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'Auction Rates' Clip Tech Firms' Profits

Write-Downs Mount After Market Seizes Up For Cash Alternative

By **REBECCA BUCKMAN***March 28, 2008; Page C2*

Technology firms, which traditionally shunned debt and were thought to be relatively immune to a credit crunch, are seeing their earnings dented by holdings of auction-rate securities.

Dallas telecom company **MetroPCS Communications** Inc. recently took an \$83 million charge related to auction-rate securities, the arcane debt instruments -- once thought to be as safe as cash -- that are now nearly impossible to sell in today's jittery markets. Last Thursday, hand-held-device maker **Palm** Inc. said it, too, would take a charge for auction-rate holdings, though it hasn't disclosed how much.

Other tech companies, including Internet-service provider **EarthLink** Inc., said in recent regulatory filings that they may take charges. Though many companies likely won't take charges, accounting experts do expect more auction-rate hits in coming weeks as they disclose financial results for the quarter ending Monday.

It is yet another example of how the credit crisis that began with subprime-

Awash in Auction Rates

Selected technology companies that have disclosed holdings of auction-rate securities:

Company	Business	Holdings, in millions (as of date)
Monster Worldwide	Online job search	\$357 (Dec. 31)
Intuit	Financial software	\$328 (Jan. 31)
Palm	Handheld devices	\$74.7 (Feb. 29)
EarthLink	Internet service	\$60 (Feb. 27)
MetroPCS	Cellphone service	\$36* (Feb. 27)

*MetroPCS had held \$134 million; company took charges to earnings worth \$98 million in 2007, including \$83 million in the fourth quarter, to write down the value of the securities.

Sources: Securities and Exchange Commission filings, the companies.

mortgage woes is spreading to many corners of the financial markets, including companies that aren't laden with debt. The \$330 billion market for the securities -- long-term instruments with rates that reset frequently at auction -- has seized up, making it difficult for holders to convert them to cash.

Because of the tech industry's fast-growing and sometimes volatile nature, many publicly traded companies like to keep large cash balances and use stock to do deals. The auction-rate instruments were often touted by the banks that sold them as a higher-yielding alternative to cash.

Those large cash holdings may now come back to haunt. Starting next month, the list of companies disclosing large auction-rate holdings, and possibly taking earnings charges, "is going to grow pretty quickly," said Barry Silbert, chief executive of Restricted Stock Partners, a New York electronic-trading company that is trying to create a secondary market for auction-rate securities.

Although many tech companies said the instruments represent just a small percentage of their cash and they don't need to liquidate them soon, some "are going to need this cash eventually," Mr. Silbert said. He predicts 10% to 30% of the auction-rate securities market "will never trade at par again," and many firms will have to dump the securities at a steep loss -- if they can unload them at all.

That could have a big impact on some firms. Internet job-search company **Monster Worldwide Inc.** has 62% of its cash and short-term investments, or about \$357 million, parked in auction rates, J.P. Morgan Chase said in a research note last week. Because of that exposure, the investment bank predicted, "it is likely" Monster will have to suspend its stock-buyback plans and turn to loans to fund cash acquisitions.

In a statement, Monster, of New York, said it believes "its ability to generate strong cash flow and its existing cash on-hand is ample to execute its future strategies."

Meanwhile, EarthLink said in its annual report filed Feb. 28 that it held \$60 million in auction-rate securities, \$20 million of which had failed to settle at auction. Interest rates typically reset at auctions every seven to 35 days, but for the past several weeks there haven't been enough buyers for most auctions to succeed. The holders of the securities are then stuck with them.

EarthLink, based in Atlanta, said in the report there was "no assurance" that auctions for the rest of its securities would be successful, but "we do not anticipate the current lack of liquidity on these investments will affect our ability to operate our business as usual." The company said it had no comment beyond what it disclosed in the filing.

MetroPCS and Palm declined to comment. In a conference call last week, Palm disclosed it held \$74.7 million in illiquid auction-rate securities as of the end of its third quarter, Feb. 29. The Sunnyvale, Calif., company said it will take a write-down, but not for the entire amount.

Not all companies holding large auction-rate positions are taking write-downs. Financial-software maker **Intuit Inc.** has nearly one-third of its roughly \$1 billion in cash and short-term investments tied up in auction-rate securities, almost all of which are at least temporarily illiquid. The Mountain View, Calif., company said it isn't taking any action on those securities.

"Our position is, we've got plenty of cash," said Bob Lawson, Intuit's head of investor relations. "We're

collecting the interest, and things, I think, will sort out in the next few months." If the market doesn't revive in the next 12 months, he said the company will reclassify them as long-term holdings, from short-term holdings, on its balance sheet.

Charles Mulford, an accounting professor at the Georgia Institute of Technology, said if auctions are failing, the securities "really should be classified as long term." If the underlying creditworthiness of the auction-rate securities is strong and they still are delivering a strong rate of return, they could eventually be liquidated and a company wouldn't need to take a charge against earnings, he said.

Intuit said its auction-rate securities are backed by student loans, which Mr. Lawson said are further supported by the Education Department.

Some auction-rate securities "are more toxic than others," said Mark Scoles, a partner with accounting firm Grant Thornton LLP in Chicago. Some of the securities are bundles of other, risky investments, he said, and some of those instruments ran into trouble months ago; a few companies wrote down the value of auction-rate holdings as long ago as September, he said.

Because no one knows when, or if, the market for auction-rate securities will revive, "there is some leeway for companies to decide" how to treat the problem, said Reena Aggarwal, a finance professor at Georgetown University's McDonough School of Business. "It's a little bit of a gray area."

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