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Triggering Events and Goodwill Impairment Charges

Executive Summary

In this research report we look at triggering events for goodwill impairment charges and examine the factors underlying the impairment charges taken by firms during the 2008 – 2009 recession. Firms in our sample who took goodwill impairment charges did so for 67% of their pre-charge goodwill balance. There were many firms, however, who evaluated a goodwill impairment triggering event and determined that a goodwill impairment charge was not necessary. There were no differences noted in the impairment triggers between firms who recorded an impairment charge and firms who did not. Triggering events do not determine when a goodwill impairment charge is needed, rather the fair value of the reporting unit and the carrying value of its net assets, including goodwill, are the real determinants.

Many would consider a decline in market equity prices to be a goodwill impairment triggering event. We found several firms who, in the absence of other deteriorating fundamentals, did not consider a market price decline to be a goodwill triggering event. Given the improvements noted in equity prices generally since March 2009, it would appear that these firms may have been right. A price decline in the absence of other developing problems may not be in and of itself a valid goodwill impairment triggering event.

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The Georgia Tech Financial Analysis Lab conducts unbiased research on issues of financial reporting and analysis. Unbiased information is vital to effective investment decision-making. Accordingly, we think that independent research organizations, such as our own, have an important role to play in providing information to market participants.

Because our Lab is housed within a university, all of our research reports have an educational quality, as they are designed to impart knowledge and understanding to those who read them. Our focus is on issues that we believe will be of interest to a large segment of stock market participants. Depending on the issue, we may focus our attention on individual companies, groups of companies, or on large segments of the market at large.

A recurring theme in our work is the identification of reporting practices that give investors a misleading signal, whether positive or negative, of corporate earning power. We define earning power as the ability to generate a sustainable stream of earnings that is backed by cash flow. Accordingly, our research may look into reporting practices that affect either earnings or cash flow, or both. At times, our research may look at stock prices generally, though from a fundamental and not technical point of view.

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Companies Named in This Report

Triggering Events and Goodwill Impairment Charges

Introduction

The list of casualties that can be attributed to the recession of 2008 and 2009 is long. Jobs, home prices, the value of the dollar, among others, can all be linked at least indirectly to the global business contraction that seems so difficult to shake. While they have returned from the abyss reached in early 2009, equity prices were also impacted greatly by the recession. One other casualty of the recession that has not been discussed as often as jobs, home prices and equity prices, is the value assigned to goodwill on corporate balance sheets. The year 2008 was a banner one for goodwill impairment charges. Numerous companies took them as prices paid in earlier years appeared high and optimistic in hindsight as share prices slumped.

The fact that so many companies took goodwill impairment charges during the recession is not surprising. Under current accounting guidelines, in particular, SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill must be evaluated at least annually for impairment and at interim periods if triggering events or impairment indicators occur.[1] The great recession and the decline in stock prices that occurred would seem to serve as a triggering event and ample evidence of the need for an impairment charge.

Yet, SFAS No. 142 does not provide much useful guidance on what constitutes a triggering event. In particular, the guidance provided is somewhat sterile and textbook-like, void of the richness and situation variability found in practice. In this study, we look at goodwill impairment charges and the triggering events that necessitated them. Our objective is to broaden and deepen our understanding of goodwill impairments and provide input to investors interested in assessing their likelihood. While one could argue that goodwill impairment charges are non-cash and thus, not of great concern to investors, the truth of the matter is that such charges indicate that future cash flows will be impaired as companies are unable to recover invested amounts. Thus, better understanding the indicators of goodwill impairment charges is one way of evaluating, at least qualitatively, the sustainability of future cash flows. In the study we identify 40 examples of goodwill impairment triggering events. These examples are then summarized into a set of general impairment indicator events.

While our objective is to study the indicators of goodwill impairment charges, we are also able to learn from companies who saw indicators of goodwill impairment but decided, for company-specific reasons, not to take impairment charges. While one might question the prudence of these companies' decisions at the time, in hindsight, given the recovery of equity prices generally, it appears that they may have been right. However, regardless of one's views on whether these firms should have taken impairment charges, it is instructive to see why they did not. In our sample of 40 goodwill impairment triggering events, eighteen companies decided against recording a goodwill impairment charge while twenty-two took some amount of a charge, for some a significant one. We provide details of both groups of companies, again as a

[1] Financial Accounting Standards Board, *Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets*, (Norwalk, CT: FASB, 2001).

means of gaining insight into why one firm might record an impairment charge while another decided against it.

Measuring Goodwill Impairments

Goodwill arises when the price paid in a business acquisition exceeds the fair value of the acquired identifiable assets. Once recorded, goodwill is assigned to reporting units within the consolidated entity. These reporting units may be either an operating segment of the firm or a component just below the segment level for which discrete financial information is available and is regularly reviewed.

Goodwill is evaluated annually for impairment, though evaluations are conducted more frequently if events or changes in circumstances – so-called "triggering events" - indicate that the asset may be impaired.

Goodwill impairment evaluations are a two-step process and are made at the reporting unit level. In step one the fair values of the reporting units, including goodwill, are compared with their balance sheet net asset carrying values. Most companies use either a discounted cash flow approach or a multiple of earnings or adjusted earnings such as earnings before interest, taxes, depreciation and amortization (EBITDA) to estimate the fair value of reporting units. If these fair values exceed the net asset carrying amounts of the reporting units, then the reporting units are considered not to be impaired. As such, the second step in the process, where the amount of goodwill impairment is determined, is not required. However, if the net asset carrying value of a reporting unit exceeds the fair value of the unit, then the second step in the impairment test must be performed to determine the amount of any impairment charge.

It is common for firms to implement step one of the goodwill impairment assessment process based upon a determination that a triggering event occurred and then not have to move on to step two. As an example, note the following from Acxiom Corp: "Management completed part one of this additional goodwill impairment test as of December 31, 2008 and has concluded that no impairment of goodwill existed as of that date" (Acxiom Corp., 2008 Form 10-K annual report to the Securities and Exchange Commission, p. 35).

In step two of the goodwill impairment assessment process, the implied amount of goodwill is computed by comparing the fair value of the reporting unit with the sum of the fair values of its identifiable net assets, exclusive of goodwill. That is, implied goodwill is a residual - the excess of the unit's fair value over the fair value of its net assets excluding goodwill. It is as though the reporting unit had been acquired and the fair value of the unit was the price paid to acquire it. The reporting unit's recorded goodwill (on its balance sheet) is then compared to the implied goodwill to determine the impairment. A goodwill impairment results if the unit's recorded goodwill exceeds the implied goodwill, and the impairment charge will be equal to the excess. Note that if the implied goodwill is zero, that is, if the fair value of identifiable assets of the reporting unit exceeds its fair value, then implied goodwill is zero and all of the recorded goodwill is written off.

Consider, for example, the case of Collectors Universe, Inc. In Exhibit 1 the company provides a detailed description of its two-step goodwill impairment evaluation and measurement process.

Exhibit 1. Collectors Universe, Inc. Impairment Testing Disclosures

Using an income approach such as a discounted cash flow model and other market indicators of fair value, we determined at June 30, 2008 that the fair value of the GCAL Reporting Unit was approximately $6,000,000 and AGL's fair value was approximately $2,200,000 as compared to the carrying values, as of the same date, of these units that were approximately $13,600,000 and $4,200,000, respectively. The fair values of the net assets and liabilities including recorded and unrecorded other intangible assets as of the same date were approximately $5,101,000 and $1,751,000 for the GCAL Reporting Unit and AGL, respectively, which gave rise to the implied carrying values of goodwill of $899,000 and $449,000, respectively. The then carrying values of goodwill of $8,166,000 and $2,246,000 for the GCAL Reporting Unit and AGL, respectively, as compared to the implied carrying values gave rise to the goodwill impairment losses of $7,267,000 and $1,797,000, respectively.

Source: Collectors Universe, Inc., Form 10-K annual report to the Securities and Exchange Commission, June 30, 2008, p. 79.

From Exhibit 1 we see that Collectors Universe used a discounted cash flow model to measure fair value of its two reporting units, GCAL and AGL. At June 30, 2008, GCAL had a fair value of $6,000,000 and AGL had a fair value of $2,200,000, which were exceeded by the carrying values of the units, $13,600,000 and $4,200,000, respectively. As such, step two in the process, a determination of the amount of goodwill impairment, needed to be considered. At the same time, the fair values of the net assets of these units, exclusive of goodwill, was $5,101,000 and $1,751,000, respectively. Thus, implied goodwill for GCAL was $899,000 ($6,000,000 minus $5,101,000), which when compared with the unit's book value of goodwill of $8,166,000, indicated an impairment charge of $7,267,000 ($8,166,000 minus $899,000). For AGL the implied goodwill was $449,000 ($2,200,000 minus $1,751,000), which indicated an impairment charge of $1,797,000 ($2,246,000 minus $449,000).

Triggering Events

While goodwill impairment tests are typically conducted annually, as noted, firms must evaluate goodwill for impairment on an interim basis when so-called triggering events occur. Seven goodwill impairment triggering events are identified in generally accepted accounting principles. These events are outlined in Exhibit 2.

Exhibit 2. Goodwill Impairment Triggering Events in GAAP

1. A significant adverse change in legal factors or in the business climate
2. An adverse action or assessment by a regulator
3. Unanticipated competition
4. A loss of key personnel
5. A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of
6. The testing for recoverability under Statement 121 of a significant asset group within a reporting unit
7. Recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit

Source: Financial Accounting Standards Board, (2001), *Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets*, Norwalk, CT.

The events described in Exhibit 2 are helpful in determining when an interim assessment of goodwill impairment should be made, for example, changes in legal factors or the business climate, adverse actions by a regulator, unanticipated competition, or the loss of key personnel. These events are somewhat sterile and void of the richness and situation variability found in practice. As such, we provide a collection of triggering events found in the financial statements of our sample companies. We divide the sample of triggering events into two groups. The first group, provided in Exhibit 3, contains triggering events for firms who recorded a goodwill impairment charge. The amount of goodwill impairment charges taken and as a percentage of pre-charge goodwill is provided in Exhibit 4. The second group, provided in Exhibit 5, contains triggering events for firms who did not record an impairment charge. The amount of goodwill carried by these firms is provided in Exhibit 6.

Exhibit 3. Triggering Events Identified by Firms Recording Impairment Charges

1. Record high fuel prices, significant losses in the first and second quarters of 2008, a softening U.S. economy, significant decrease in the fair value of outstanding equity and debt securities during 2008, including a decline in the market price of common shares relative to net book value per share (*Airtran Holdings, Inc*.).
2. We determined that there was an indicator of impairment because the estimated carrying value of one of our three reporting units exceeded its respective fair value (*Applied Micro Circuits Corp.).*
3. Unexpected increase in competition resulting in lower prices and volumes; entry of new products into the marketplace from competitors; lack of acceptance of our new products into the marketplace; loss of a key employee or customer; significantly higher raw material costs; and macro economic factors (*Blyth, Inc.).*
4. In the fourth quarter of fiscal 2008, in connection with previously announced plans to explore strategic alternatives for InterTAN, Inc., which could include the sale of the operation, as well as a decline in comparative market multiples of EBITDA, the Company identified a triggering event (*Circuit City Stores, Inc.).*
5. Lowered revenue and cash flow projections primarily due to the delay of additional service providers not deploying our products; we also saw our market valuation decrease during the fourth quarter from $1.41 at September 30, 2008 to $0.50 at December 31, 2008 (*Entropic Communications, Inc.).*
6. A blatant violation of non-compete agreements with certain terminated employees, coupled with the Company's inability or unwillingness to enforce such agreements; a sustainable change in the customer mix and number of worksite employees; losses incurred within certain operating units; significant downsizing of personnel and operations; and restructuring of management (*Fortune Industries, Inc.).*
7. From a significant decline in market capitalization of the public companies in our peer group throughout the year and as of December 31, 2008, our intent to pursue strategic alternatives for our cellular handset product group and the impact from weakening market conditions in our remaining businesses, we concluded that indicators of impairment existed *(Freescale Semiconductor Holdings, Ltd.).*
8. Triggering events for impairment reviews may include adverse industry or economic trends, significant restructuring actions, significantly lowered projections of profitability, or a sustained decline in our market capitalization (*Integrated Device Technologies, Inc.*).
9. The impairment for these reporting units was due to a decrease in the fair value of forecasted cash flows, reflecting the continued deterioration of macroeconomic conditions (*Jarden Corp.).*
10. Weakening market conditions on the Company's forecasts and a sustained, significant decline in the market capitalization to a level lower than net book value of the Company *(JDS Uniphase Corp.).*
11. Indicators of impairment: the margins on homes that have been delivered; margins under sales contracts in backlog; projected margins with regard to future home sales over the life of the communities; projected margins with regard to future land sales and the fair value of the land itself; inventory moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. *(Lennar Corp).*

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Exhibit 3. (cont'd) Triggering Events Identified by Firms Recording Impairment Charges

12. We viewed the results (less was recovered than expected from the sales) of these liquidation sales as a triggering event *(Movie Gallery, Inc.).*
13. Impairment indicators included a decline in the price of the Company's common stock that was well below the reporting unit's carrying value and revenues below expectations (*Network Engines, Inc.).*
14. Certain impairment indicators, including the continued decline in print advertising revenue affecting the newspaper industry and lower-than-expected current and projected operating results *(New York Times Co).*
15. Factors deemed by management to have collectively constituted an impairment triggering event included net losses in each of three quarters of fiscal 2008, and a significant decrease in the Company's market capitalization (*Photronics, Inc*.).
16. The Company considered the continued decline in its share price and the continued trend of operating results and determined that a triggering event and therefore potential impairment had occurred (*Planar Systems, Inc.).*
17. Indicators included the following: a significant decrease in market capitalization; a decline in recent operating results; and a decline in our business outlook primarily due to the macroeconomic environment (*PolyOne Corp*.).
18. Significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, a significant change in circumstances relative to a large customer, a significant decline in our stock price for a sustained period and a decline in our market capitalization to below net book value (*Sonus Networks, Inc.).*
19. Material decline in the Company's market capitalization and its disparity with book value, plus adverse changes in industry and economic conditions (*TRW Holdings Corp*.).
20. Such events or conditions could include an economic downturn in our customers' industries, increased competition, or other information regarding our market value, such as a reduction in our stock price to a price at, near or below our book value for a period of time, which could indicate a triggering event and a possible impairment of goodwill (*Unica Corp*.).
21. The conditions that contributed to the impairment included our sustained low stock price and reduced market capitalization relative to the book value of our equity, which was adversely affected by generally weak economic conditions, macroeconomic factors impacting industry business conditions, recent and forecasted segment operating performance, the increased competitive environment, and continued tightening of the credit markets, along with other factors, such as a significant decline in housing starts (*USG Corp*.).
22. Due to the presence of impairment indicators, such as a decrease in revenue, market capitalization below book value, the sale of its U.K. subsidiary below the fair value determined at September 1, 2007 and declines in operating income in the third quarter of fiscal year 2008, management performed an impairment evaluation (*Westaff, Inc.).*

Source: Form 10-K filings to the Securities and Exchange Commission.

The triggering events identified in Exhibit 3 are those used by firms who ultimately determined that it was necessary for them to record a goodwill impairment charge. The triggering events themselves have some recurring themes. For example, several focus on declining profitability that is driven by various factors such as a change in customer mix, strategic direction, downsizing, higher costs, higher competition, negative macro or industry trends, or tightening of credit markets. A decline in equity prices is also viewed by many to be a goodwill impairment triggering event. The triggering events provided in Exhibit 3 are summarized in Exhibit 4.

Exhibit 4. Summary of Triggering Events Identified by Firms Recording Impairment Charges

Change in customer mix
Change in strategic direction
Decline in equity market prices
Downsizing of personnel and operations
Higher costs
Increase in competition
Increased operating losses
Lack of market acceptance of company products
Loss of key customer
Lower gross margin
Lower operating margin
Lower sales prices
Macro economic conditions
Negative industry trends
Recurring losses
Restructuring action
Tightening of credit markets
Violation of non-compete agreement

Source: Items summarized from Exhibit 3

The companies for which triggering events are contained in Exhibit 3 and summarized in Exhibit 4 all recorded goodwill impairment charges. In some instances, the charges taken were substantial, comprising 100% of the pre-charge goodwill balance. A summary of the charges taken is provided in Exhibit 5. Note that on average, the firms listed in Exhibit 5 recorded impairment charges that comprised 67% of the pre-charge goodwill balance.

Exhibit 5. Companies Recording Impairment Charges (Amounts in thousands)

Company	Fiscal Year End	Goodwill Balance After Impairment	Goodwill Impairment	Impairment as % of Opening Goodwill
Airtran Holdings, Inc.	12/31/08	$0	$8,350	100.00%
Applied Micro Circuits Corp.	3/31/09	0	223	100.00%
Blyth, Inc.	1/31/09	13,988	30,851	68.80%
Circuit City Stores, Inc.	2/29/08	118,000	26,000	18.06%
Entropic Communications, Inc.	12/31/08	0	86,256	100.00%
Fortune Industries, Inc.	8/31/08	12,491	5,970	32.34%
Freescale Semiconductor Holdings, LTD	12/31/08	0	5,350	100.00%
Integrated Device Technologies, Inc.	3/29/09	59,404	946,300	94.09%
Jarden Corp.	12/31/08	1,476,100	172,000	10.44%
JDS Uniphase Corp.	6/27/09	8,300	741,700	98.89%
Lennar Corp.	11/30/08	34,000	27,200	44.44%
Movie Gallery, Inc.	01/06/08	$0	115,570	100.00%
Network Engines, Inc.	9/30/08	9,884	8,669	46.73%
New York Times Co.	12/28/08	661,201	22,897	3.35%
Photronics, Inc.	11/2/08	0	138,534	100.00%
Planar Systems, Inc.	9/26/08	3,428	47,388	93.25%
PolyOne Corp.	12/31/08	163,900	170,000	50.91%
Sonus Networks, Inc.	12/31/08	5,025	2,068	29.16%
TRW Automotive Holdings Corp.	12/31/08	1,765,000	458,000	20.60%
Unica Corp.	9/30/09	10,943	15,266	58.25%
USG Corp.	12/31/08	12,000	214,000	94.69%
Westaff, Inc.	11/1/08	0	11,600	100.00%
Average Impairment Charge %				66.54%

Source: Form 10-K filings to the Securities and Exchange Commission.

In addition to the twenty-two firms recording goodwill impairment charges in Exhibit 5, our sample contained eighteen examples of companies who determined that even though a triggering event necessitating an evaluation of goodwill for impairment occurred, no impairment charge was necessary. The triggering events for these firms are provided in Exhibit 6 and summarized in Exhibit 7.

Exhibit 6. Triggering Events Identified by Firms Not Recording Impairment Charges

1. Due to deterioration in general economic conditions and particularly deterioration in some of the markets served by the Company, as well as a sustained decline in the Company's stock price during the quarter, management determined that a triggering event had occurred *(Acxiom Corp.)*.
2. Significant declines in assets under management, revenues, earnings or our Holding Unit price (*AllianceBerstein Holdings, Inc*.).
3. The Company performed an interim impairment analysis during the third quarter of fiscal 2009 as a result of the recent downturns in the current economic operating environment related to the credit and capital market crisis and declines in equity values for its publicly traded peer group competitors (*AMC Entertainment, Inc.)*.
4. Adverse changes in business climate or decision to sell all or a portion of a reporting unit (*Caterpillar, Inc*.).
5. Impairment indicators include cash flow deficits, historic or anticipated declines in revenue or operating profit and adverse legal or regulatory developments (C*eradyne, Inc.)*.
6. Because of the occurrence of losses in prior fiscal periods and the uncertainty of the timing of future revenues and related cash flows, we concluded that indicators of impairment did exist (*Collectors Universe, Inc.*).
7. Management considers a history of cash flow losses on a restaurant-by-restaurant basis to be the primary indicator of potential impairment (*Frisch's Restaurants, Inc*.).
8. Due to the decline in the Company's stock price in the current global economic environment, the Company performed an updated formal impairment review as of December 31, 2008 and concluded that the fair value exceeded the carrying amount and therefore there was no impairment to goodwill (*Kansas City Southern*).
9. An interim test of goodwill and long-lived assets was required because of the Company's determination that the it would sell the ES/PS business—part of an reporting unit (*Mercury Computer Systems*).
10. The stock trading at 7.7 times book value is an indicator that the decline in overall stock market valuations *has not been a triggering event* for impairment of our goodwill and long-lived assets (*Meridian Biosciences, Inc.)*.
11. Indicators such as: unexpected adverse business conditions; economic factors; unanticipated technological change or competitive activities; and loss of key personnel and acts by governments and courts (*Presstek, Inc*.).
12. We experienced a significant decline in enrollment; increased competitive pressures; and outside professional fees (*Prospect Medical Holdings, Inc.)*.
13. Market capitalization declined (*Silicon Image, Inc*.).
14. The goodwill impairment was due to decreased sales in logic trunked radio sales resulting from increased competition in the market and lower demand for these services and limited sales staff (*Teletouch Communications, Inc.)*.

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Exhibit 6. (cont'd) Triggering Events Identified by Firms Not Recording Impairment Charges

15. One such triggering event is when there is a more-likely-than-not expectation that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed of (*Tier Technologies, Inc*.).
16. Market conditions in the United States and operational performance of reporting units (*Trinity Industries, Inc.).*
17. The recent downturn in the recycling commodities market (*Waste Management, Inc*.).
18. Disruptions to the business, unexpected significant declines in operating results, a divestiture of a significant component of our business, significant declines in market capitalization or other triggering events (*The Western Union Company*).

Source: Form 10-K filings to the Securities and Exchange Commission.

The triggering events identified in Exhibit 6 are those used by firms who ultimately determined that it was not necessary for them to record a goodwill impairment charge. Once again, the triggering events themselves have some recurring themes. For example, here too several focus on declining profitability that is driven by various factors such as a change in strategic direction, higher competition, negative macro trends, and a tightening of credit markets. A decline in equity prices is also viewed by many to be a goodwill impairment triggering event. The triggering events provided in Exhibit 6 are summarized in Exhibit 7.

Exhibit 7. Summary of Triggering Events Identified by Firms Not Recording Impairment Charges

Change in strategic direction
Decline in equity market prices
Declines in revenues and earnings
Increase in competition
Increased operating losses
Lower revenues
Macro economic conditions
Technological changes
Tightening of credit markets
Uncertainty of future cash flows

Source: Items summarized from Exhibit 6.

A summary of the goodwill balances for firms from Exhibit 6 who did not record impairment charges is provided in Exhibit 8.

Exhibit 8. Companies Recording No Impairment Charge (Amounts in thousands)

Company	Fiscal Year End	Goodwill Balance	Goodwill Impairment	Impairment as % of Opening Goodwill
Acxiom Corp.	3/31/09	$455,000	$0	0.00%
AllianceBernstein Holdings, LP	12/31/08	2,893,029	0	0.00%
AMC Entertainment, Inc.	4/2/09	1,814,738	0	0.00%
Caterpillar, Inc.	12/31/08	2,261,000,000	0	0.00%
Ceradyne, Inc.	12/31/08	45,324	0	0.00%
Collectors Universe, Inc.	6/30/09	2,626	0	0.00%
Frisch's Restaurants, Inc.	6/2/09	740,644	0	0.00%
Kansas City Southern	12/31/08	10,600	0	0.00%
Mercury Computer Systems, Inc.	6/30/09	57,653	0	0.00%
Meridian Biosciences, Inc.	9/30/08	9,861	0	0.00%
Presstek, Inc.	1/3/09	19,114	0	0.00%
Prospect Medical Holdings, Inc.	9/30/08	128,877	0	0.00%
Silicon Image, Inc.	12/31/08	19,210	0	0.00%
Teletouch Communications, Inc.	5/31/09	539	0	0.00%
Tier Technologies, Inc.	9/30/08	14,526	0	0.00%
Trinity Industries, Inc.	12/31/08	504,000	0	0.00%
Waste Management, Inc.	12/31/08	5,462,000	0	0.00%
The Western Union Company	12/31/08	1,674,200	0	0.00%

Source: Form 10-K filings to the Securities and Exchange Commission.

It is worth noting that there are no significant differences in the triggering events summarized in Exhibit 4, for firms who recorded impairment charges, and Exhibit 7 for firms who did not record such charges. In fact, many of the triggering events are the same for both groups, namely, increase in competition, tightening of credit markets, decline in equity market prices, increased operating losses, macro economic conditions and change in strategic direction. Thus, it is clear that the occurrence of a triggering event does not in and of itself indicate the need for an impairment charge. Much depends on the fair value of the reporting unit and the carrying value of that unit’s net assets, including goodwill.

Denials of Triggering Events

In Exhibit 9 we provide eight cases of firms who would appear to have experienced a goodwill impairment triggering event but who determined, for various reasons, that no such triggering event had taken place. Thus, these firms did not record impairment charges. In most cases, the observed “non” triggering event was related to a decline in the price of the company’s stock. The companies typically justified the decline as a non-triggering event by noting that the decline was not due to fundamental problems but rather to an irrational market pushing market prices down generally.

Exhibit 9. Denials of Goodwill Triggering Events

1. Management believes the Company's forecasted cash flows constitute a better indicator of the current fair value of Alcoa's reporting units than the current pricing of its common shares (*Alcoa, Inc.).*
2. Emtec's market capitalization was less than the total shareholders' equity, which is one factor the Company considered when determining whether goodwill should be tested for impairment between annual tests. The Company doesn't believe that the reduced market capitalization represents a goodwill impairment indicator as of August 31, 2008 (*EMTEC, Inc*.).
3. Management believes that the recent decline in the Company's market capitalization is not due to any fundamental change or adverse events in the Company's operations. Accordingly, the Company has not recognized any impairment of its goodwill (*Keynote Systems, Inc*.).
4. The Company's stock price has been trading below its book value and tangible book value for two consecutive quarters. The Company attributes this low stock price to both the overall market conditions and company specific factors, including low trading volume of the Company's stock. Based on our evaluation, there was no impairment of goodwill in the second fiscal quarter ended December 31, 2008 (*Misonix, Inc.).*
5. The market price of Parkvale stock was $12.42 per share at December 31, 2008, which is below the book value of $24.23 at such date. Management does not consider goodwill to be impaired at December 31, 2008. If the financial markets remain under stress through June 2009 and if Parkvale stock continues to trade at a range of 50% to 55% of book value, a goodwill impairment charge is possible in a future quarter. (*Parkvale Financial Corp.).*
6. Beginning in October 2008 and continuing into the first quarter of fiscal 2009, the Company's market capitalization declined below book value. While management considered the market capitalization decline, management believes that the decline would not impact overall goodwill impairment analysis as management believes the decline is to be primarily attributed to the negative market conditions as a result of the credit crisis, beginning a recession and current projections within the building industry" (*Quanex Building Products Corp.).*
7. During part of the first quarter of fiscal 2009, the market value of the Company's Class A common stock traded below its book value. The Company determined that no triggering event had occurred, as the long-term fundamentals of the Company's business have not changed (*Schnitzer Steel Industries, Inc*.).
8. During the latter part of the fourth quarter of fiscal 2008 and continuing into November 2008, our market capitalization was below book value. While we considered the market capitalization decline in our evaluation of fair value of goodwill, we determined it did not impact the overall goodwill impairment analysis as we believe the decline to be primarily attributed to the negative market conditions as a result of the credit crisis, indications of a possible recession and current issues within the poultry industry. We will continue to monitor our market capitalization as a potential impairment indicator considering overall market conditions and poultry industry events (*Tyson Foods, Inc.).*

Source: Form 10-K filings to the Securities and Exchange Commission.

Conclusion

In addition to declines in market equity prices, triggering events for goodwill impairment are typically focused on factors that lessen the profitability of a reporting unit. Examples include such factors as a change in customer mix, strategic direction, downsizing, higher costs, higher competition, negative macro or industry trends, or a tightening of credit markets. These same triggering events may or may not result in a goodwill impairment charge, depending on the fair value of the reporting unit and the carrying value of the unit's net assets, including goodwill. Thus, while we found twenty-two of our sample firms to have recorded substantial impairment charges, comprising on average 67% of pre-charge goodwill, another eighteen firms recorded no impairment charge at all.

Declines in equity market prices are often considered to be a goodwill impairment triggering event. However, we found many examples of firms who did not consider a decline in market prices to be a triggering event in the absence of declines in other fundamental factors. Given the improvements noted in equity prices generally since March 2009, it would appear that these firms may have been right. A price decline in the absence of other developing problems may not be in and of itself a valid goodwill impairment triggering event.