explains Mitchell, "and used CSM Worldwide's Vehicle Production Forecast Services to set our forecasts."

The Hershey Company

Primary Sector: Consumer Staples

Primary Industry: Packaged Foods

Gerald R. Urich

Director, External Reporting and Compliance

The Hershey Company is the largest producer of quality chocolate in North America and a global leader in chocolate and sugar confectionery. Its fiscal year end is December 31.

Hershey uses discounted cash flows in performing its annual goodwill impairment evaluations.

Were competitors researched to assess whether a recent impairment was recognized? “No, however, under Statement of Financial Accounting Standard No. 157, we incorporate assumptions that other market participants use, including other consumer packaged goods companies, primarily taking into consideration the discount rates that they may use,” explains Gerald Urich, Director, External Reporting and Compliance for Hershey.

Hershey took a goodwill impairment charge in 2007, but not in 2008. As stated in its 12/31/08 Form 10-K (Note 17, page 97):

“The decrease in goodwill was primarily associated with the impact of foreign currency translation adjustments, partially offset by certain adjustments made to reflect the final fair value of assets acquired through business acquisitions in 2007. The 2007 impairment charge of \$12.3 million resulted from our annual goodwill impairment evaluation for our business in Brazil. Despite a relatively high investment level, our Brazilian business had not gained profitable scale or adequate market distribution. This resulted in reduced expectations for future cash flows and a lower estimated fair value for this reporting unit.”

To what extent was the board or upper management involved in the process? “Senior management is extensively involved during the strategic planning process for each of our reporting units. The strategic plans are the basis of the valuations of each unit. We inform senior management about the results of our impairment tests,” explains Urich. “We then present the results to the Audit Committee at their December meeting.”

Do you utilize a valuation consultant? “No,” says Urich, “not for the annual impairment tests, but we do use a valuation specialist at the time of each acquisition to determine the fair market value of the acquired assets and liabilities.”

How significant a role did the current market capitalization play in the assessment? “Current market capitalization is not considered in the specific fair value assessments for our reporting units, because the reporting units are not publicly traded,” says Ulrich. “But we do reconcile the value of all reporting units to The Hershey Company’s total market capitalization.”

If a reconciliation to market capitalization (equity) was performed, what factors were taken into consideration?: “We update the goodwill impairment test to take the share price at the end of December into consideration,” Ulrich explains.

We asked Ulrich if Hershey anticipates any additional goodwill impairments over the next 6 to 12 months. “Current expectations do not anticipate any additional goodwill impairments,” he notes.

In Step 1 of the goodwill impairment test, Hershey compares the fair value of the enterprise to its respective carrying amounts. We asked Ulrich how Hershey treats debt. “The fair value of debt was deducted for the U.S. business and book value of debt was deducted for the international businesses,” notes Ulrich.

And how was the fair value of debt estimated? “We ask our banks to estimate the fair value of debt based on current interest rates for the same or similar debt instruments,” explains Ulrich.

Morgan Stanley

Primary Sector: Financials

Primary Industry: Investment Banking

Paul Wirth

Global Controller and Principal Accounting Officer

Morgan Stanley is a global financial services firm and a market leader in securities, asset management and credit services.

Morgan Stanley's fiscal year end is November 30, and it does its annual goodwill impairment test on June 1 each year. As stated in its November 30, 2008 10-K:

"The Company completed its annual goodwill impairment testing, as of June 1, 2008 and June 1, 2007, which did not result in any goodwill impairment."

Paul Wirth, Global Controller and Principal Accounting Officer adds, "Although we do the annual impairment test on June 1, we had been tracking goodwill each quarter since June 1, 2007."

The turmoil in the financial markets during September and October of 2008 has been well-publicized, and Morgan Stanley decided to do an interim test for goodwill at its fiscal year end. Here is how the decision was described in its November 30, 2008, 10-K:

"However, due to the financial market and economic events that occurred in the fourth quarter of fiscal 2008, the Company performed an interim impairment test for goodwill subsequent to its annual testing date of June 1. The interim impairment test resulted in a noncash goodwill impairment charge of approximately \$673 million. The charge relates to the fixed income business, which is a reporting unit within the Institutional Securities business segment. The fair value of the fixed income business was calculated by comparison with similar companies using their publicly traded price-to-book multiples as the basis for valuation. The impairment charge resulted from declines in the credit and mortgage markets in general, which caused significant declines in the stock market capitalization in the fourth quarter of fiscal 2008 and, hence, a decline in the fair value of the fixed income business."

As noted in this disclosure, the value of the fixed income business was calculated using a market comparables approach. "We use a combination of techniques, using market comparables, price/book and price/earnings. It is tough to forecast future cash flows in this business," Wirth explains. He added that Morgan Stanley uses an independent valuation consultant.

We asked Wirth whether competitors were researched before performing the impairment test. “Because we had a November 30 year end in 2008, we were earlier than our competitors in writing off all of the goodwill in our fixed income business, which is a reporting unit within the Institutional Securities business segment,” he replied. “Goldman Sachs did not impair any goodwill, and Citi and Merrill were only considering impairment at the time we did our impairment.”

Market capitalization also played a significant role in their assessment. According to Wirth, “Our stock was in the \$50s in the early summer of 2008. It then sank to \$7.00 early in the fourth quarter, before settling in the mid-teens when we did the fourth quarter impairment test. It has since recovered to about \$29.”

Does Morgan Stanley anticipate any additional goodwill impairments over the next 6 to 12 months? “Hopefully not, given where we are today,” replies Wirth.

E.I. du Pont de Nemours & Co.

Primary Sector: Materials

Primary Industry: Chemicals

Barry J. Niziolek

Vice President & Controller

DuPont is a science-based products and services company. Operating in more than 70 countries, DuPont offers a wide range of innovative products and services for markets including agriculture, nutrition, electronics, communications, safety and protection, home and construction, transportation and apparel.

DuPont's fiscal year end is December 31, and it does its annual goodwill impairment test as of September 30.

DuPont did not impair any goodwill in 2008. We asked Barry Niziolek, Vice President & Controller to describe their annual process.

"We do our annual impairment testing on September 30, and we then discuss the entire impairment testing process with the CEO, the CFO, and the Audit Committee during the 4th quarter. This year, the PCAOB issued its areas of audit focus, and impairment testing was on the list, so we discussed our decision with the external auditors as part of our public disclosure filing process.

"The valuation technique that we use is Discounted Cash Flow, so we focus on future cash flows rather than current market valuation. Goodwill impairment testing is performed at the reporting unit level. Each of our 20 reporting units could qualify as Fortune 500 companies, but because they are in diverse markets, we do not evaluate them as publicly traded companies.

So we do not think that market capitalization applies to DuPont's diverse businesses. Market capitalization is more appropriate for a 'monolithic' company such as GM. In addition, we do not think market capitalization is relevant in times of stock market volatility, because market capitalization is evaluated at a point in time."

Appendix

Table 1: List of Industries by Sector

[Goodwill impairment dollars in millions]

Company Name	G/A 2008	G/A 2007	GWImpairments	I/A	I/G
Consumer Discretionary					
Advertising (26 companies)	27.33%	30.90%	3,432.70	23.01%	21.35%
Apparel Retail (50 companies)	5.87%	8.73%	1,141.40	1.82%	27.94%
Apparel, Accessories and Luxury Goods (53 companies)	8.49%	14.75%	2,043.70	4.90%	34.20%
Auto Parts and Equipment (49 companies)	15.59%	14.79%	2,040.50	1.04%	19.72%
Automobile Manufacturers (9 companies)	8.20%	8.09%	312.5	0.09%	12.54%
Automotive Retail (18 companies)	13.03%	19.71%	3,873.70	5.60%	28.84%
Broadcasting (30 companies)	19.06%	21.27%	22,534.50	10.55%	38.69%
Cable and Satellite (18 companies)	16.52%	17.61%	6,126.40	61.74%	10.76%
Casinos and Gaming (42 companies)	12.95%	14.69%	2,076.80	1.69%	22.24%
Catalog Retail (6 companies)	12.72%	31.09%	3,231.10	15.66%	41.42%
Computer and Electronics Retail (10 companies)	27.38%	24.79%	68	0.12%	14.70%
Consumer Electronics (15 companies)	11.02%	13.78%	27.1	2.91%	25.00%
Department Stores (10 companies)	3.27%	6.96%	6,118.30	3.36%	47.44%
Distributors (38 companies)	14.22%	15.94%	76.3	0.54%	19.68%
Education Services (23 companies)	24.65%	25.73%	3.3	0.01%	0.06%
Footwear (16 companies)	4.21%	5.97%	48.2	1.45%	22.92%
General Merchandise Stores (8 companies)	3.34%	3.80%	0	0.00%	0.00%
Home Furnishing Retail (9 companies)	6.68%	5.78%	0	0.00%	0.00%
Home Furnishings (17 companies)	14.05%	18.50%	1,899.90	5.08%	36.32%
Home Improvement Retail (4 companies)	8.75%	11.63%	75	0.04%	2.07%
Homebuilding (28 companies)	8.62%	8.44%	349.3	0.54%	47.93%
Hotels, Resorts and Cruise Lines (25 companies)	11.89%	11.11%	1,602.80	0.91%	15.21%
Household Appliances (10 companies)	19.41%	19.39%	56.1	1.49%	10.45%
Housewares and Specialties (19 companies)	12.16%	15.48%	1,620.60	3.06%	27.55%
Internet Retail (26 companies)	25.33%	28.69%	4,166.30	4.72%	17.28%
Leisure Facilities (19 companies)	11.83%	12.03%	125	1.50%	19.08%
Leisure Products (36 companies)	14.98%	16.78%	737.1	2.68%	24.17%
Motorcycle Manufacturers (4 companies)	1.77%	1.09%	0	0.00%	0.00%
Movies and Entertainment (51 companies)	14.52%	19.84%	3,235.30	9.65%	32.19%
Photographic Products (3 companies)	4.88%	8.57%	786.3	5.27%	73.35%
Publishing (37 companies)	27.64%	29.72%	11,480.90	6.50%	27.20%

Company Name	G/A 2008	G/A 2007	GWImpairments	I/A	I/G
<i>(Consumer Discretionary continued)</i>					
Restaurants (71 companies)	7.87%	9.51%	717.2	1.58%	10.87%
Specialized Consumer Services (28 companies)	21.32%	22.73%	50.2	1.27%	10.29%
Specialty Stores (45 companies)	7.59%	10.85%	4,272.90	3.11%	28.60%
Textiles (8 companies)	10.93%	18.50%	0	0.00%	0.00%
Tires and Rubber (3 companies)	2.24%	2.75%	61.3	0.51%	52.10%
'PrimarySector' = Consumer Discretionary (864 companies)	13.87%	16.38%	84,390.90	4.98%	23.76%
Consumer Staples					
Agricultural Products (11 companies)	5.01%	7.64%	36.2	1.06%	20.11%
Brewers (5 companies)	6.54%	12.79%	30.6	8.57%	0.00%
Distillers and Vintners (9 companies)	20.64%	23.09%	309.2	2.12%	16.06%
Drug Retail (6 companies)	18.44%	22.09%	1,819.20	2.63%	16.77%
Food Distributors (11 companies)	12.45%	18.07%	21.4	4.54%	28.57%
Food Retail (16 companies)	15.22%	15.87%	3,540.10	1.05%	3.78%
Household Products (19 companies)	23.33%	23.03%	430.3	1.38%	6.24%
Hypermarkets and Super Centers (4 companies)	6.13%	6.04%	2	0.00%	0.88%
Packaged Foods and Meats (76 companies)	22.97%	23.83%	1,420.90	0.93%	6.66%
Personal Products (57 companies)	18.52%	21.16%	304.7	1.79%	13.12%
Soft Drinks (17 companies)	19.65%	20.49%	368.4	1.80%	5.50%
Tobacco (8 companies)	17.45%	17.30%	1.4	0.01%	8.35%
'PrimarySector' = Consumer Staples (239 companies)	18.67%	20.31%	8,284.30	1.62%	9.91%
Energy					
Coal and Consumable Fuels (29 companies)	1.71%	2.34%	93.8	0.31%	37.50%
Integrated Oil and Gas (12 companies)	2.19%	4.85%	26,860.90	1.47%	21.43%
Oil and Gas Drilling (18 companies)	1.42%	7.00%	1,225.00	3.58%	63.79%
Oil and Gas Equipment and Services (63 companies)	12.74%	13.47%	3,030.60	2.57%	13.15%
Oil and Gas Exploration and Production (224 companies)	5.76%	6.77%	1,602.40	0.42%	23.59%
Oil and Gas Refining and Marketing (29 companies)	7.71%	10.81%	4,352.20	2.30%	24.05%
Oil and Gas Storage and Transportation (57 companies)	7.89%	8.18%	1,610.10	1.13%	15.00%
'PrimarySector' = Energy (432 companies)	8.06%	9.31%	38,775.00	1.11%	20.71%

Appendix

Company Name	G/A 2008	G/A 2007	GWImpairments	I/A	I/G
Financials					
Asset Management and Custody Banks (32 companies)	14.67%	19.27%	173.3	1.62%	5.66%
Consumer Finance (33 companies)	11.96%	11.80%	1,142.10	0.99%	16.46%
Diversified Banks (9 companies)	1.16%	1.10%	0	0.00%	0.00%
Diversified Capital Markets (3 companies)	1.82%	1.54%	0	0.00%	0.00%
Diversified Real Estate Activities (3 companies)	0.00%	1.50%	19	0.50%	100.00%
Diversified REITs (3 companies)	0	0.00%			
Industrial REITs (1 companies) record)	0	0.00%			
Insurance Brokers (12 companies)	32.79%	28.61%	581.3	0.49%	1.74%
Investment Banking and Brokerage (48 companies)	7.78%	7.60%	1,024.30	1.82%	10.01%
Life and Health Insurance (23 companies)	2.59%	2.19%	537	0.01%	0.37%
Mortgage REITs (23 companies)	0.23%	0.32%	39.1	0.01%	30.11%
Multi-line Insurance (15 companies)	5.14%	3.43%	5,419.50	0.11%	9.84%
Multi-Sector Holdings (5 companies)	0.18%	0.10%	0	0.00%	0.00%
Office REITs (1 companies)	0	0.00%			
Other Diversified Financial Services (7 companies)	6.46%	6.38%	9,568.00	0.06%	5.21%
Property and Casualty Insurance (64 companies)	5.63%	5.67%	27.1	0.05%	1.35%
Real Estate Development (13 companies)	0.00%	0.24%	4.8	0.57%	100.00%
Real Estate Operating Companies (25 companies)	0	0.00%			
Real Estate Services (10 companies)	19.36%	22.48%	1,345.60	4.27%	35.44%
Regional Banks (620 companies)	1.31%	1.46%	15,124.20	0.28%	10.66%
Reinsurance (5 companies)	0	0.00%			
Residential REITs (3 companies)	0.39%	0.45%	0.4	0.02%	11.22%
Retail REITs (2 companies)	0	0.00%			
Specialized Finance (33 companies)	19.11%	14.17%	2,136.10	0.33%	9.06%
Specialized REITs (8 companies)	0	0.00%			
Thrifts and Mortgage Finance (220 companies)	1.84%	2.14%	357.2	0.22%	13.39%
'PrimarySector' = Financials (1221 companies)	3.47%	3.40%	37,498.80	0.39%	10.70%

Company Name	G/A 2008	G/A 2007	GWImpairments	I/A	I/G
Healthcare					
Biotechnology (203 companies)	11.12%	11.53%	69.4	0.44%	10.16%
Health Care Technology (45 companies)	24.88%	27.44%	130.9	2.62%	12.50%
Healthcare Distributors (23 companies)	15.84%	18.22%	0	0.00%	0.00%
Healthcare Equipment (166 companies)	17.93%	19.27%	3,498.90	3.03%	9.78%
Healthcare Facilities (42 companies)	28.24%	25.56%	354.1	0.62%	7.13%
Healthcare Services (84 companies)	33.27%	36.58%	1,370.70	3.98%	11.94%
Healthcare Supplies (53 companies)	18.36%	16.75%	110	1.54%	6.35%
Life Sciences Tools and Services (71 companies)	17.73%	21.31%	1,127.80	3.27%	16.78%
Managed Healthcare (24 companies)	21.13%	19.49%	94.5	0.60%	7.66%
Pharmaceuticals (103 companies)	15.24%	15.12%	572.1	0.04%	0.38%
<i>'PrimarySector' = Healthcare (814 companies)</i>	<i>20.59%</i>	<i>21.83%</i>	<i>7,328.30</i>	<i>1.72%</i>	<i>9.37%</i>
Industrials					
Aerospace and Defense (92 companies)	23.42%	24.02%	3,652.20	1.06%	5.08%
Air Freight and Logistics (22 companies)	21.43%	24.45%	1,183.60	2.88%	19.96%
Airlines (20 companies)	3.90%	9.01%	10,240.40	2.61%	65.02%
Airport Services (3 companies)	15.57%	14.85%	190.8	2.26%	8.19%
Building Products (31 companies)	15.02%	17.00%	975.1	2.54%	17.38%
Commercial Printing (17 companies)	19.65%	23.33%	1,386.70	4.91%	20.21%
Construction and Engineering (36 companies)	14.92%	13.40%	237.4	0.48%	1.58%
Construction and Farm and Heavy Machinery (40 companies)	10.56%	12.43%	1,695.80	2.88%	17.65%
Diversified Support Services (35 companies)	19.92%	22.97%	217.7	4.23%	16.02%
Electrical Components and Equipment (105 companies)	18.07%	20.52%	675.7	3.15%	13.68%
Environmental and Facilities Services (41 companies)	22.32%	22.07%	186.8	1.57%	7.09%
Heavy Electrical Equipment (10 companies)	12.09%	14.09%	2.4	0.12%	1.44%
Highways and Railtracks (1 companies) record)	14.32%	14.57%	0	0.00%	0.00%
Human Resource and Employment Services (32)	20.87%	26.45%	1,251.20	8.11%	29.34%
Industrial Conglomerates (14 companies)	11.03%	9.29%	169.7	0.07%	0.74%
Industrial Machinery (115 companies)	17.88%	19.47%	1,026.30	5.38%	14.67%
Marine (9 companies)	14.42%	14.51%	26.5	0.32%	5.79%
Marine Ports and Services (3 companies)	0.00%	13.98%	50.2	4.66%	100.00%
Office Services and Supplies (27 companies)	15.32%	16.44%	481.3	2.74%	24.40%
Railroads (7 companies)	3.32%	1.37%	0	0.00%	0.00%
Research and Consulting Services (36 companies)	35.37%	33.46%	170	1.37%	6.54%
Security and Alarm Services (14 companies)	14.33%	11.98%	2.1	0.01%	0.27%
Trading Companies and Distributors (41 companies)	12.99%	13.93%	1,227.30	1.11%	11.38%
Trucking (29 companies)	5.02%	7.58%	3,936.10	2.20%	34.30%
<i>'PrimarySector' = Industrials (780 companies)</i>	<i>17.74%</i>	<i>19.20%</i>	<i>28,985.30</i>	<i>2.80%</i>	<i>14.50%</i>

Appendix

Company Name	G/A 2008	G/A 2007	GWImpairments	I/A	I/G
Information Technology					
Application Software (160 companies)	25.35%	26.69%	1,994.10	1.98%	10.60%
Communications Equipment (131 companies)	15.13%	17.29%	5,021.40	3.08%	27.06%
Computer Hardware (25 companies)	11.95%	12.43%	54.5	0.61%	7.69%
Computer Storage and Peripherals (50 companies)	9.21%	12.99%	1,471.40	2.45%	25.75%
Data Processing and Outsourced Services (55 companies)	26.38%	29.15%	739.8	3.72%	8.13%
Electronic Components (27 companies)	18.15%	20.95%	2,109.00	5.12%	17.28%
Electronic Equipment and Instruments (110 companies)	20.49%	22.64%	718.4	10.01%	16.90%
Electronic Manufacturing Services (39 companies)	8.50%	13.70%	1,183.90	3.50%	35.12%
Home Entertainment Software (19 companies)	18.17%	25.75%	604.2	5.39%	39.96%
Internet Software and Services (194 companies)	26.68%	29.62%	2,218.20	5.62%	20.21%
IT Consulting and Other Services (74 companies)	26.26%	28.86%	326.9	6.22%	19.11%
Office Electronics (3 companies)	15.98%	19.24%	423.6	5.46%	29.36%
Semiconductor Equipment (53 companies)	7.54%	13.23%	2,503.90	6.09%	37.43%
Semiconductors (96 companies)	9.64%	14.57%	7,597.10	6.02%	35.91%
Systems Software (63 companies)	25.51%	25.70%	7,636.50	4.08%	6.66%
Technology Distributors (27 companies)	10.10%	12.49%	2,525.00	2.84%	30.80%
'PrimarySector' = Information Technology (1126)	19.66%	22.43%	37,127.70	4.74%	20.99%
Materials					
Aluminum (4 companies)	10.75%	10.84%	94.8	0.92%	33.33%
Commodity Chemicals (29 companies)	8.65%	11.39%	342	0.95%	10.34%
Construction Materials (15 companies)	19.00%	23.48%	593.3	2.41%	14.75%
Diversified Chemicals (14 companies)	7.62%	6.34%	239	0.03%	0.55%
Diversified Metals and Mining (30 companies)	5.70%	7.64%	5,991.20	0.62%	18.57%
Fertilizers and Agricultural Chemicals (19 companies)	13.25%	14.96%	80.8	0.19%	3.52%
Forest Products (8 companies)	0.13%	6.21%	1,105.50	1.50%	97.54%
Gold (10 companies)	1.19%	1.19%	0	0.00%	0.00%
Industrial Gases (6 companies)	15.39%	15.41%	58	0.07%	0.98%
Metal and Glass Containers (15 companies)	19.95%	21.14%	118	0.74%	3.41%
Paper Packaging (9 companies)	19.45%	18.33%	0	0.00%	0.00%
Paper Products (11 companies)	5.55%	6.93%	1,831.50	1.20%	12.77%
Precious Metals and Minerals (6 companies)	0	0.00%			
Specialty Chemicals (53 companies)	15.93%	18.88%	2,724.20	2.65%	17.77%
Steel (33 companies)	11.88%	13.35%	1,338.50	1.37%	9.67%
'PrimarySector' = Materials (262 companies)	12.88%	14.51%	14,516.70	1.19%	12.22%

Company Name	G/A 2008	G/A 2007	GWImpairments	I/A	I/G
Telecommunication Services					
Alternative Carriers (32 companies)	20.06%	22.48%	585.2	4.97%	36.21%
Integrated Telecommunication Services (40 companies)	18.25%	18.84%	67.9	0.37%	3.87%
Wireless Telecommunication Services (25 companies)	13.39%	15.52%	1,249.80	1.98%	22.18%
<i>'PrimarySector' = Telecommunication Services (97 companies)</i>	17.41%	18.87%	1,902.90	2.30%	16.99%
Utilities					
Electric Utilities (34 companies)	6.28%	7.52%	8.4	0.21%	6.25%
Gas Utilities (25 companies)	12.45%	12.93%	0	0.00%	0.00%
Independent Power Producers and Energy (17 companies)	3.64%	5.07%	581.5	1.19%	36.74%
Multi-Utilities (26 companies)	5.27%	5.27%	228.3	0.15%	1.98%
Water Utilities (14 companies)	3.87%	6.12%	774.9	0.72%	20.43%
<i>'PrimarySector' = Utilities (116 companies)</i>	6.56%	7.48%	1,593.10	0.36%	9.32%
Grand Total	14.06%	15.38%	260,403.10	2.54%	15.81%

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