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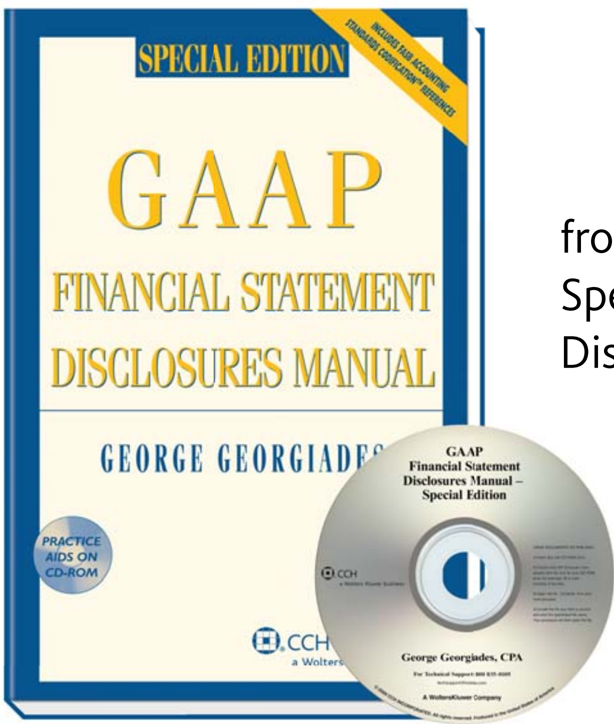
CHAPTER 18 ASC TOPIC 320: INVESTMENTS—DEBT AND EQUITY SECURITIES



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CHAPTER 18
ASC TOPIC 320: INVESTMENTS—DEBT AND EQUITY SECURITIES

CONTENTS

EXECUTIVE SUMMARY

Debt and Equity Securities

The topic of this chapter applies to both current and noncurrent investments in debt and equity securities. The primary issue in accounting and reporting for debt and equity investments is the appropriate use of fair value. Generally accepted accounting principles (GAAP) require that investments in equity securities that have readily determinable fair values and all investments in debt securities be classified in three categories (held to maturity, trading securities, and available for sale) and be given specific accounting treatments, as follows:

Classification	*Accounting Treatment*
1. *Available for sale*—Debt and equity securities that do not meet the criteria to be classified as held to maturity or trading.	Fair value, with unrealized holding gains and losses reported in other comprehensive income. Nontemporary losses should be charged to earnings.
2. *Held to maturity*—Debt securities that the entity has the positive intent and ability to hold to maturity.	Amortized cost, reduced for nontemporary losses that are charged to earnings. Other unrealized gains or losses should not be recognized.

Classification	*Accounting Treatment*
3. *Trading securities*—Debt and equity securities bought and held primarily for sale in the near term (e.g., the entity's normal operating cycle).	Fair value, with unrealized holding gains and losses included in earnings.

The following are examples of debt and equity securities:

Debt Securities	*Equity Securities*
U.S. Treasury securities	Common stock
U.S. government agency securities	Preferred stock
Municipal securities	Warrants
Corporate bonds	Rights
Convertible debt	Call options
Commercial paper	Put options
Collateralized mortgage obligations	
Preferred stock that must be redeemed	
Real estate mortgage investment conduits	
Interest-only and principal-only strips	

Generally, held-to-maturity securities are classified as noncurrent assets until they are within one year of maturity; at that time, they are classified as current assets. Trading securities are classified as current assets. Available-for-sale securities are classified as current or noncurrent, as appropriate.

Accounting Literature

FASB Accounting Standards Codification Topic	*Pre-Codification Accounting Literature*
320, *Investments—Debt and Equity Securities*	FAS-115, *Accounting for Certain Investments in Debt and Equity Securities*
	FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*

FASB Accounting Standards Codification Topic	*Pre-Codification Accounting Literature*
	FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*
	EITF 86-40, *Investments in Open-End Mutual Funds That Invest in U.S. Government Securities*
	FASB Implementation Guidance (Q&A), *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers*

DISCLOSURE AND KEY PRESENTATION REQUIREMENTS

Applicable Guidance in ASC Topic 320 After FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*

Note: The disclosure and key presentation requirements in this section are prescribed by ASC Topic 320, *Investments—Debt and Equity Securities*, based on FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption is permitted for periods ending after March 15, 2009, provided the pending content that links to ASC paragraph 820-10-65-4 (based on FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*) is also adopted. In addition, if either the pending content in ASC paragraph 820-10-65-4 (based on FSP FAS 157-4) or in ASC paragraph 825-10-65-1 (based on FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*) is adopted early, the presentation and disclosure requirements in this section must also be adopted early. The presentation and disclosure requirements in this section are not required for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, comparative disclosures are required only for periods ending after initial adoption.

Overall

1. Investments in available-for-sale securities and trading securities should be reported separately from similar assets that are subsequently measured using another measurement attribute on the face of the balance sheet by presenting either of the following (ASC 320-10-45-1) (FAS-115, par. 17):
   a. The aggregate of those fair value and non-fair-value amounts in the same line item and parenthetically disclosing the amount of fair value included in the aggregate amount.
   b. Two separate line items displaying the fair value and non-fair-value carrying amounts.
2. Held-to-maturity securities, available-for-sale securities, and trading securities should be reported on a classified balance sheet as either current or noncurrent. (ASC 320-10-45-2) (FAS-115, par. 17) (*Note:* ASC Section 210-10-45, *Balance Sheet–Overall–Other Presentation Matters* [ARB-43, Ch. 3A, *Current Assets and Current Liabilities*], provides further guidance on the required presentation of current and noncurrent assets in the balance sheet.) See Chapter 3, "ASC Topic 210: Balance Sheet."
3. For deferred tax assets that have been recognized relating to net unrealized losses on available-for-sale securities, the following presentation matters should be followed:
   a. If the entity recognizes a valuation allowance at the same time that it establishes the deferred tax asset (or in a later interim period of the same fiscal year in which the deferred tax asset is recognized), the offsetting entry to the valuation allowance should be reported in the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities. (ASC 320-10-45-3) (Q&A-115, par. 54)
   b. If the entity initially decided that no valuation allowance was required at the time it established the deferred tax asset but, in a subsequent fiscal year, decides to recognize a valuation allowance, the offsetting entry to the valuation allowance should be included as an item in determining income from continuing operations (i.e., not in other comprehensive income). (ASC 320-10-45-4) (Q&A-115, par. 56)
   c. If, subsequent to the year the deferred tax asset and related valuation allowance were recognized, an entity makes a change in judgment about the level of future years' taxable income such that all or a portion of that

valuation allowance is no longer warranted, any reversals in the valuation allowance due to such change should be included as an item in determining income from continuing operations. (ASC 320-10-45-5) (Q&A-115, par. 57)

d. If, subsequent to the year the deferred tax asset and related valuation allowance were recognized, an entity generates taxable income in the current year that can use the benefit of the deferred tax asset, the elimination or reduction of the valuation allowance should be allocated to that taxable income. (ASC 320-10-45-5) (Q&A-115, par. 57)

e. If in the current year the entity recognizes a valuation allowance at the same time that it establishes the deferred tax asset:

   (1) The entity should determine the extent to which the valuation allowance is directly related to the unrealized loss and the other previously recognized deductible temporary differences (e.g., an accrual for *other* postemployment benefits). (ASC 320-10-45-6) (Q&A-115, par. 55)

   (2) The offsetting entry to the valuation allowance should be reported in the component of other comprehensive income classified as unrealized gains and losses on available-for-sale securities only to the extent the valuation allowance is directly related to the unrealized loss on the available-for-sale securities that arose in the current year. (ASC 320-10-45-6) (Q&A-115, par. 55)

4. Gains and losses that have accumulated before transfers involving trading securities should be classified consistently with realized gains and losses for the category from which the security is being transferred (not the category into which the security is being transferred). (ASC 320-10-45-7) (Q&A-115, par. 44)

5. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge should be recognized in earnings during the period of the hedge, pursuant to ASC paragraphs 815-25-35-1 through 35-4 (FAS-133, par. 22). (ASC 320-10-45-8) (FAS-115, par. 13)

6. Subsequent increases in the fair value of available-for-sale securities should be included in other comprehensive income. (ASC 320-10-45-9) (FAS-115, par. 16)

7. Subsequent decreases in the fair value of available-for-sale securities (if not an other-than-temporary impairment)

should be included in other comprehensive income. (ASC 320-10-45-9) (FAS-115, par. 16)

8. Cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities should be classified as cash flows from investing activities and reported gross for each security classification in the statement of cash flows. (ASC 320-10-45-11) (FAS-115, par. 18)
9. Cash flows from purchases, sales, and maturities of trading securities should be classified in the statement of cash flows based on the nature and purpose for which the securities were acquired. (ASC 320-10-45-11) (FAS-115, par. 18)
10. If individual amounts for the three categories of investments (i.e., held-to-maturity, available-for-sale, or trading) are not presented on the face of the balance sheet, they should be disclosed in the notes. (ASC 320-10-45-13) (FAS-115, par. 117)
11. If the entity reports certain investments in debt securities as cash equivalents, the notes should reconcile the reporting classifications used in the balance sheet. (ASC 320-10-45-13) (FAS-115, par. 117)
12. For securities classified as available for sale, the following disclosures should be made for interim and annual periods, by major security type, as of each date for which a balance sheet is presented (ASC 320-10-50-2 through 50-4) (FAS-115, pars. 19 and 20; EITF 86-40) (*Note*: Major security types should be based on the nature and risks of the security. An entity should consider the (shared) activity or business sector, vintage, geographic concentration, credit quality, or economic characteristic in determining whether disclosure for a particular security type is necessary and whether it is necessary to further separate a particular security type into greater detail.):
    a. The amortized cost basis.
    b. The aggregate fair value.
    c. The total other-than-temporary impairment recognized in accumulated other comprehensive income.
    d. Total gains for securities with net gains in accumulated other comprehensive income.
    e. Total losses for securities with net losses in accumulated other comprehensive income.
    f. Information about the contractual maturities of those securities as of the date of the most recent balance sheet

presented. (*Note:* Maturity information may be combined in appropriate groupings. Securities that are not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; however, if allocated, the basis for the allocation should also be disclosed.)

13. For securities classified as held to maturity, the following disclosures should be made for interim and annual periods, by major security type, as of each date for which a balance sheet is presented (ASC 320-10-50-5) (FAS-115, par. 19) (*Note*: Major security types should be based on the nature and risks of the security. An entity should consider the (shared) activity or business sector, vintage, geographic concentration, credit quality, or economic characteristic in determining whether disclosure for a particular security type is necessary and whether it is necessary to further separate a particular security type into greater detail.):

    a. The amortized cost basis.

    b. The aggregate fair value.

    c. Gross unrecognized holding gains.

    d. Gross unrecognized holding losses.

    e. Net carrying amount.

    f. The total other-than-temporary impairment recognized in accumulated other comprehensive income.

    g. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities.

    h. Information about the contractual maturities of those securities as of the date of the most recent balance sheet presented. (*Note:* Maturity information may be combined in appropriate groupings. Securities that are not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; however, if allocated, the basis for the allocation should also be disclosed.)

14. The following disclosures should be made for each annual or interim period for which an income statement is presented (ASC 320-10-50-9) (FAS-115, par. 21):

    a. The proceeds from sales of available-for-sale securities and the gross realized gains and gross realized losses on those sales that have been included in earnings.

   b. The method used to determine the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings (i.e., specific identification, average cost, or other method used).
   c. The gross gains and gross losses included in earnings from transfers of securities from the available-for-sale category into the trading category.
   d. The amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive income for the period.
   e. The amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period.
   f. The portion of trading gains and losses for the period that relates to trading securities still held at the balance sheet date.

15. For any sales of or transfers from securities classified as held-to-maturity, the following disclosures should be made in the notes to the financial statements for each annual or interim period for which an income statement is presented (ASC 320-10-50-10) (FAS-115, par. 22):
   a. The net carrying amount of the sold or transferred security.
   b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security.
   c. The related realized or unrealized gain or loss.
   d. The circumstances leading to the decision to sell or transfer the security. (*Note:* Such sales or transfers should be rare, except for sales and transfers due to the changes in circumstances identified in ASC paragraphs 320-10-25-6(a) through (f) [FAS-115, par. 8].)

Impairment of Securities

1. In periods in which an entity determines that a security's decline in fair value below its amortized cost basis is other than temporary, the entity should present the total other-than-temporary impairment in the income statement with an offset for the amount of the total other-than-temporary impairment that is recognized in other comprehensive income, if any. (ASC 320-10-45-8A) (FSP FAS 115-1 and FAS 124-1, par. 16B)

2. The financial statement in which the components of accumulated other comprehensive income are reported should separately present amounts recognized therein related to held-to-maturity and available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized in earnings. (ASC 320-10-45-9A) (FSP FAS 115-1 and FAS 124-1, par. 16C)
3. For all investments in an unrealized loss position for which other-than-temporary impairments have not been recognized in earnings (including investments for which a portion of an other-than-temporary impairment has been recognized in other comprehensive income), the following disclosures should be made in the entity's annual and interim financial statements (ASC 320-10-50-6 through 50-8) (FSP FAS 115-1 and FAS 124-1, par. 17):
   a. As of each date for which a balance sheet is presented, the following quantitative information, in tabular form, should be aggregated by category of investment—each major security type that the entity disclosed in accordance with ASC Subtopic 320-10, (FSP FAS 115-1 and FAS 124-1), and cost-method investments—and segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer:
      (1) The aggregate amount of unrealized losses (i.e., the amount by which amortized cost basis exceeds fair value).
      (2) The aggregate related fair value of investments with unrealized losses.
   b. As of the date of the most recent balance sheet, the following qualitative information, in narrative form, that provides sufficient information to allow the financial statement users to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the conclusion that the impairments are not other-than-temporary (*Note*: The disclosures required may be aggregated by investment categories, but individually significant unrealized losses generally should not be aggregated.):
      (1) The nature of the investment.
      (2) The cause of the impairment.
      (3) The number of investment positions that are in an unrealized loss position.
      (4) The severity and duration of the impairment.

(5) Other evidence considered by the entity in reaching its conclusions that the investment is not other-than-temporarily impaired, including, for example, performance indicators of the underlying assets in the security (including default rates, delinquency rates and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, industry analyst reports, sector credit ratings, volatility of the security's fair value, and/or any other information that the entity considers relevant.

4. The following disclosures should be made, by major security type, for annual and interim periods in which an other-than-temporary impairment of a debt security is recognized and only the amount related to a credit loss was recognized in earnings (ASC 320-10-50-8A) (FSP FAS 115-1 and FAS 124-1, par. 18A):
   a. The methodology used to measure the amount related to credit loss.
   b. The significant inputs used to measure the amount related to credit loss. (Examples of significant inputs include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings.)
5. A tabular rollforward should be disclosed of the amount related to credit losses recognized in earnings, for each interim and annual reporting period presented, that includes (ASC 320-10-50-8B) (FSP FAS 115-1 and FAS 124-1, par. 18B):
   a. The beginning balance of the amount related to credit losses on debt securities held by the entity at the beginning of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.
   b. Additions for the amount related to the credit loss for which an other-than-temporary impairment was not previously recognized.
   c. Reductions for securities sold during the period (realized).
   d. Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the

security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

e. Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized when the investor does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis.

f. Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security.

g. The ending balance of the amount related to credit losses on debt securities held by the entity at the end of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

Applicable Guidance in ASC Topic 320 Before FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*

Note: The disclosure and key presentation requirements in this section are prescribed by ASC Topic 320, *Investments—Debt and Equity Securities*, prior to the adoption of the guidance based on FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which is effective for interim and annual reporting periods ending after June 15, 2009.

Overall

1. Investments in available-for-sale securities and trading securities should be reported separately from similar assets that are subsequently measured using another measurement attribute on the face of the balance sheet by presenting either of the following (ASC 320-10-45-1) (FAS-115, par. 17):

   a. The aggregate of those fair value and non-fair-value amounts in the same line item and parenthetically disclosing the amount of fair value included in the aggregate amount.

   b. Two separate line items displaying the fair value and non-fair-value carrying amounts.

2. Held-to-maturity securities, available-for-sale securities, and trading securities should be reported on a classified balance sheet as either current or noncurrent. (ASC 320-10-45-2)

(FAS-115, par. 17) (*Note:* ASC Section 210-10-45, *Balance Sheet–Overall–Other Presentation Matters,* [ARB-43, Ch. 3A, *Current Assets and Current Liabilities*], provides further guidance on the required presentation of current and noncurrent assets in the balance sheet.)

3. For deferred tax assets that have been recognized relating to net unrealized losses on available-for-sale securities, the following presentation matters should be followed:
   a. If the entity recognizes a valuation allowance at the same time that it establishes the deferred tax asset (or in a later interim period of the same fiscal year in which the deferred tax assert is recognized), the offsetting entry to the valuation allowance should be reported in the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities. (ASC 320-10-45-3) (Q&A-115, par. 54)
   b. If the entity initially decided that no valuation allowance was required at the time it established the deferred tax asset but, in a subsequent fiscal year, decides to recognize a valuation allowance, the offsetting entry to the valuation allowance should be included as an item in determining income from continuing operations (i.e., not in other comprehensive income). (ASC 320-10-45-4) (Q&A-115, par. 56)
   c. If, subsequent to the year the deferred tax asset and related valuation allowance were recognized, an entity makes a change in judgment about the level of future years' taxable income such that all or a portion of that valuation allowance is no longer warranted, any reversals in the valuation allowance due to such change should be included as an item in determining income from continuing operations. (ASC 320-10-45-5) (Q&A-115, par. 57)
   d. If, subsequent to the year the deferred tax asset and related valuation allowance were recognized, an entity generates taxable income in the current year that can use the benefit of the deferred tax asset, the elimination or reduction of the valuation allowance should be allocated to that taxable income. (ASC 320-10-45-5) (Q&A-115, par. 57)
   e. If in the current year the entity recognizes a valuation allowance at the same time that it establishes the deferred tax asset:
      (1) The entity should determine the extent to which the valuation allowance is directly related to the unrealized loss and the other previously recognized

deductible temporary differences (e.g., an accrual for other postemployment benefits). (ASC 320-10-45-6) (Q&A-115, par. 55)

(2) The offsetting entry to the valuation allowance should be reported in the component of other comprehensive income classified as unrealized gains and losses on available-for-sale securities only to the extent the valuation allowance is directly related to the unrealized loss on the available-for-sale securities that arose in the current year. (ASC 320-10-45-6) (Q&A-115, par. 55)

4. Gains and losses that have accumulated before transfers involving trading securities should be classified consistently with realized gains and losses for the category from which the security is being transferred (not the category into which the security is being transferred). (ASC 320-10-45-7) (Q&A-115, par. 44)

5. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge should be recognized in earnings during the period of the hedge, pursuant to ASC paragraphs 815-25-35-1 through 35-4, (FAS-133, par. 22). (ASC 320-10-45-8) (FAS-115, par. 13)

6. Subsequent increases in the fair value of available-for-sale securities should be included in other comprehensive income. (ASC 320-10-45-9) (FAS-115, par. 16)

7. Subsequent decreases in the fair value of available-for-sale securities (if not an other-than-temporary impairment) should be included in other comprehensive income. (ASC 320-10-45-9) (FAS-115, par. 16)

8. Cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities should be classified as cash flows from investing activities and reported gross for each security classification in the statement of cash flows. (ASC 320-10-45-11) (FAS-115, par. 18)

9. Cash flows from purchases, sales, and maturities of trading securities should be classified in the statement of cash flows based on the nature and purpose for which the securities were acquired. (ASC 320-10-45-11) (FAS-115, par. 18)

10. If individual amounts for the three categories of investments (i.e., held-to-maturity, available-for-sale, or trading) are not presented on the face of the balance sheet, they

should be disclosed in the notes. (ASC 320-10-45-13) (FAS-115, par. 117)

11. If the entity reports certain investments in debt securities as cash equivalents, the notes should reconcile the reporting classifications used in the balance sheet. (ASC 320-10-45-13) (FAS-115, par. 117)
12. For securities classified as available for sale, the following disclosures should be made, by major security type, as of each date for which a balance sheet is presented (ASC 320-10-50-2 through 50-4) (FAS-115, pars. 19 and 20; EITF 86-40):
    a. The aggregate fair value.
    b. Total gains for securities with net gains in accumulated other comprehensive income.
    c. Total losses for securities with net losses in accumulated other comprehensive income.
    d. Information about the contractual maturities of those securities as of the date of the most recent balance sheet presented. (*Note:* Maturity information may be combined in appropriate groupings. Securities that are not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; however, if allocated, the basis for the allocation should also be disclosed.)
13. For securities classified as held to maturity, the following disclosures should be made, by major security type, as of each date for which a balance sheet is presented (ASC 320-10-50-5) (FAS-115, par. 19):
    a. The aggregate fair value.
    b. Gross unrecognized holding gains.
    c. Gross unrecognized holding losses.
    d. Net carrying amount.
    e. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities.
    f. Information about the contractual maturities of those securities as of the date of the most recent balance sheet presented. (*Note:* Maturity information may be combined in appropriate groupings. Securities that are not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; however, if

allocated, the basis for the allocation should also be disclosed.)

14. The following disclosures should be made for each period for which an income statement is presented (ASC 320-10-50-9) (FAS-115, par. 21):
    a. The proceeds from sales of available-for-sale securities and the gross realized gains and gross realized losses on those sales that have been included in earnings.
    b. The method used to determine the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings (i.e., specific identification, average cost, or other method used).
    c. The gross gains and gross losses included in earnings from transfers of securities from the available-for-sale category into the trading category.
    d. The amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive income for the period.
    e. The amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period.
    f. The portion of trading gains and losses for the period that relates to trading securities still held at the balance sheet date.
15. For any sales of or transfers from securities classified as held-to-maturity, the following disclosures should be made in the notes to the financial statements for each period for which an income statement is presented (ASC 320-10-50-10) (FAS-115, par. 22):
    a. The net carrying amount of the sold or transferred security.
    b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security.
    c. The related realized or unrealized gain or loss.
    d. The circumstances leading to the decision to sell or transfer the security. (*Note:* Such sales or transfers should be rare, except for sales and transfers due to the changes in circumstances identified in ASC paragraphs 320-10-25-6(a) through (f) [FAS-115, par. 8].)

Impairment of Securities

1. For all investments in an unrealized loss position for which other-than-temporary impairments have not been recognized, the following disclosures should be made in the entity's annual financial statements (ASC 320-10-50-6 through 50-8) (FSP FAS 115-1 and FAS 124-1, par. 17):
   a. As of each date for which a balance sheet is presented, the following quantitative information, in tabular form, should be aggregated by each category of investment that the entity disclosed in accordance with ASC Subtopic 320-10 (FSP FAS 115-1 and FAS 124-1), and cost-method investments, and segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer:
      (1) The aggregate related fair value of investments with unrealized losses.
      (2) The aggregate amount of unrealized losses (i.e., the amount by which cost exceeds fair value).
   b. As of the date of the most recent balance sheet, additional *qualitative* information, in narrative form, that provides sufficient information to allow the financial statement users to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the conclusion that the impairments are not other-than-temporary, which could include:
      (1) The nature of the investment.
      (2) The cause of the impairment.
      (3) The number of investment positions that are in an unrealized loss position.
      (4) The severity and duration of the impairment.
      (5) Other evidence considered by the entity in reaching its conclusions that the investment is not other-than-temporarily impaired, including, for example, industry analyst reports, sector credit ratings, volatility of the security's fair value, and/or any other information that the entity considers relevant.

EXAMPLES OF FINANCIAL STATEMENT DISCLOSURES

The following sample disclosures are available on the accompanying disc.

Example 1: Accounting Policy Note Explains Classification of Marketable Securities as Held to Maturity, Trading, and Available for Sale

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Held-to-maturity securities are recorded as either short term or long term on the Balance Sheet, based on contractual maturity date and are stated at amortized cost. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt and marketable equity securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Example 2: Available-for-Sale Securities Are Classified as Debt and Equity Securities

Available-for-sale securities consist of the following:

	December 31, 20X2			
	Amortized Cost	*Gains in Accumulated Other Comprehensive Income*	*Losses in Accumulated Other Comprehensive Income*	*Estimated Fair Value*
U.S. government securities	$1,412,000	$ -0-	$ (6,000)	$1,406,000
Commercial paper	1,347,000	5,000	(2,000)	1,350,000
Corporate bonds	1,153,000	51,000	(17,000)	1,187,000
Fixed rate notes	100,000	-0-	-0-	100,000
Total debt securities	4,012,000	56,000	(25,000)	4,043,000
Common stock	822,000	100,000	(56,000)	866,000
Preferred stock	140,000	5,000	-0-	145,000
Total equity securities	962,000	105,000	(56,000)	1,011,000
Total available-for-sale securities	$4,974,000	$161,000	$(81,000)	$5,054,000

	December 31, 20X1			
	Amortized Cost	*Gains in Accumulated Other Comprehensive Income*	*Losses in Accumulated Other Comprehensive Income*	*Estimated Fair Value*
U.S. government securities	$1,161,000	$ -0-	$(4,000)	$1,157,000
Commercial paper	1,632,000	9,000	(6,000)	1,635,000

	December 31, 20X1			
	Amortized Cost	*Gains in Accumulated Other Comprehensive Income*	*Losses in Accumulated Other Comprehensive Income*	*Estimated Fair Value*
Corporate bonds	1,788,000	12,000	(73,000)	1,727,000
Fixed rate notes	150,000	-0-	-0-	150,000
Total debt securities	4,731,000	21,000	(83,000)	4,669,000
Common stock	615,000	37,000	(26,000)	626,000
Preferred stock	110,000	4,000	-0-	114,000
Total equity securities	725,000	41,000	(26,000)	740,000
Total available-for-sale securities	$5,456,000	$62,000	$(109,000)	$5,409,000

During the years ended December 31, 20X2, and December 31, 20X1, available-for-sale securities were sold for total proceeds of $823,000 and $617,000, respectively. The gross realized gains on these sales totaled $127,000 and $104,000 in 20X2 and 20X1, respectively. For purpose of determining gross realized gains, the cost of securities sold is based on specific identification. Net unrealized holding gains on available-for-sale securities in the amount of $127,000 and $53,000 for the years ended December 31, 20X2, and December 31, 20X1, respectively, have been included in accumulated other comprehensive income. Total other-than-temporary impairment recognized in accumulated other comprehensive income amounted to $50,000 and $45,000 at December 31, 20X2, and December 31, 20X1, respectively.

Contractual maturities of available-for-sale debt securities at December 31, 20X2, are as follows:

	Estimated Fair Value
Due in one year or less	$2,388,000
Due in 1–2 years	1,161,000
Due in 2–5 years	273,000
Due after 5 years	221,000
Total investments in debt securities	$4,043,000

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Example 3: Available-for-Sale Securities Are Classified as Current and Noncurrent Assets

Available-for-sale securities consist of the following:

	December 31, 20X2			
	Amortized Cost	*Gains in Accumulated Other Comprehensive Income*	*Losses in Accumulated Other Comprehensive Income*	*Estimated Fair Value*
Current:				
Auction rate securities	$2,800,000	-0-	-0-	$2,800,000
Municipal bonds and notes	748,000	-0-	(4,000)	744,000
Asset-backed securities	302,000	6,000	(2,000)	306,000
U.S. government obligations	675,000	12,000	(7,000)	680,000
Total current securities	4,525,000	18,000	(13,000)	4,530,000
Noncurrent:				
Auction rate securities	1,300,000	-0-	-0-	1,300,000
Municipal bonds	679,000	8,000	(6,000)	681,000
Corporate bonds	274,000	-0-	(9,000)	265,000
Common stock	413,000	47,000	(26,000)	434,000
Preferred stock	279,000	24,000	(13,000)	290,000
Total noncurrent securities	2,945,000	79,000	(54,000)	2,970,000
Total available-for-sale securities	$7,470,000	$97,000	$(67,000)	$7,500,000

	December 31, 20X1			
	Amortized Cost	*Gains in Accumulated Other Comprehensive Income*	*Losses in Accumulated Other Comprehensive Income*	*Estimated FairValue*
Current:				
Auction rate securities	$4,300,000	$ -0-	$ -0-	$4,300,000
Municipal bonds and notes	623,000	-0-	(3,000)	620,000
Asset-backed securities	291,000	4,000	(1,000)	294,000
U.S. government obligations	600,000	10,000	(6,000)	604,000
Total current securities	5,814,000	14,000	(10,000)	5,818,000
Noncurrent:				
Auction rate securities	1,450,000	-0-	-0-	1,450,000
Municipal bonds	610,000	7,000	(5,000)	612,000
Corporate bonds	296,000	-0-	(11,000)	285,000
Common stock	471,000	43,000	(29,000)	485,000
Preferred stock	342,000	28,000	(17,000)	353,000
Total noncurrent securities	3,169,000	78,000	(62,000)	3,185,000
Total available-for-sale securities	$8,983,000	$92,000	$(72,000)	$9,003,000

Proceeds from the sales of available-for-sale securities were $511,000 and $307,000 during 20X2 and 20X1, respectively. Gross realized gains on those sales during 20X2 and 20X1 were $107,000 and $95,000, respectively. Gross realized losses on those sales during 20X2 and 20X1 were $53,000 and $46,000, respectively. For purpose of determining gross realized gains and losses, the cost of securities sold is based on average cost. Net unrealized holding gains on available-for-sale securities in the amount of $10,000 and $36,000 for the years ended December 31, 20X2, and December 31, 20X1, respectively, have been included in accumulated other comprehensive income. Total other-than-temporary impairment recognized in accumulated other comprehensive income amounted to $160,000 and $130,000 at December 31, 20X2, and December 31, 20X1, respectively.

Contractual maturities of available-for-sale debt securities at December 31, 20X2, are as follows:

	Estimated Fair Value
Within one year	$4,530,000
After 1-5 years	2,050,000
After 5-10 years	196,000
	$6,776,000

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Example 4: Trading Securities

The Company's short-term investments comprise equity and debt securities, all of which are classified as trading securities and are carried at their fair value based on the quoted market prices of the securities at December 31, 20X2, and December 31, 20X1. Net realized and unrealized gains and losses on trading securities are included in net earnings. For purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

The composition of trading securities, classified as current assets, is as follows at December 31, 20X2, and December 31, 20X1:

	December 31, 20X2		*December 31, 20X1*	
	Cost	*Fair Value*	*Cost*	*Fair Value*
Treasury bills	$2,796,000	$2,796,000	$2,515,000	$2,515,000
Mutual funds	883,000	765,000	691,000	653,000
Common stock	617,000	501,000	574,000	452,000
Preferred stock	311,000	294,000	282,000	258,000
Total trading securities	$4,607,000	$4,356,000	$4,062,000	$3,878,000

Investment income for the years ended December 31, 20X2, and December 31, 20X1, consists of the following:

	20X2	*20X1*
Gross realized gains from sale of trading securities	$162,000	$ 129,000
Gross realized losses from sale of trading securities	(71,000)	(46,000)
Dividend and interest income	194,000	123,000
Net unrealized holding losses	(67,000)	(134,000)
Net investment income	$218,000	$ 72,000

Example 5: Held-to-Maturity Securities

At December 31, 20X2, and December 31, 20X1, the Company held investments in marketable securities that were classified as held to maturity and consisted of the following:

	December 31, 20X2			
	Amortized Cost	*Unrecognized Holding Gains*	*Unrecognized Holding Losses*	*Estimated Fair Value*
U.S. government securities	$4,997,000	$ 8,000	$ (3,000)	$5,002,000
States and municipalities	1,170,000	75,000	(10,000)	1,235,000
Corporate bonds	1,219,000	67,000	(11,000)	1,275,000
Total held-to-maturity securities	$7,386,000	$150,000	$(24,000)	$7,512,000

	December 31, 20X1			
	Amortized Cost	*Unrecognized Holding Gains*	*Unrecognized Holding Losses*	*Estimated Fair Value*
U.S. government securities	$3,624,000	$ 9,000	$ (2,000)	$3,631,000
States and municipalities	1,641,000	95,000	(16,000)	1,720,000

	December 31, 20X1			
	Amortized Cost	*Unrecognized Holding Gains*	*Unrecognized Holding Losses*	*Estimated Fair Value*
Corporate bonds	1,023,000	61,000	(13,000)	1,071,000
Total held-to-maturity securities	$6,288,000	$165,000	$(31,000)	$6,422,000

During the years ended December 31, 20X2, and December 31, 20X1, held-to-maturity securities were sold for total proceeds of $917,000 and $733,000, respectively. The gross realized gains on these sales totaled $58,000 and $64,000 in 20X2 and 20X1, respectively. For purpose of determining gross realized gains, the cost of securities sold is based on specific identification.

Contractual maturities of held-to-maturity securities at December 31, 20X2, are as follows:

	Net Carrying Amount
Due in one year or less	$1,380,000
Due in 2-5 years	5,481,000
Due in 6-10 years	525,000
Total investments in held-to-maturity securities	$7,386,000

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Example 6: Estimated Fair Value of Held-to-Maturity Securities Approximates Cost

At December 31, 20X2, and December 31, 20X1, the Company had marketable debt securities that were classified as held to maturity and carried at amortized cost. Held-to-maturity securities consisted of the following:

	20X2	*20X1*
Current:		
U.S. government securities	$1,714,000	$ -0-
Commercial paper	1,975,000	1,810,000
Certificates of deposit	1,315,000	600,000
Corporate notes	2,417,000	1,976,000

	20X2	*20X1*
Total current held-to-maturity securities	7,421,000	4,386,000
Noncurrent:		
U.S. government securities	3,411,000	3,100,000
Corporate notes	3,719,000	2,418,000
Total noncurrent held-to-maturity securities	7,130,000	5,518,000
Total held-to-maturity securities	$14,551,000	$9,904,000

At December 31, 20X2, maturities for noncurrent held-to-maturity securities were between one and two years. At December 31, 20X2, and December 31, 20X1, the estimated fair value of each investment approximated its amortized cost and, therefore, there were no significant unrecognized holding gains or losses.

Example 7: Decline in Market Value Is Considered Other Than Temporary

The Company invests in debt and equity securities of technology companies for business and strategic purposes. Investments in public companies are classified as "available for sale" and are carried at fair value based on quoted market prices. The Company reviews its marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in fair value. The Company considers the investee company's cash position, earnings and revenue outlook, stock price performance, liquidity and management ownership, among other factors, in its review. If it is determined that an other-than-temporary decline exists in a marketable equity security, the Company writes down the investment to its market value and records the related write-down as an investment loss in its Statement of Operations.

At December 31, 20X2, the Company wrote down to fair market value certain equity security investments. The write-down amounted to $157,000 and was due to a decline in the fair value of the equity security which, in the opinion of management, was considered to be other than temporary. The write-down is included in general and administrative expenses in the accompanying Statement of Operations for 20X2.

Example 8: Transfer of Held-to-Maturity Investments to Available-for-Sale Category

In March 20X2, the Company transferred all of its held-to-maturity investments to the available-for-sale category. Management determined that it no longer had the positive intent to hold its investment in securities classified as held-to-maturity for an indefinite period of time because of management's desire to have more flexibility in managing the investment portfolio. The securities transferred had a total amortized cost of $3,770,000, fair value of $3,862,000 and unrealized gross gains of $218,000 and unrealized gross losses of $126,000 at the time of the transfer. The net unrealized gain of $92,000 was recorded as other comprehensive income at the time of transfer.

Example 9: Pledged Investments

The Company has pledged certain held-to-maturity investments as collateral for payments due under operating leases and for a standby letter of credit related to an operating lease. Total amount of securities pledged at December 31, 20X2, was approximately $736,000, of which $400,000 is classified as a restricted investment. The operating leases expire at various dates through December 31, 20X5. The standby letter of credit expires on March 31, 20X3, but is automatically renewable through the underlying lease expiration date of March 31, 20X5.

Example 10: Impaired Securities—ASC Topic 320 Based on Guidance in FSP FAS 115-1 and FAS 124-1

> **Note:** To facilitate the illustration of narrative disclosures and for simplicity, this example presents only the quantitative information as of the date of the latest balance sheet. However, GAAP requires the quantitative information to be presented as of each date for which a balance sheet is presented.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 20X2:

	Less than 12 Months		*12 Months or More*		*Total*	
Description of Securities	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
U.S. Treasury obligations	$1,000,000	$ 15,000	$1,100,000	$ 20,000	$2,100,000	$ 35,000
Federal agency mortgage-backed securities	750,000	18,000	800,000	14,000	1,550,000	32,000
Corporate bonds	1,540,000	60,000	1,300,000	85,000	2,840,000	145,000
Total debt securities	3,290,000	93,000	3,200,000	119,000	6,490,000	212,000
Common stock	860,000	55,000	920,000	150,000	1,780,000	205,000
Total	$4,150,000	$148,000	$4,120,000	$269,000	$8,270,000	$417,000

The Company has determined that the unrealized losses are deemed to be temporary impairments as of December 31, 20X2. The Company believes that the unrealized losses generally are caused by liquidity discounts and increases in the risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets.

U.S. Treasury Obligations. The unrealized losses on the Company's investments in U.S. Treasury obligations were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

Federal Agency Mortgage-Backed Securities. The unrealized losses on the Company's investment in federal agency mortgage-backed securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

Corporate Bonds. The Company's unrealized losses on investments in corporate bonds relate to a $1,540,000 investment in ABC Company's Series B Debentures and a $1,300,000 investment in XYZ Company's Series C Debentures. The unrealized losses were primarily caused by (a) a recent decrease in profitability and near-term profit forecasts by industry analysts resulting from intense competitive pricing pressure in the manufacturing industry and (b) a recent sector downgrade by several industry analysts. The contractual terms of those investments do not permit ABC Company and XYZ Company to settle the security at a price less than the amortized cost of the investment. While the credit ratings of ABC Company and XYZ Company have decreased from A to BBB (S&P), the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the debentures would not be settled at a price less than the amortized cost of the investments. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, it does not consider the investment in the debentures of ABC Company and XYZ Company to be other-than-temporarily impaired at December 31, 20X2.

Common Stock. The Company's investments consist primarily of investments in common stock of companies in the consumer tools and appliances industry ($1,100,000 of the total fair value and $155,000 of the total unrealized losses in common stock investments) and the air courier industry ($680,000 of the total fair value and $50,000 of the total unrealized losses in common stock investments). Within the Company's portfolio of common stocks in the consumer tools and appliances industry (all of which are in an unrealized loss position) approximately 35% of the total fair value and 30% of the Company's total unrealized losses are in ABC Company. The remaining fair value and unrealized losses are distributed in four companies. The severity and duration of the impairment correlate with the weak sales experienced recently within the consumer tools and appliance industry. The Company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

The Company's portfolio of common stocks in the air courier industry consists of investments in 6 companies, 4 of which (or approximately 80% of the total fair value of the investments in the air courier industry) are in an unrealized loss position. The air courier industry and the Company's investees are susceptible to changes in the U.S. economy and the industries of their customers. A substantial number of their principal customers are in the automotive, personal computer, electronics, telecommunications, and related industries, and their businesses have been adversely affected by the slowdown of the U.S. economy, particularly during the first half of 20X2 when the Company's investments became impaired. In addition, the credit ratings of nearly all companies in the portfolio have decreased from A to BBB (S&P or equivalent designation). The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with those market developments. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

Example 11: Impaired Securities—ASC Topic 320 Based on Guidance in FSP FAS 115-2 and FAS 124-2

> **Note:** To facilitate the illustration of narrative disclosures and for simplicity, this example presents only the quantitative information as of the date of the latest balance sheet. However, GAAP requires the quantitative information to be presented as of each date for which a balance sheet is presented.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 20X2:

Description of Securities	*Less than 12 Months*		*12 Months or More*		*Total*	
	Fair Value	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
U.S. Treasury obligations	$1,000,000	$ 15,000	$1,100,000	$ 20,000	$2,100,000	$ 35,000
Federal agency mortgage-backed securities	750,000	18,000	800,000	14,000	1,550,000	32,000
Corporate bonds	1,540,000	60,000	1,300,000	85,000	2,840,000	145,000
Total debt securities	3,290,000	93,000	3,200,000	119,000	6,490,000	212,000
Common stock	860,000	55,000	920,000	150,000	1,780,000	205,000
Total	$4,150,000	$148,000	$4,120,000	$269,000	$8,270,000	$417,000

The Company has determined that the unrealized losses are deemed to be temporary impairments as of December 31, 20X2. The Company believes that the unrealized losses generally are caused by liquidity discounts and increases in the risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets.

U.S. Treasury Obligations. The unrealized losses on the Company's investments in U.S. Treasury obligations were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

Federal Agency Mortgage-Backed Securities. The unrealized losses on the Company's investment in federal agency mortgage-backed securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

Corporate Bonds. The Company's unrealized losses on investments in corporate bonds relate to a $1,540,000 investment in ABC Company's Series B Debentures and a $1,300,000 investment in XYZ Company's Series C Debentures. The unrealized losses were primarily caused by (a) a recent decrease in profitability and near-term profit forecasts by industry analysts resulting from intense competitive pricing pressure in the manufacturing industry and (b) a recent sector downgrade by several industry analysts. The contractual terms of those investments do not permit ABC Company and XYZ Company to settle the security at a price less than the amortized cost basis of the investment. While the credit ratings of ABC Company and XYZ Company have decreased from A to BBB (S&P), the Company currently does not expect ABC

Company and XYZ Company to settle the debentures at a price less than the amortized cost basis of the investments (i.e., the Company expects to recover the entire amortized cost basis of the security). Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in the debentures of ABC Company and XYZ Company to be other-than-temporarily impaired at December 31, 20X2.

Common Stock. The Company's investments consist primarily of investments in common stock of companies in the consumer tools and appliances industry ($1,100,000 of the total fair value and $155,000 of the total unrealized losses in common stock investments) and the air courier industry ($680,000 of the total fair value and $50,000 of the total unrealized losses in common stock investments). Within the Company's portfolio of common stocks in the consumer tools and appliances industry (all of which are in an unrealized loss position), approximately 35% of the total fair value and 30% of the Company's total unrealized losses are in ABC Company. The remaining fair value and unrealized losses are distributed in four companies. The severity and duration of the impairment correlate with the weak sales experienced recently within the consumer tools and appliance industry. The Company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

The Company's portfolio of common stocks in the air courier industry consists of investments in six companies, four of which (or approximately 80% of the total fair value of the investments in the air courier industry) are in an unrealized loss position. The air courier industry and the Company's investees are susceptible to changes in the U.S. economy and the industries of their customers. A substantial number of their principal customers are in the automotive, personal computer, electronics, telecommunications, and related industries, and their businesses have been adversely affected by the slowdown of the U.S. economy, particularly during the first half of 20X2 when the Company's investments became impaired. In addition, the credit ratings of nearly all companies in the portfolio have decreased from A to BBB (S&P or equivalent designation). The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with those market developments. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X2.

Other-Than-Temporary Impairments for Debt Securities

The Company recognizes other-than-temporary impairments (OTTI) for debt securities classified as available for sale in accordance with ASC 320 (based on FSP FAS 115-2 and FAS 124-2). Accordingly, the Company assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Company separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the income statement, but is recognized in other comprehensive income. Management believes that the Company will fully collect the carrying value of securities on which it has recorded a non-credit-related impairment in other comprehensive income.

The table below presents a roll-forward of the credit loss component recognized in earnings (referred to as "credit-impaired" debt securities). The credit loss component of the amortized cost represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which OTTI occurred prior to January 1, 20X2. OTTI recognized in earnings in 20X2 for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit-impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). The credit loss component is reduced if the Company sells, intends to sell or believes it will be required to sell previously credit-impaired debt securities. Additionally, the credit loss component is reduced if the Company receives or expects to receive cash flows in excess of what the Company previously expected to receive over the remaining life of the credit-impaired debt security, or if the security matures or is fully written down. Changes in the credit loss component of credit-impaired debt securities were as follows for the year ended December 31, 20X2:

Balance, January 1, 20X2	$ 250,000
Additions:	
Initial credit impairments	180,000
Subsequent credit impairments	50,000
Reductions:	
For securities sold	(25,000)
Due to change in intent to sell or requirement to sell	(10,000)
For increases in expected cash flows	(5,000)
Balance, December 31, 20X2	$ 440,000

Example 12: Auction Rate Securities Classified as Available-for-Sale Investments

At December 31, 20X2, and 20X1, the Company held $2,800,000 and $4,300,000, respectively, of auction rate securities, which are shown as a separately stated current asset in the accompanying financial statements. Also, at December 31, 20X2, and 20X1, the Company held $1,300,000 and $1,450,000, respectively, of auction rate securities related to the Company's standby letters of credit, which collateralize the leases for its Irvine and San Diego offices and are classified as other noncurrent assets. Auction rate securities are variable-rate bonds tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. The Company's investments in these auction rate securities are classified as available-for-sale securities. The securities are recorded at cost, which approximates fair market value because of their variable interest rates, which typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, the Company has the intent and ability to quickly liquidate these securities; therefore, the Company had no cumulative gross unrealized holding gains or losses, or gross realized gains or losses from these investments. All income generated from these investments was recorded as interest income.

Example 13: Auction Rate Securities Classified as Noncurrent Assets Due to Failed Auctions

The auction rate securities that the Company has invested in are typically re-auctioned every seven to twenty-eight days. However, as a result of liquidity conditions affecting capital markets, particularly in the U.S., specifically for asset-backed securities, every auction for the securities held by the Company over the last several months of 20X2 failed. Due to the failed auctions, the Company has recognized unrealized losses in other comprehensive income of $400,000 ($240,000 net of taxes) for the reduction in fair market value of these securities at December 31, 20X2. The Company believes that the decline in fair market value is indicative of the severe pressure from the sub-prime lending collapse, rather than specific concerns with respect to the issuers of the auction rate securities in which the Company has invested or the securities themselves. The auction rate securities in which the Company has invested consist of debt instruments and perpetual preferred securities. At December 31, 20X2, Moody's Investors Services ratings of these securities ranged from Aa to Aaa, and Standard and Poor's ratings ranged from AA to AAA.

The Company believes that the gross unrealized losses on these securities are temporary in nature and the Company has the intent and, it believes, the ability to hold these securities until they have recovered their cost basis. The Company currently anticipates that the market for these securities will be re-established within 18 to 24 months of December 31, 20X2, but it is possible that a recovery may occur beyond this time period. The Company believes that it has sufficient liquidity to meet its operating cash needs without the sale of these securities. As a result of the factors discussed above, the Company has classified these investments as non-current assets on the consolidated balance sheet at December 31, 20X2.