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More Fun With FAS 142: AOL To Take \$60 Billion Writeoff

Impairment will wipe out almost half of goodwill on company's books. Elsewhere: SEC looking at Xerox's documents, and credit quality hits ten-year low.

By Stephen Taub

The Dot-com bubble has come back to bite AOL Time Warner Inc.

The media giant warned Monday that it expects to take up to a \$60 billion writeoff to comply with the new merger-related accounting rules that went into effect at the beginning of the year.

Beginning January 1, all calendar year companies must adopt the new accounting standard Goodwill and Other Intangible Assets, also known as FAS 142. It eliminates amortization of goodwill and other intangible assets with indefinite lives.

As a result, AOL Time Warner's annual amortization is expected to be cut by more than \$7 billion.

AOL said it expects to record a one-time, non-cash charge in its income statement for the first quarter of 2002 of between \$40 billion and \$60 billion to reflect overall market declines since the AOL Time Warner merger was announced in January of 2000. "This charge will reflect the cumulative effect of adopting the accounting change and does not affect the Company's operations," AOL Time Warner management said in a statement.

Keep in mind that in the third quarter, the most recent balance sheet available, AOL Time Warner recorded about \$127 billion in goodwill. A \$60 billion write-off would wipe about half of that out.

This writeoff could top the previous FAS 142 record, which was set by JDS Uniphase last July. JDS Uniphase cut the value of goodwill on its books by more than \$50 billion to reflect the decline in the value of acquisitions.

"All companies that have goodwill and have gone through large business combinations will be more significantly affected than others," AOL Time Warner Chief Executive Wayne Pace told Reuters. "The amount of the charge can roughly be tied back to the change in the stock price from January 2000 to January 2001 when we closed the deal."

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