

# Goodwill writedowns may top \$1.86 trillion

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## **New rule requires US companies to write down annually assets acquired above fair value, leaving many with huge losses**

NEW YORK — United States companies, led by AOL Time Warner, AT&T and Viacom, this year may write down as much as US\$1 trillion (S\$1.86 trillion) of goodwill created when they overspent on acquisitions, analysts said. The actions may leave many corporations with record losses.

A new US accounting rule is forcing companies to size up what they paid for takeovers to see if the price is still justified. If not, the companies must write down some of the excess paid beyond the fair value of the assets acquired, known as goodwill.

AOL Time Warner is one of hundreds of corporations that made acquisitions with

inflated shares during the late 1990s.

On Monday, the media giant said it overpaid and will have a first-quarter writedown of as much as US\$60 billion to reflect the goodwill created when America Online bought Time Warner for US\$124 billion. Other companies are likely to follow suit.

“It’s the dam breaking,” said Mr Alfred King, vice-chairman of Valuation Research, a research firm that helps businesses value their assets. “The first guy that does it will open the floodgates.”

The size of the writedowns may wipe out earnings for

companies that realise they cannot postpone a reckoning.

With goodwill, companies carry on their books as an asset the difference they paid for a business and its actual fair value. In the past, goodwill was written off against quarterly earnings a little bit at a time.

The rule changed this year. The small quarterly writeoffs are gone. Instead, companies now must assess the value of their goodwill annually. If the goodwill is considered “impaired”, they must take a one-time writeoff.

The Financial Accounting Standards Board (FASB) imposed the changes to make sure companies do not hide potential losses that could not be made up by future earnings, and strengthen the rules on accounting for corporate combinations. FASB sets the rules governing the accounting industry.

Some analysts said the decline in stock prices is behind some of the writeoffs. Many stocks now trade at a fraction of their prices of a year or two ago and that is forcing financial executives to try to figure out how much, if any, of the investments their companies made can be recovered.

“Between now and the middle of March, you’re going to see literally hundreds of billions of dollars written off,” said Mr King, who reached the conclusion after adding up the goodwill that existed on several hundred big companies’ books last year.

Other companies that may take big writedowns are Viacom, AT&T and Qwest Communications International.

In their latest reporting periods, Viacom had about US\$72 billion of goodwill, Qwest had about US\$34 billion and AT&T had about US\$25 billion, according to

American firms now must assess the value of their goodwill annually. This new accounting standard is not applicable in Singapore

recent filings with the Securities and Exchange Commission.

“You can come up with US\$1 trillion just looking at the tech acquisitions of the last three or four years,” said Mr Robert Willens, an accounting analyst with Lehman Brothers Holdings.

Many companies may decide to take their writedowns this quarter. If they do not, they might be forced to restate this quarter’s results later in the year, analysts said.

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