



Advancing quality
through transparency
Deloitte LLP 2011 report



A letter to stakeholders from Barry Salzberg, CEO of Deloitte LLP

Transparency regarding our structure and quality control systems is central to our commitment to audit quality and sustaining investor confidence. For that reason, we published our inaugural transparency report last year, and I am pleased now to follow up on that commitment with our second transparency report.

Transparency continues to be much discussed in the United States and around the globe. Given the unique responsibilities of the public company auditing profession to investors and the capital markets, I believe transparency is more critical now than ever, especially as it relates to Deloitte's governance, ethical standards, and — in particular — the system of quality control for our audit practice.

We know that all those concerned about the strength, stability, and vitality of the global economy and its capital markets have an interest in an open, well-informed debate about the role of organizations like ours that perform public company audits. We have played an important part in the markets for some 150 years now and are proud of the way we have contributed to the integrity of those markets throughout the ebb and flow of economic cycles. Today, the business and economic environment is characterized by dynamic, even disruptive change. Fortunately, confidence in U.S. financial markets continues to be strong, despite the lingering economic uncertainty. The Public Company Accounting Oversight Board through its standards setting and its inspection process helps us to concentrate on our shared objective: continuously improving audit quality to serve investors and the public interest. To that end, this report shares an up-to-date assessment of where we stand in pursuit of that mission.

Our values

- Integrity
- Extraordinary value to markets and clients
- Commitment to each other
- Strength from diversity

For Deloitte, the standard of excellence is embodied in our professionals, and I am enormously proud of their dedication to quality, integrity, professional excellence, and in particular our responsibilities as public company auditors. We have confidence in our professionals and our audits, but we recognize that we can never cease in our pursuit of the highest possible audit quality because ever-changing circumstances create new challenges and new opportunities for improvement.

We and all our stakeholders share a commitment to the strength of the capital markets. Day by day, decision by decision, we are devoted to integrity, professional excellence, and raising quality to ever higher levels. We thank you for your interest in this important endeavor.

Sincerely,



Barry Salzberg

Contents

5	Executive summary
10	Legal structure of Deloitte LLP
11	The Deloitte Touche Tohmatsu Limited network
12	U.S. governance
15	Ethics, independence, and quality
22	Quality controls specific to Deloitte & Touche LLP
36	External inspections of audit quality
41	U.S. litigation environment
42	Earnings of partners/principals
44	Financial and other information
46	List of public company audit clients

Executive summary

This report describes our commitment to quality, integrity, professional excellence, and our responsibilities as public company auditors, starting at the highest levels of our organization, along with the comprehensive framework of policies and procedures that support that commitment. While the report contains information relevant to all of our service lines, its focus is on the system of quality control that Deloitte & Touche LLP (the audit subsidiary of Deloitte LLP) has in place to deliver high-quality audits. In particular, this report addresses:

- Our legal structure and membership in the Deloitte Touche Tohmatsu Limited network
- Our governance structure
- Our ethics, independence, and quality control policies
- Our internal program to inspect audit quality, the inspection program of the Public Company Accounting Oversight Board (PCAOB), and the American Institute of Certified Public Accountants (AICPA) peer review, including the process that we follow to address weaknesses or deficiencies that we may note in our audits
- The U.S. litigation environment
- Our practices for the evaluation and compensation of our partners and principals
- Selected financial and other information

Legal structure of Deloitte LLP

Deloitte LLP and each of its four primary subsidiaries — Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Consulting LLP, and Deloitte Financial Advisory Services LLP (collectively known as the “Deloitte U.S. Entities”) — are registered in the state of Delaware as private, limited liability partnerships. Each of the subsidiary partnerships is capitalized separately, operates as a separate legal entity with its own management and governance, and provides a distinct array of services. This structure was designed to align our legal structure with the way we conduct our business. Deloitte LLP coordinates the activities of its subsidiaries, but does not directly serve any clients.

Deloitte & Touche LLP is the subsidiary of Deloitte LLP that provides audit and other attest services, as well as enterprise risk services, to clients. It is registered with the PCAOB to perform audits of U.S. public companies.

The Deloitte Touche Tohmatsu Limited network

Deloitte LLP is the U.S. member firm of the “Deloitte Network,” an association of firms that are members of Deloitte Touche Tohmatsu Limited (DTTL), an English company limited by guarantee. DTTL does not provide any professional services to clients or direct, manage, control, or own any interest in any member firm or any member firm’s affiliated entities.

Member firms in the Deloitte Network are not subsidiaries or branch offices of DTTL and do not act as agents for DTTL or other member firms. Rather, they are locally formed entities with their own ownership structure independent of DTTL that have voluntarily become members of the Deloitte Network with a primary purpose of coordinating their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management.

U.S. governance

Deloitte LLP is led by an elected chief executive officer (CEO) and an elected chairman. The Deloitte LLP CEO supervises the senior leadership team, which includes officers such as deputy CEOs, the chief financial officer, and the general counsel.

The Deloitte LLP chairman, independent of the CEO, heads the Deloitte LLP board of directors, which oversees the strategy and performance of Deloitte LLP’s senior management. The board also reviews and approves action on a variety of governance, operational, and administrative matters, including through various committees.

The Deloitte & Touche LLP chairman and CEO, who is appointed by Deloitte LLP, appoints the members to the Deloitte & Touche LLP board of directors, subject to ratification by the partners/principals of Deloitte & Touche LLP. The board of Deloitte & Touche LLP is responsible for the overall governance of the audit and enterprise risk services business.

Ethics, independence, and quality

The CEO of Deloitte LLP and the members of the senior management teams of the Deloitte U.S. Entities are responsible for setting a tone at the top that fosters an internal culture committed to the highest levels of ethical

behavior and quality. Ethics, independence, and quality are fundamental to the performance of audits and all our professional services, as well as to the reputation of the Deloitte U.S. Entities and the profession as a whole.

Our commitment to quality, across all our service lines, is based on four components:

- A technically and professionally qualified and effectively led team that is cognizant of the responsibilities of our audit practice to the investing public
- Responsive, timely, and consistent service
- An in-depth understanding of the client's business and environment
- Strong knowledge of the industry in which the client operates

To support this dedication to quality and integrity throughout the Deloitte U.S. Entities, Deloitte LLP has established a comprehensive quality control framework composed of an organizationwide focus on quality, along with ethical principles and independence requirements applicable across the entire organization.

Focus on quality

Each of Deloitte Tax LLP, Deloitte Consulting LLP, and Deloitte Financial Advisory Services LLP has designated lead quality partners/principals who are responsible for developing and implementing policies and procedures that address the specific quality control considerations of each business unit. The CEO of Deloitte & Touche LLP serves as chief quality officer of that partnership.

Ethics and compliance requirements

All partners/principals and professional staff of the Deloitte U.S. Entities are expected to adhere to the applicable provisions of the *Code of Professional Conduct* of the AICPA, as well as to all applicable ethics and conduct requirements of the PCAOB and the state boards of accountancy. Our *Code of Ethics and Professional Conduct* (the "Code") embodies the expectations for all personnel with regard to ethics and compliance standards, covering responsibilities to the public, to clients, and to each other.

The chief ethics and compliance officer is responsible for the ethics and compliance program of the Deloitte U.S. Entities, which includes learning programs that are mandatory for all personnel, as well as extensive internal communications to increase and maintain awareness of ethics and compliance matters. The chief ethics and compliance officer also monitors compliance with the Code and oversees the internal disciplinary process.

Independence requirements

All our partners/principals and professional staff are expected to adhere to the independence policies of the Deloitte U.S. Entities whether or not they are directly involved in delivering audit services. The chief ethics and compliance officer is responsible for monitoring personal independence compliance, including oversight of the independence systems and taking action on violations of policy. The national managing partner for independence consultations and the director of independence have joint responsibility for overseeing and managing the independence policies, including independence consultation and related learning programs.

Our internal independence policies are generally more restrictive than the external regulations established by the PCAOB, the Securities and Exchange Commission (SEC), the AICPA, state governments, and others with which we are required to comply.

Quality controls specific to Deloitte & Touche LLP

Deloitte & Touche LLP is the subsidiary of Deloitte LLP that provides audit and attest services and is registered with the PCAOB as a public company auditing firm. Our ongoing commitment to protecting the public trust through high-quality audits is central to our ability to serve our clients with distinction, and we have developed comprehensive policies and processes designed to enable us to deliver high-quality audits. These quality controls include major investments in the development of our people, rigorous standards for the acceptance and continuance of clients, and a comprehensive risk-based audit methodology, supported by specialized consultation resources.

Our monitoring and inspection activities examine compliance with our policies and focus on determining and remediating the root causes of audit performance deficiencies identified by internal processes or external inspections. The direct consideration of quality in our appraisal and compensation systems for employees and partners/principals further reinforces our commitment to quality and its direct importance to each professional.

The principal components of our quality control structure are as follows:

- **Human resources** — We recruit and develop personnel with the competencies and ethics needed to execute engagements in accordance with professional and regulatory standards. Our performance appraisal process includes specific quality goals for each level of professional.
- **Professional development** — We set rigorous requirements for continuing professional education for all client service professionals and monitor compliance with those requirements through an online system. A chief learning officer oversees the development and delivery of a curriculum that covers technical accounting and auditing matters, specialized industry matters, and a variety of leadership and professional topics. In 2010, we invested almost \$45 million in training and development for audit professionals. To further enhance the quality and effectiveness of learning for all the Deloitte U.S. Entities, we are constructing a state-of-the-art facility near Dallas, Texas, dedicated to continuous development of technical, industry, professional, and leadership skills.
- **The Professional Practice Network** — Our Professional Practice Network includes a full-time team of national consultation partners and other resources with the knowledge, competence, and authority to support the implementation of quality control policies and address technical accounting and auditing questions identified by engagement teams.
- **Consultation** — Our professionals are strongly encouraged, and in a number of circumstances required, to consult with the Professional Practice Network on a variety of topics. We continuously seek to improve our consultation process and resources. We have recently taken steps to enhance the consultation process and will continue to augment consultation resources as needs require.
- **Client acceptance and continuance** — Certain risk management procedures are essential in assessing potential clients, determining appropriate engagement terms, and identifying and addressing engagement-related risks. Considerations that factor into the client acceptance process include management's integrity, the management environment, independence and conflict of interest considerations, financial viability of the client, and risk factors relative to the client or the nature of the services being requested. On at least an annual basis, each audit client is evaluated to determine whether we will continue the client relationship.
- **Engagement risk assessment** — The focus of this process is to develop an audit approach tailored to the significant risks identified for each client and engagement. This process is designed to evaluate the risk of material financial statement misstatement and to inform decisions about the planning and performance of the audit based on such risks. The risk assessment begins during the client acceptance or continuance process and continues throughout the engagement.
- **Engagement performance** — The quality control mechanisms related to engagement performance build on the results of the risk assessment process, starting with the selection of the audit engagement team and the application of our risk-based audit approach, which includes specialists when needed. Our auditing and accounting manuals, other guidance, and regular communications also provide extensive support to each engagement.

- **Monitoring** — Our processes for monitoring audit quality start with the supervision and review activities incorporated into the conduct of each audit, along with the separate review procedures of the engagement quality control reviewer, who is not a member of the engagement team.

Additionally, we have a comprehensive internal inspection program to help us identify opportunities for improvements in our audit procedures and execution. The External Inspections group coordinates the annual PCAOB inspection of our audit practice, as well as the triennial peer review of our audits of nonpublic entities.

Our Risk Management Program provides an additional level of risk response and review for clients that are assessed as having much greater than normal risk. Our Assurance Insight and Analysis group evaluates selected engagements to identify opportunities for systemic improvements in our audit approach, training programs, and internal communications. Finally, our Leadership Oversight Committee provides attention to quality matters involving specific partners, principals, and directors.

External inspections of audit quality

PCAOB inspections

Annual PCAOB inspections are required for registered public accounting firms that perform more than 100 U.S. public company audits each year. The scope of the inspections includes specific audit and review engagements, quality control procedures, and other testing deemed appropriate by the PCAOB.

Deloitte & Touche LLP is supportive of and committed to working with the PCAOB to continue to strengthen trust in the integrity of the independent audit. Although the PCAOB's inspection process is not a component of our system of quality control, it serves to promote audit quality by focusing attention on the systems and controls we have in place to comply with applicable standards and requirements.

The PCAOB report on each inspection includes a public and a nonpublic portion. The public portion of the inspection report includes an overview of the inspection procedures

and observations on certain of the engagements inspected in that year. The full text of the public portion of the PCAOB's *2009 Report on Inspection of Deloitte & Touche LLP* and our related comments are available at http://pcaobus.org/Inspections/Reports/Documents/2010_Deloitte_Touche_LL.pdf. The nonpublic portion includes the PCAOB's observations on audit performance and on the firm's system of quality control.

The process of auditing public companies reflects the ever-changing economic environment and is a classic example of ongoing change and the need to focus on continuous improvement. We have confidence in our professionals and the many quality control programs that we have in place, and we believe that our current system of quality control fully meets professional standards. At the same time, we also recognize that our performance can always be improved.

We believe the PCAOB's observations are constructive. Each observation has been carefully considered, and we have taken what we believe to be appropriate steps to address the specific points made. We continually monitor the results of our efforts to address identified deficiencies and to continue to strengthen all aspects of our audit processes and will continue to invest significant funds and human capital in our continuous improvement efforts. We will undertake additional actions as necessary to be responsive to all inspection findings and to maintain and enhance quality in the face of increasing complexity in professional standards and the ever-changing economic environment.

Peer review

A peer review of Deloitte & Touche LLP's system of quality control for the accounting and auditing practice related to non-SEC clients is conducted once every three years by another major auditing firm as an independent reviewer. Our last peer-review report indicated that our system of quality control for our accounting and auditing practice applicable to non-SEC clients had been designed and was complied with during the peer-review year to provide Deloitte & Touche LLP with reasonable assurance of performing and reporting in conformity with applicable professional standards.

U.S. litigation environment

Similar to the experience of the public company auditing profession as a whole, we incur significant litigation costs. Many factors unrelated to audit quality drive the number of claims and settlements, such as trends in the economy and the capital markets or in specific industries. We consider some level of exposure to professional liability to be appropriate, and we believe that we can sustain our operations and deliver high-quality audits with the current level of litigation cost. Nevertheless, we are deeply concerned by the very real possibility of a catastrophic loss due to potentially unlimited liability. Such a loss would threaten the economic sustainability of even the largest firms and put the capital markets and investors at risk of severe disruption in the public company audit market.

Earnings of partners/principals

The compensation practices of the Deloitte U.S. Entities are designed to comply with applicable independence requirements; to emphasize the shared values of quality, integrity, and professional excellence; and to assess the characteristics and skills outlined in our human resources competency model. Each year, partners/principals establish goals and receive appraisal ratings based on their actual performance against those goals. As an important part of the annual appraisal process, partners/principals in Deloitte & Touche LLP receive a quality rating reflecting their actual performance in relation to specific quality attributes. For audit partners, the quality rating accounts for at least half of the partner's overall rating and is a key consideration in deployment and earnings allocation. Furthermore, audit partners are prohibited from receiving compensation, bonuses, or other direct financial incentives for selling products or services, other than audit, review, or assurance-related services, to their audit clients.

Selected 2010 financial information

Total revenue of the Deloitte U.S. Entities for the 2010 fiscal year was \$10.9 billion. At the end of our 2010 fiscal year, we had almost 4,300 partners, principals, and directors and nearly 46,000 total personnel. Approximately 43 percent of our personnel are women and 33 percent are minorities. Additional financial and statistical information is included on pages 44–45.

Deloitte and the public trust

"I would like to challenge each of you to continue to do all that you can to:

- *Improve the objectivity and integrity required of us as professionals;*
- *Continue to identify strong leaders in this profession who have a clear record of acting in the interest of investors and the public, and*
- *Explore ways that we as professionals may be able to show leadership in enhancing trust."*

— James L. Kroeker, Chief Accountant, U.S. Securities and Exchange Commission, Remarks Before the 2010 AICPA National Conference on Current SEC and PCAOB Developments

Public company audits are a core contributor to the public trust and confidence in the capital markets. As a result, audit quality matters today more than ever — because it directly impacts the public trust in the capital markets. Our regulator, the PCAOB, is relentless in its focus on quality — as it should be, because its role serves to build confidence in the integrity of the independent audit process.

At Deloitte, we understand and embrace this public interest role. Auditing is the heart of what we do and the foundation for the public accounting profession. Our organization takes seriously our responsibilities to serve investors and the capital markets, and we are dedicated to building confidence in the independent audit process. These objectives are not something vague or abstract; they are fundamental to our professional responsibility to the public trust and to our reputation.

As professionals, we are committed to the highest standards of integrity, objectivity, ethics, and public service. As an organization, we are committed to continuing to make whatever investments are needed to ensure that audit quality is never compromised.

This second transparency report reflects our desire for U.S. investors, regulators, and the companies we audit to understand our commitment to audit quality. We are proud to continue to lead in publishing this information which we believe will serve to strengthen confidence in the independent audit process.

Legal structure of Deloitte LLP

Overview

Deloitte LLP and each of its four primary subsidiaries — Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Consulting LLP, and Deloitte Financial Advisory Services LLP (collectively known as the "Deloitte U.S. Entities") — are registered under the laws of the State of Delaware as private, limited liability partnerships. Deloitte LLP coordinates the activities of its subsidiaries, but does not directly serve any clients.

Deloitte & Touche LLP is the subsidiary of Deloitte LLP that provides audit and other attest services, as well as enterprise risk services, to clients. It is registered with the PCAOB to perform audits of U.S. public companies.

The Deloitte U.S. Entities

Deloitte LLP and each of its four primary subsidiaries — Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Consulting LLP, and Deloitte Financial Advisory Services LLP — are private partnerships registered under the laws of the State of Delaware as limited liability partnerships. These subsidiaries provide audit, tax, consulting, and financial advisory services, respectively.

Each of the subsidiary partnerships is capitalized separately, operates as a separate legal entity with its own management and governance, and provides a distinct array of services. This structure was designed to align our legal structure with the way we conduct our business. Each of these four subsidiaries is owned by Deloitte LLP and by partners/principals who actively participate in the practice of that subsidiary. Deloitte LLP facilitates the coordination of the activities of its subsidiaries and has a management structure and a board of directors to provide governance across the organization. Deloitte LLP does not provide services to clients; services are performed by each of the primary subsidiaries.

The subsidiary partnerships licensed to practice public accounting in various states (all except Deloitte Consulting LLP) and their partners/principals are also subject to the requirements of state laws regarding the licensing of certified public accountants (CPAs) and the operations of the partnerships.

Deloitte & Touche LLP

Deloitte & Touche LLP is the subsidiary of Deloitte LLP that provides audit and other attest services, as well as enterprise risk services, to clients and is registered with the PCAOB to perform audits of U.S. public companies. Enterprise risk services may assist clients in identifying and assessing uncertainties related to strategic, financial, operational, and technology risks. Enterprise risk services professionals play an important role in audit delivery as technology and risk specialists.

The Deloitte Touche Tohmatsu Limited network

Overview

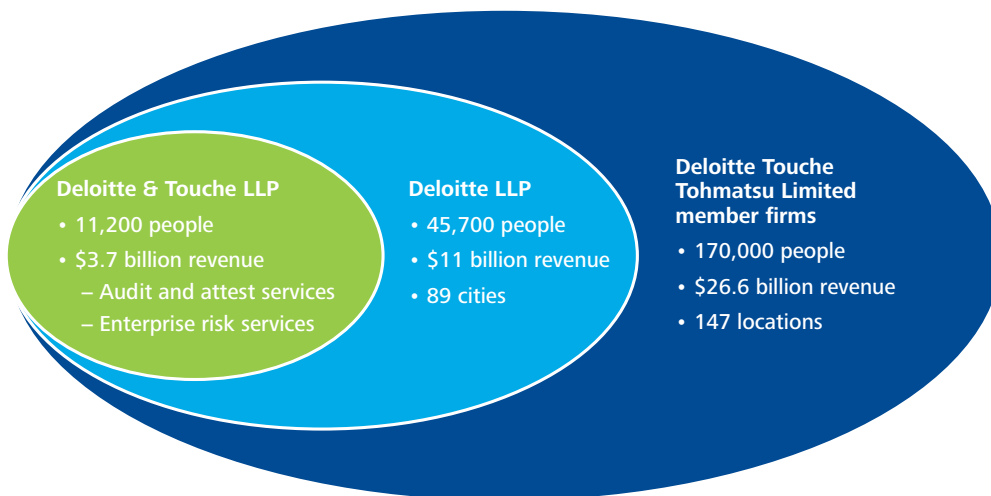
Deloitte LLP is the U.S. member firm of the “Deloitte Network,” an association of firms that are members of Deloitte Touche Tohmatsu Limited, an English company limited by guarantee. Member firms are locally formed entities with their own ownership structure independent of DTTL that have voluntarily become members of the Deloitte Network with a primary purpose to coordinate their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management.

Deloitte LLP is the U.S. member firm of the Deloitte Network. The Deloitte Network is an association of firms that are members of DTTL.

DTTL does not provide any services to clients or direct, manage, control, or own any interest in any member firm or any member firm affiliates. Member firms in the Deloitte Network provide services to clients either directly or through their affiliates (member firms and their affiliates are collectively referred to herein as “member firms”).

Member firms operate under the Deloitte brand and related names. These names include “Deloitte,” “Deloitte & Touche,” “Deloitte Touche Tohmatsu,” and “Tohmatsu.” Member firms provide professional services in particular geographic areas and are subject to the laws, regulations, and professional requirements of the jurisdictions in which they operate. Each member firm is structured in accordance with, among others, national laws, regulations, and customary practice.

Member firms are not subsidiaries or branch offices of DTTL and do not act as agents for DTTL or other member firms. Rather, they are locally formed entities with their own ownership structure independent of DTTL that have voluntarily become members of the Deloitte Network with a primary purpose to coordinate their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management. DTTL has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct, and service in all member firms. This structure confers significant strengths, combining high-quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.



Note: This graphic of network relationships is not intended to reflect actual legal structure.

U.S. governance

Overview

Deloitte LLP is led by an elected CEO and an elected chairman. The Deloitte LLP CEO supervises the senior leadership team, which includes officers such as the deputy CEOs, the chief financial officer, and the general counsel. The Deloitte LLP chairman, independent of the CEO, heads the Deloitte LLP board of directors, which oversees the strategy and performance of Deloitte LLP's senior management.

The Deloitte & Touche LLP chairman and CEO, who is appointed by Deloitte LLP, appoints members to the Deloitte & Touche LLP board of directors. The board of Deloitte & Touche LLP is responsible for the overall governance of the audit and enterprise risk services business.

Deloitte LLP

Deloitte LLP is led by an elected CEO and an elected chairman. The Deloitte LLP CEO supervises the senior leadership team, which currently includes:

- A deputy CEO and senior advisor
- A deputy CEO and regulatory and public policy leader
- A chief quality officer
- A general counsel
- A leader for leadership development and succession
- An operations leader
- A chief financial officer
- A talent (human resources) leader
- A leader of client and marketplace services
- An industry programs leader
- A leader for cooperation in the Americas region
- A business strategy leader

The Deloitte LLP chairman, independent of the CEO, heads the Deloitte LLP board of directors. The board oversees the strategy and performance of Deloitte LLP's senior management. It also reviews and approves action on a variety of governance, operational, and administrative matters, including through various committees. The Deloitte LLP board includes the chairman, CEO, and, when applicable, an elected senior partner/principal (the designation given to a U.S. partner/principal if he or she serves as DTTL CEO). The remaining 18 board seats are held by elected partners/principals of Deloitte LLP and its subsidiaries.

The CEO, chairman, and other board members are recommended for election by a nominating committee of partners/principals. Before recommending candidates, the nominating committee conducts interviews of a large number of partners/principals to obtain insights on attributes for elected leaders and on specific candidates.

The recommended candidates must be approved by two thirds of all voting partners/principals. Board members (other than the chairman, CEO, and senior partner/principal) are elected for three-year staggered terms, with a limit of two consecutive terms. The CEO and chairman are limited to two consecutive four-year terms in their respective positions and serve on the board for the length

of their terms. Two thirds or more of the members of the board are licensed certified public accountants.

It is the practice of the Deloitte LLP board to invite the general counsel and the deputy CEO for regulatory and public policy to all board meetings in order to consider the legal and regulatory implications of all matters.

Members of the Deloitte LLP Board of Directors

Sharon L. Allen, CPA, Chairman of the Board

Barry Salzberg, CPA, Deloitte LLP CEO

James H. Quigley, CPA, Senior Partner (DTTL CEO)

Carl S. Allegretti, CPA	Homi D. Kapadia
Jeffrey H. Black, CPA	Daniel S. Lange, CPA
Jessica L. Blume	Jim S. Moffatt
Deborah L. DeHaas, CPA	Carlos A. Sabater, CPA
Gregory T. Durant, CPA	John D. Salata, CPA
Erik D. Gilberg	Sandra T. Shirai
John J. Grant, CPA	Ellen Stafford-Sigg
Kathryn A. Hollister, CPA	Gregory Swinehart, CPA
Daniel W. Jones, CPA	Gregory G. Weaver, CPA

Committees of the Deloitte LLP Board of Directors

Elected leaders succession

Evaluation

Finance and audit

Global

Governance

Partner earnings and benefits

Risk

Strategic investment

The Deloitte LLP Senior Leadership Team

Barry Salzberg, CPA, Chief Executive Officer

Mumtaz Ahmed, Chief Strategy Officer	John M. Levis, Managing Principal — Region
Cathleen A. Benko, Chief Talent Officer	William F. Lloyd, General Counsel
Brian L. Derksen, CPA, Deputy CEO	Raymond W. Lombardi, CPA, Chief Quality Officer
Joseph J. Echevarria, CPA, Managing Partner — Operations	Karen S. Mazer, Managing Principal — Industries
William C. Freda, CPA, Managing Partner — Clients & Markets	Maritza G. Montiel, CPA, Managing Partner — Development and Succession
Robert J. Kueppers, CPA, Deputy CEO — Regulatory & Public Policy	Jeffrey P. Rohr, CPA, Chief Financial Officer

Deloitte & Touche LLP

The Deloitte & Touche LLP chairman and CEO is appointed by Deloitte LLP, approved by the Deloitte LLP board, and ratified by the Deloitte & Touche LLP partners/principals. The Deloitte & Touche LLP chairman and CEO appoints members to the Deloitte & Touche LLP board of directors — the senior governing body — subject to ratification by the partners/principals of Deloitte & Touche LLP.

The board of Deloitte & Touche LLP is responsible for the overall governance of the audit and enterprise risk services business. Specific responsibilities include, among others, approving the admission of partners/principals, allocation

of units and earnings to partners/principals, the financial aspects of business plans, business combinations and dispositions, severance arrangements, and involuntary terminations.

Senior management of Deloitte & Touche LLP develops the strategy for the audit and enterprise risk services business, consistent with the overall strategic direction established by Deloitte LLP, and oversees its implementation, including related policies, procedures and leadership appointments. In all of their activities, Deloitte & Touche LLP senior management is responsible for the overarching objective of audit quality, including compliance with applicable professional standards and regulatory requirements.

Members of the Deloitte & Touche LLP board of directors (all CPAs)

Stephen C. Van Arsdell, Chairman, CEO, and Chief Quality Officer

Larry R. Baldwin	Jeffrey M. Kottkamp	Richard H. Rosenbloom
Kathryn M. Benesh	Mark Layton	Owen M. Ryan
James Brady	Christopher G. Lee	Carlos A. Sabater
Eric J. Hespenheide	Timothy J. McCarty	James V. Schnurr
Steven P. Johnson	Margaret V. Mulley	Nicholas F. Tommasino
William J. Kacal	Rick W. Rayson	

The Deloitte & Touche LLP Senior Leadership Team (all CPAs)

Stephen C. Van Arsdell, Chairman, CEO, and Chief Quality Officer

Kathryn M. Benesh, Deputy Chief Quality Officer — Advisory Services	Owen M. Ryan, Advisory Services Leader
William T. Platt, Professional Practice Leader and Deputy Chief Quality Officer — Attest	Carlos A. Sabater, Audit Leader
Rick W. Rayson, Chief Talent Officer	Jeffrey J. Stengel, Internal Inspections Leader
Richard H. Rosenbloom, Chief Operating Officer	Stephen Thibault, Monitoring and Remediation Leader

Ethics, independence, and quality

Overview

The CEO of Deloitte LLP and the members of the senior management teams of the Deloitte U.S. Entities are responsible for setting a tone at the top that fosters an internal culture committed to the highest levels of ethical behavior and quality. To support this dedication to quality and integrity throughout the Deloitte U.S. Entities, Deloitte LLP has established a comprehensive framework composed of a focus on quality, ethical principles, and independence requirements applicable across our entire organization, along with specific quality control measures relevant to the different services that we provide. Deloitte & Touche LLP has instituted additional quality control policies and systems that apply specifically to the U.S. accounting and auditing practice.

One of the most important responsibilities of the senior management of the Deloitte U.S. Entities is to set a tone at the top that emphasizes our commitment to the highest levels of ethical behavior and quality. The CEO of Deloitte LLP and the members of the senior management teams are ultimately responsible for building and fostering an internal culture that continually reinforces ethics, independence, and quality as fundamental to the performance of audits and other professional services, as well as to the reputation of all the Deloitte U.S. Entities and the profession as a whole. Integrity and quality are at the heart of our organizationwide commitment to client service excellence and continuous improvement and are pervasive themes in senior management communications. Our commitment to quality, across all our service lines, is based on four components:

- A technically and professionally qualified and effectively led team that is cognizant of the responsibilities of our audit practice to the investing public
- Responsive, timely, and consistent service
- An in-depth understanding of the client's business and environment
- Strong knowledge of the industry in which the client operates

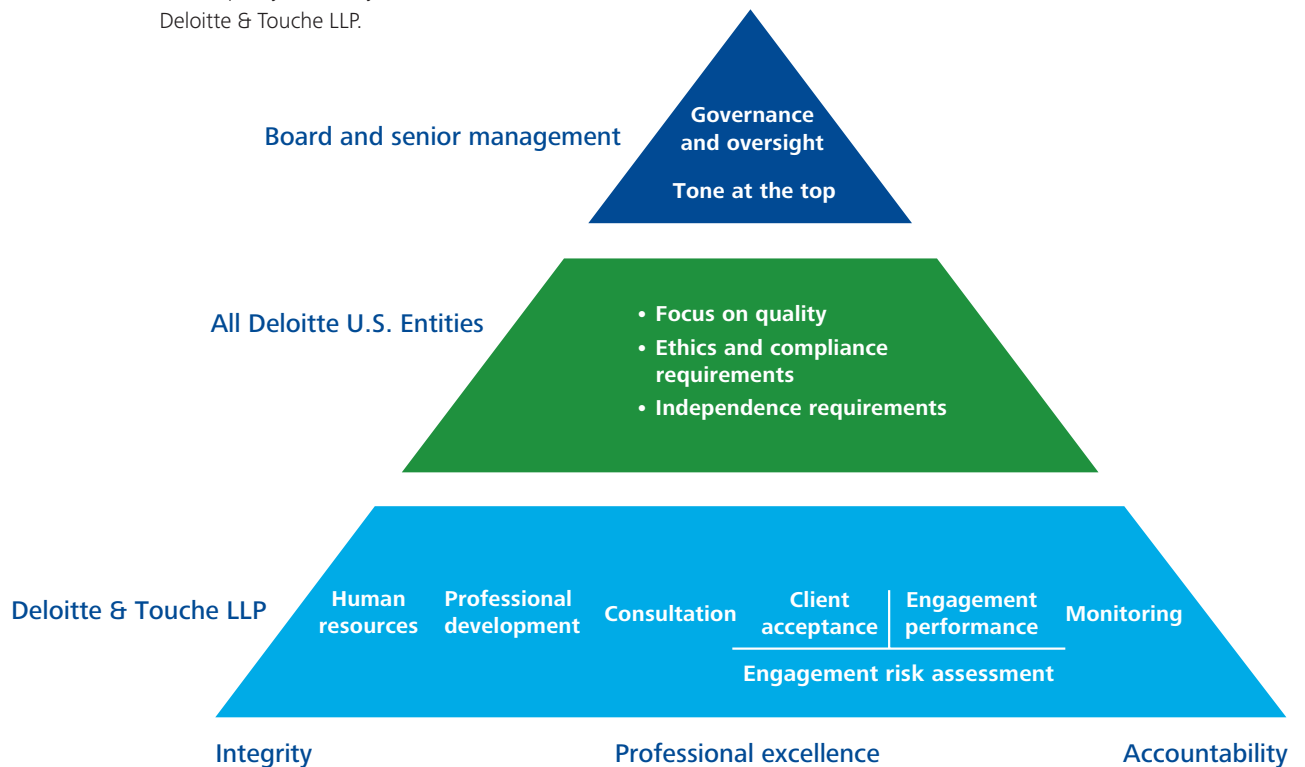
To support this dedication to quality and integrity throughout all the Deloitte U.S. Entities, Deloitte LLP has established a comprehensive quality control framework,

which is outlined in the accompanying diagram. This framework comprises a focus on quality, ethical principles, and independence requirements applicable across our entire organization, as well as specific quality control measures relevant to the different services that we provide. The quality control framework is designed to take into consideration our professional responsibilities, as well as the risks we face.

Deloitte & Touche LLP has instituted additional quality control policies and systems that apply specifically to the U.S. accounting and auditing practice and reflect the professional standards, laws, and regulations relevant to U.S. public company auditing firms, as established by the PCAOB, the SEC, the AICPA, state governments, and others. These policies and systems, described in a later section, focus on the key components of the delivery of high-quality audit services, including the hiring and development of staff, the acceptance and continuance of clients, the performance of audit engagements, and monitoring activities. They are designed to enable Deloitte & Touche LLP to deliver high-quality auditing services and to comply with applicable professional standards and regulatory and legal requirements.

Accountability is a critical element of the quality control system, and it is directly related to senior management's commitment to quality. Monitoring processes, both internal and external, focus on maintaining compliance with ethical and professional standards at all levels, including requirements applicable to individual professionals, engagements, and the organization overall.

The following diagram summarizes the key components of the quality control systems of Deloitte LLP and Deloitte & Touche LLP.



Focus on quality

Each of Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Financial Advisory Services LLP, and Deloitte Consulting LLP has designated a lead quality partner/principal. These individuals are responsible for developing and implementing policies and procedures that address the specific quality control considerations for each individual business unit. The CEO of Deloitte & Touche LLP serves as the chief quality officer of that partnership. The lead quality partners/principals work closely with the general counsel of Deloitte LLP and with the deputy CEO — regulatory and public policy, who monitors the regulatory environment in which the Deloitte U.S. Entities practice and coordinates overall relations with regulatory groups.

Ethics and compliance requirements

All partners/principals and professional staff of the Deloitte U.S. Entities are expected to adhere to the applicable provisions of the AICPA *Code of Professional Conduct*, as well as all applicable ethics and conduct requirements of the PCAOB and the state boards of accountancy. A separate but substantially identical version of our Code of Ethics and Professional Conduct (the Code) has been adopted by each of the Deloitte U.S. Entities.

The Code is available online and reflects the expectations for all personnel with regard to ethics and compliance standards, covering responsibilities to the public, to clients, and to each other. The Code is one of management’s

primary means of communicating with all personnel as to their professional and ethical responsibilities, and it provides guidance regarding appropriate standards of conduct as well as information about the many ethics and compliance resources that are available to personnel.

The chief ethics and compliance officer is responsible for the ethics and compliance program of the Deloitte U.S. Entities, which includes mandatory training programs and an extensive internal communications program to increase and maintain awareness of ethics and compliance matters. The chief ethics and compliance officer also monitors compliance with the Code and oversees the internal disciplinary process.

In 2010, we rolled out a new communications program called Defining Moments, where we highlight situations in personal and professional life that teach ethics lessons. We also integrated realistic scenarios into our updated Ethics in Action classroom training program for all new hires and our new ethics and compliance refresher training program that all personnel will be required to complete in 2011.

Licensing

All professionals of the subsidiary partnerships licensed to practice public accounting in various states (Deloitte LLP, Deloitte & Touche LLP, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP) who have passed the U.S. Uniform CPA Examination and have met the applicable experience and other certification requirements are required to hold active CPA licenses in the state where their office is located and in certain circumstances in the state where they were originally licensed. Individuals serving clients in other states may also be required to obtain reciprocal licenses or temporary permits or to adhere to the mobility of practice requirements of the other states. Professionals are required to enter their licensing information in an intranet database, which is monitored and selectively verified by National Office — Ethics and Compliance.

Our entire business model depends on trust. Each of us has the responsibility to act with personal and professional integrity and trust — that's the power of one.

Michael E. Zychinski

Chief Ethics and Compliance Officer
Deloitte LLP

Compliance dashboards

Individualized online compliance dashboards provide personnel with a means to track their compliance status for various requirements, such as licensing and continuing professional education.

Integrity Helpline

Our Integrity Helpline enables personnel to seek assistance or report potential ethics violations confidentially and anonymously, if so desired. The Integrity Helpline is available at any time via a toll-free telephone number or the Internet. Each contact to the Integrity Helpline is reviewed and, when warranted, cases are investigated and action is taken. In calendar year 2010, the Integrity Helpline received 811 contacts. Approximately 68 percent of those contacts were simple inquiries or requests for information. The remaining 32 percent were individually investigated, and action was taken in cases (approximately 110 in total) where behavior was deemed inconsistent with the Code. These actions included counseling of individuals, adjustments to assignments or compensation, formal reprimands, or termination/separation from the Deloitte U.S. Entities. In 2010, six people were terminated/separated for issues brought to our attention through the Integrity Helpline.

Helpline statistics for 2010

- Number of contacts to the Helpline — 811
- Inquiries or requests for information — 68 percent
- Contacts investigated — 32 percent

An independence inquiry

Joe Friedman, a Deloitte Consulting LLP senior manager from the Minneapolis office, sees Cathy Smith, a Deloitte & Touche LLP Audit partner, at an office meeting, and she asks about a home equity line of credit he is establishing.

Cathy: "Hi Joe. Good to see you. How are you? Did you ever get the home equity line of credit you were going to get set up?"

Joe: "Well, I'd planned to set it up with M&A Bank but wasn't able to use them. When I checked the independence list, I saw that M&A Bank is a restricted entity for our office. So I reviewed our policy on loans from restricted entities, and then I called the Compliance HelpDesk to be sure I understood the requirements.

Cathy: "What did they say?"

Joe: "They said that the key factor is that M&A Bank is an attest client served by the office where I reside. Although I belong to the consulting function and don't serve this bank in any capacity, I can't set up the line of credit because I'm subject to the manager-level independence rules. Those rules require that I not have any direct or material indirect financial interest in an attest client of my resident office. Investments and loans are both direct financial interests.

Cathy: "As a new partner with Deloitte, I'm especially conscious of the importance of our independence rules. And for you as a senior manager, I'm sure you appreciate your professional responsibility to remain unbiased and free from conflicts of interest — both in fact and appearance when serving clients. We all have a personal stake in meeting the independence requirements that help us sustain the public's and our clients' trust. Were you able to set up a line of credit with some other bank?"

Joe: "Yes. I set it up with Frontier Bank, which is not a restricted entity for our office. And thanks to a helpful tip from the Compliance HelpDesk, I also remembered to report this new loan in my Tracking and Trading portfolio within the required 10-day timeframe."

Cathy: "Great. I'm glad you were able to resolve everything. Hope you got a good interest rate! See you later, Joe."

Joe: "So long, Cathy."

Personal representations

All personnel are required to provide an annual ethics and independence representation to confirm that they have read, understood, and complied with all applicable provisions of the Code, as well as the independence policies and guidance described further below. A significant sample of those representations, as they relate to partners/principals and other management level professional service personnel, is reviewed each year. Effective January 2010, all partners/principals and directors provide representations semiannually to further enhance our self-reporting procedures and our commitment to compliance.

Independence requirements

Our independence requirements apply to personnel of all the Deloitte U.S. Entities, whether or not they are directly involved in delivering audit services. The chief ethics and compliance officer is responsible for monitoring personal independence compliance, including oversight of the independence systems and taking action on violations of policy. The national managing partner for independence consultations and the director of independence have joint responsibility for overseeing and managing the independence policies and related training, including the organization and staffing of the independence consultation function.

Our internal independence policies are generally more restrictive than those external rules established by the PCAOB, the SEC, the AICPA, state governments, and others with which we are required to comply. We strive to maintain a culture that fosters compliance with regulatory independence requirements, and we continue to enhance our independence systems and controls to improve compliance.

The independence systems and controls address the following areas:

1. Tone throughout the organization
2. Written independence policies and independence training
3. Individual compliance and internal monitoring
4. Reporting by personnel of employment negotiations
5. Reporting by personnel of apparent independence violations
6. Disciplinary policies
7. Scope of services for attest clients
8. Business relationships and alliances, commissions, and contingent fees
9. Policies and processes of member firms of DTTL

1. Tone throughout the organization

Senior management sets the tone at the top and instills the importance of our professional values and culture by emphasizing the importance of independence and ethical behavior, both in fact and in appearance, throughout our professional practice. Senior management communications reinforce each individual professional's responsibility to understand and comply with the independence standards and other regulatory requirements. During 2010, we initiated a program to actively involve all levels of management of the Deloitte U.S. Entities in delivering these messages on the purpose and importance of independence compliance.

2. Written independence policies and independence training

In large part, the effectiveness of our controls relating to independence results from written policies and guidance that cover all aspects of independence for the Deloitte U.S. Entities, our benefit plans and foundations, our professionals, and certain relatives of professionals. These policies and guidance are designed to comply with the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* and the SEC, PCAOB, and AICPA independence rules, as well as applicable state and other requirements. Our independence policies and guidance are available electronically to all personnel of the Deloitte U.S. Entities.

Policies without reinforcement and consequences do not ensure compliance. We have a comprehensive set of independence training courses that are required for all professional personnel. The content of the training courses is focused on our policies, and it is tailored and regularly updated to highlight current changes in the profession and specific situations that personnel of the Deloitte U.S. Entities may encounter. Additionally, we have enhanced our disciplinary policies as discussed later in this section.

In 2009, we introduced a mandatory online training course, "The Power of One," on the importance of individual actions related to independence, ethics, and compliance. Among other topics, that course addressed our responsibilities to preserve the confidentiality of proprietary and nonpublic information and provided insights on what actions may constitute insider trading. An independence, ethics, and compliance refresher course will be required for all personnel in 2011 and will include an independence update focusing on the topics that have raised the greatest number of questions or consultations since the Power of One's original release.

3. Individual compliance and internal monitoring

The controls related to personal independence of our professionals include integrated systems for maintaining information about entities that are restricted for independence purposes and for tracking and monitoring the investments of applicable personnel.

The Deloitte Entity Search and Compliance (DESC) System

DESC is a DTTL-operated system that contains information regarding certain entities that are "restricted" for independence purposes. DESC provides professionals with information to assist them in making decisions concerning personal investments and financial relationships. It also assists in determining whether certain types of services may be provided to an entity.

Investor perceptions — The Center for Audit Quality's Fourth Annual Survey

For the past four years, the Center for Audit Quality has sponsored the Main Street Investor Survey of investor perceptions of the capital markets. The latest survey, issued in the summer of 2010, showed that despite fluctuating markets over the preceding year, individual investors maintain confidence in publicly traded U.S. companies and in audited financial information.

For the third year in a row, 75 percent of respondents in the individual investor survey said they have confidence investing in U.S. public companies. Similarly, investor confidence in audited financial information released by public companies remains strong at 70 percent, unchanged from the prior year.

Investor confidence in the overall capital markets declined somewhat, with confidence in U.S. capital markets dropping from 73 percent in 2009 to 68 percent in 2010. Confidence in capital markets outside the United States continued a decline that began in 2008, falling 10 percentage points in the past year to 47 percent. Roughly half (48 percent) of investors said they had changed their investment behavior in the previous six months in reaction to the economy, down from 61 percent in 2009.

When asked who does the best job of protecting their interests aside from themselves, one third of investors cite public company auditors as their first or second choice.

The full survey is available at <http://www.thecaq.org>.

Tracking & Trading System

The Tracking & Trading System assists partners/principals and other management-level professionals in monitoring their compliance with independence requirements related to personal investments and financial relationships. These individuals are required to use the system to report the names of most securities and accounts in which they, their spouses, their spousal equivalents, or their dependents have a financial interest.

We recently initiated an automated process for updating the Tracking & Trading System which has had a positive effect on the level of compliance with our independence policies regarding financial interests. Under a customized program with selected broker-dealers, partners/principals and other management-level professionals may grant authorization for their individual account holdings to be automatically imported into the Tracking & Trading System. This program eliminates the need for our professionals to manually update the system for each trade. Partners/principals and directors will be required, in accordance with our policies, to participate in the program no later than the end of the 2011 fiscal year.

Internal monitoring

The Tracking & Trading System monitors the securities and accounts reported by our professionals, automatically flags those securities or accounts that involve a restricted entity, and notifies the individual of items that require attention, including a possible need to divest. Follow-up occurs if the individual does not resolve the item in a timely manner. To monitor the accuracy of the account information in the Tracking & Trading System, National Office — Independence Compliance performs audits of selected personnel (partners/principals and other management-level personnel). Our goal is to audit every partner/principal at a minimum every three years, with those in leadership positions audited annually.

4. Reporting by personnel of employment negotiations

We have written policies and procedures requiring professionals to report promptly if they are offered or seek employment with a client while they are working on an engagement that requires independence from that client. Our policies require the immediate removal of the reporting professional from the engagement in these circumstances.

5. Reporting by personnel of apparent independence violations

Personnel are required to report apparent independence violations involving themselves or their spouses, spousal equivalents, or dependents when they are identified. Personnel who report violations also are required to identify the corrective actions they have taken or propose to take. National Office — Ethics and Compliance is informed of apparent independence violations for purposes of determining the appropriateness of the corrective actions, the need to consider disciplinary measures, and the need to consider any actions with respect to the clients involved. The chief ethics and compliance officer regularly reports to senior management and the Deloitte LLP board of directors on a variety of independence matters, including violations of policy and discipline.

6. Disciplinary policies

Our policies include actions to be taken against professionals for independence violations. Sanctions may involve written reprimands, reductions of performance ratings, monetary penalties, and termination/separation from the Deloitte U.S. Entities.

In 2010, our disciplinary policy regarding independence noncompliance was revised to impose increased penalties for noncompliance. We also established a disciplinary committee, composed of senior partners/principals, to help address serious independence violations.

7. Scope of services for attest clients

Our engagement acceptance policies for nonaudit services require that the partner/principal for each potential engagement complete a process to determine whether independence must be maintained with respect to the client, even if the client is not an audit client.

Because of limitations on the permissible scope of services for attest clients and their affiliates, independence considerations are included in the client profile of any new engagement. If independence from the client is required, the engagement partner/principal must verify, when the engagement begins, that the services to be provided are permissible and have been preapproved by the audit committee when required. The systems also keep lead client service partners/principals informed of engagements

within the Deloitte U.S. Entities that are opened for their clients.

Each year, National Office — Independence Compliance conducts monitoring reviews of selected engagements for scope-of-service approvals, related documentation, including documentation of communications with the audit committee, and the permissibility of the services. The results of the reviews are communicated to Deloitte & Touche LLP management for consideration in evaluating the engagement teams' overall performance.

8. Business relationships and alliances, commissions, and contingent fees

Business relationships and alliances with other entities and nonstandard fee arrangements often present independence complexities. The Deloitte U.S. Entities have specific policies and training programs addressing these arrangements, including conflict and independence checks and requirements for such arrangements to be reviewed and approved by the partner responsible for audit services to the client.

All new business relationships established by any of the Deloitte U.S. Entities require reviews by the proposing service line and ultimate approval by a designated National Office Independence partner. National Office — Independence Compliance maintains a database of approved relationships, and an annual independence update is required for each continuing relationship.

9. Policies and processes of member firms of DTTL

DTTL and each member firm maintain written independence policies. These policies include the independence standards issued by IESBA as well as the SEC and PCAOB requirements. Individual member firm standards also incorporate any applicable local standards that are more restrictive than DTTL policies. Annually, each member firm reports to DTTL that it has carried out appropriate procedures to conclude that the member firm and its professionals have complied with DTTL's independence policies.

DTTL member firms are subject to a quality assurance review at least once every three years. The review encompasses compliance with independence policies, including any applicable SEC, PCAOB, or other requirements.

Quality controls specific to Deloitte & Touche LLP

Overview

Deloitte & Touche LLP is the subsidiary of Deloitte LLP that provides audit services and is registered with the PCAOB as a public company auditing firm. Our ongoing commitment to audit quality is central to our ability to serve our clients with distinction, and we have developed a comprehensive system of policies and processes designed to enable us to deliver high-quality audits. These quality controls include major investments in the development of our people, rigorous standards for the acceptance and continuance of clients, and a comprehensive risk-based methodology for the performance of audit engagements, supported by specialized consultation resources. Our monitoring and inspection activities examine compliance with our policies and focus on determining and remediating the root causes of audit performance deficiencies identified either by internal processes or external inspections. The direct consideration of quality in our appraisal and compensation systems for both employees and partners/principals further reinforces our commitment to quality and its direct importance to each professional.

Quality control for individual Deloitte U.S. Entities

Each of the Deloitte U.S. Entities has specific quality control policies and processes that are designed to address the unique considerations associated with delivering high quality in the services each entity provides. These include formal risk management procedures, consultation networks, and quality assurance reviews of selected engagements, customized as appropriate for the audit,

enterprise risk services, tax, consulting, and financial advisory services businesses. Because Deloitte & Touche LLP is the subsidiary that provides audit and attest services and is registered with the PCAOB as a public company auditing firm, this section focuses on the policies and processes that are specifically designed to enable us to deliver high-quality audits.

Human resources

The human resource policies of Deloitte & Touche LLP are designed so that we recruit and develop personnel with the competencies and commitment to ethical principles necessary to execute engagements in accordance with professional and regulatory standards. At the audit partner level, the policies also address professional requirements for partner rotation and related succession planning needs.

Hiring and advancement

Deloitte & Touche LLP's hiring and advancement policies and procedures in the auditing practice are focused on managing our human resources to enable us to deliver high-quality audits. One of our core values is strength through diversity. We seek diversity among new personnel because we believe that a variety of backgrounds and perspectives enhances audit quality.

- Quality control for individual Deloitte U.S. Entities
- Human resources
- Professional development
- Consultation and the Professional Practice Network
- Acceptance and continuance of clients
- Engagement risk assessment
- Engagement performance
- Monitoring

A few of the more important policies and procedures are:

- New members of the client service staff are selected from highly qualified graduates who possess the intellectual and personal qualities necessary to maintain high standards of professional competence.
- Individuals who are employed at advanced levels possess the personal and professional characteristics, academic background, and relevant work experience that are expected of current employees in similar positions.
- Offers of employment are contingent on satisfactory background checks, and documentation is maintained related to the employment process and hiring decisions.
- Performance evaluations are prepared on a timely basis, and each audit professional is regularly counseled on his or her progress, at least semiannually.
- An individual is promoted when he or she meets established guidelines for promotion regarding performance, experience, and competency.

The performance appraisal process has three components, focused on engagement performance, mid-year performance feedback, and a year-end performance appraisal. The year-end appraisal is the primary basis for promotions, compensation adjustments, engagement assignments, and career planning. Quality is a key consideration in the performance appraisal of audit personnel at all levels, and we have established specific quality goals for each level. For all professional staff, these goals include the appropriate application of professional skepticism, continuous improvement of technical accounting and auditing skills, and compliance with independence and professional requirements. Additional goals, such as the responsibility to take ownership of the audit process, including performing high-quality audits as reflected by, among other things, superior inspection results, apply for more senior professionals.

Partner rotation and succession planning

In accordance with the requirements of the SEC, for public companies, the audit engagement partner and the partner performing the engagement quality control review may not function in those roles for more than five consecutive years. A “time-out” period of at least five years is required before either partner may return to the audit engagement. Certain other partners who provide audit services must rotate every seven years and are subject to a two-year time-out period.

The rotation requirements make succession planning especially important. Deloitte & Touche LLP has a focused and objective process to identify and develop future leaders for key lead client service partner roles, as well as for other senior leadership positions. The succession planning process provides a smooth transfer of responsibilities and knowledge of the client’s business when engagement leaders change. It also considers requirements on each client engagement for in-depth industry knowledge or other specialized experience.

Professional development

Approach to professional development

Ongoing professional development is one of our highest priorities. We invest in an extensive professional education program, set rigorous continuing professional education (CPE) requirements for all client service professionals, and monitor compliance through an online system. The overall purpose of the development program is to help professionals maintain and enhance their technical, industry, professional, and leadership competencies so that they will have the skills needed to lead and perform high-quality audits.

2010 investment in professional development	Deloitte & Touche LLP	All Deloitte U.S. Entities
Total investment	\$44.7 million	\$149.2 million
Average investment per person	\$4,000	\$3,300
Average reported learning hours per person	88	53

As part of our dedication to delivering high-quality audits, we recognize and embrace the need for a robust approach to learning. Our objective is to facilitate the ongoing development of our professionals so that they can meet the challenges of today's ever-changing business and technical environments.

Margaret V. Mulley
Chief Learning Officer
Deloitte & Touche LLP

Deloitte & Touche LLP employs a variety of formal learning programs that focus on technical, industry, professional, and leadership competencies. In addition, we recognize the importance of reinforcing formal learning programs with personalized, on-the-job guidance so that our professionals understand the reasons for performing specific audit procedures, as well as effective and efficient approaches and methodologies to accomplish them. All professionals, especially partners, principals, directors, and senior managers, are encouraged to “live in the field” so they are available to interact with and coach the professional staff. This creates a culture of continuous learning and development and provides our professionals with the support and supervision needed to achieve audit quality and to advance in their careers.

A senior partner serves as chief learning officer and oversees the development and execution of the Deloitte & Touche LLP learning curriculum for audit professionals. In addition, a Talent Development Steering Committee of senior partners/principals and other professionals provides guidance and strategic direction for the learning programs and approves the entire learning curriculum by level, from new hire through partner/principal.

The learning programs are developed by a group composed of experienced learning professionals and audit managers and senior managers participating in a professional development program for high performers. Specialized subject matter resources are also involved when appropriate. Course materials are revised throughout the year, as new accounting pronouncements, professional standards, and regulations require changes to existing programs or as auditing issues are identified through inspections or other means.

Curriculum

The extensive curriculum covers foundational, advanced, and mastery-level technical accounting and auditing matters, specialized industry matters, and a variety of leadership and professional topics such as communications, coaching others, and effective teaming. Representatives of the Professional Practice Network (discussed below) attend selected learning programs for audit professionals (new hires through experienced managers) as observers and meet with the chief learning

officer and her team to discuss their observations and recommendations for improvement and share ideas for curriculum content.

Each year, the various learning programs are delivered to professional staff, generally based upon experience level and practice specialization. The curriculum uses a variety of delivery methods ranging from national and regional seminars to virtual classes and online self-study programs. Conference calls, webcasts, and newsletters are also used to provide information and education to all client service professionals on the latest developments in the profession. The learning programs incorporate a number of pervasive themes across levels, including audit documentation, the use of specialists, consultation, detection of potential fraud, and the importance of professional skepticism and professional judgment, with a foundational theme of achieving audit quality.

Staff attend learning programs designed for their level of experience. Practitioners in particular industries and specialized areas attend additional internal programs and, when appropriate, outside courses.

Deloitte & Touche LLP partners/principals, directors, senior managers, and managers attend intensive programs that emphasize accounting and auditing technical excellence. The programs cover current accounting, auditing, regulatory, and professional ethics and independence issues, with particular focus on timely accounting and auditing issues and on input received from internal and external inspections.

All client service professionals of Deloitte & Touche LLP, whether or not they are CPAs, are required to complete at least 20 hours of CPE in each calendar year and at least 120 hours in every three-calendar-year period. Professionals who spend more than 25 percent of their time on audit or other attest engagements or who have partner, director, or manager responsibility for any such engagement must have at least 40 percent of their required CPE hours in subjects related to accounting and auditing. An online system monitors each professional's individual CPE requirements and the hours completed for each reporting period and flags any deficiencies for follow-up.

Partner milestone reflection

Recently I was invited to talk to several top accounting students who were visiting our office. They were really curious about career progression, and what some of the key turning points were in my path to becoming an audit partner. Having just completed a complex public company audit, the topic of audit quality was on my mind, and I focused on two milestones that were critical in developing my appreciation for the importance of my professional responsibilities.

The first major progression in one's public accounting career is promotion to senior accountant, with the equally important responsibilities of executing the audit plan and developing the staff accountants. I recalled my very first engagement as a senior — a small, public software company. In the course of obtaining audit support for the operating lease footnote, I noticed an unusual feature in one of the agreements. My first instinct was someone who knew much more than I had already looked at this, but I raised the issue with the partner. He took my concern seriously, and together we spent the afternoon bringing the matter to conclusion. As a result, the disclosures were expanded significantly. I learned a key lesson in professional skepticism: when something doesn't look right, trust your instincts and follow it through. It also reminds me, especially now as a partner, to listen carefully to the staff's questions and concerns.

Several years later, the accounting scandals in the Enron era proved to be a crucial turning point for the profession. The discussion of those events crystallized my perceptions of what audit quality means and how executing my professional obligations affects so many different stakeholders. Right at that time, I was also promoted to senior manager and was assigned to work on another firm's peer review: I recall examining the working papers and challenging the team on revenue recognition and valuation assumptions. The partner in charge of the peer review allowed me to lead the closing meeting attended by over a dozen individuals, including top technical partners from both firms. Overall, the peer review experience allowed me to see the work I was doing from the perspective of an objective observer who had never met the team or the client before. It also showed me how critical it is not only to perform a high-quality audit, but to be able to withstand challenge and point to clear documentation showing what I had done and why I made the decisions that I did.

After giving a few hints to the students on the type of interview questions we ask them (to make them less nervous during the process ahead), I left them with the thought that they were entering the profession in a time of transition — one in which the role of the public company auditor is as crucial as ever. If they remain skeptical, think critically, follow their instincts, and do work that will withstand scrutiny, they will have the ability to make the profession even more relevant — particularly to investors — in the years to come.

Deloitte University

To further enhance the quality and effectiveness of learning for all the Deloitte U.S. Entities, Deloitte LLP has acquired a 107-acre property near Dallas, Texas, and is constructing a state-of-the-art facility dedicated to continuous development of technical, industry, professional, and leadership skills. This investment represents a transformative commitment to quality and professional excellence throughout our organization and to all our people from new hires through partners.

The facility will employ cutting-edge technology and leader-led facilitation and will offer a curriculum that includes simulations, business case studies, and collaborative, experiential learning, including interactions with visiting thought leaders. Deloitte University is expected to open in the fall of 2011 and will provide a powerful catalyst for career-long learning and growth for all our professionals.

Consultation and the Professional Practice Network

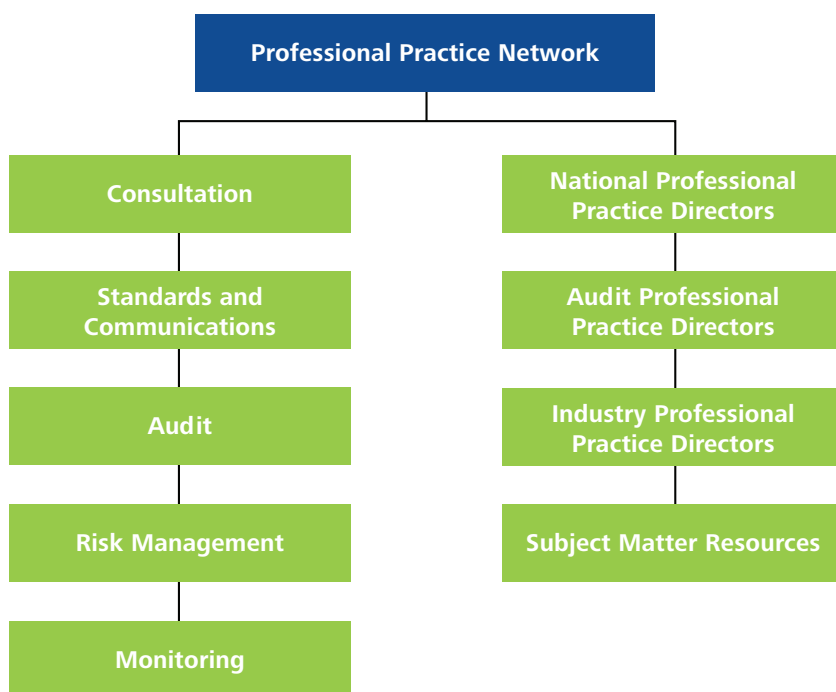
Quality and risk management considerations are integral to the Deloitte & Touche LLP audit practice. Many of our quality control procedures related to client engagements involve the Professional Practice Network, which includes a full-time team of national consultation partners and other resources, as well as local and regional resources and supporting technology to help implement quality control policies and assist in addressing questions identified by engagement teams. There are more than 200 partners in our Professional Practice Network, with an average of 23 years of experience. We will continue to augment these resources as needs require.

Deloitte & Touche LLP views consultation as a collaborative mechanism to determine the most appropriate answers to complex questions. The primary purpose of the consultation process is to provide the partners and directors responsible for the conduct of audit engagements with advice from individuals with special knowledge and experience on complex, sensitive, or highly judgmental accounting, auditing, or other engagement issues. In a number of circumstances, consultation pertaining to an audit engagement is required by policy; in other cases, the partner or director responsible for the audit engagement determines whether consultation is appropriate based on the facts and circumstances. Whenever partners and directors need additional information, perspective, or specialized knowledge, they are encouraged to seek assistance from accounting and auditing resources in our National Office or other individuals in the Professional Practice Network with appropriate levels of knowledge, competence, objectivity, and authority.

For our organization, quality is an integral part of every aspect of our work, not simply a bolt-on element. We embrace both quality and continuous improvement, making them first priority in our audits.

Stephen C. Van Arsdell
Chairman and CEO
Deloitte & Touche LLP

The resources of the Professional Practice Network are outlined below:



Consultation — The Consultation group, which is organized into subject matter teams with deep technical knowledge, provides consultation to our partners and professionals to achieve the appropriate resolution of accounting and reporting questions under U.S. generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS). The group also provides support to engagement teams and clients on SEC-related matters. This support includes preissuance reviews of certain documents that include or incorporate our clients' financial statements, consultations on SEC reporting questions, and assistance with communications with the SEC.

Standards and Communications — The Standards and Communications group's primary functions are to participate in the accounting standard-setting processes, develop accounting implementation guidance, and communicate on financial reporting matters. This group develops and distributes the Deloitte & Touche LLP proprietary interpretive guidance on U.S. and international accounting standards.

Audit — The Audit group develops and regularly updates the Deloitte & Touche LLP audit manuals, policies, and guidance, including auditing tools, forms, and proprietary materials. It also provides consultation and issues internal communications related to complex issues on the application of auditing standards and on auditors' reports.

Risk Management — The Risk Management group focuses on risks to our organization related primarily to client acceptance and continuance and the terms of client engagements.

Monitoring — Monitoring activities focus on quality of service and exposure to litigation, as well as risks related to reputation and regulation. Monitoring also includes the internal and external inspections functions, which are discussed below under "Monitoring."

Our culture of consultation — teaming together to constructively and appropriately resolve issues — is a vital element of our professional practice and our commitment to quality.

William T. Platt

Professional Practice Network Leader and Deputy Chief Quality Officer — Attest
Deloitte & Touche LLP

Quality in person: Leadership in the profession

Our people are the cornerstone of our quality. In addition to their roles within our organization, many of our partners, principals, and directors serve or have served in leadership positions for professional, standard-setting, and regulatory bodies. Currently, we have over 60 partners, principals, and directors serving on boards, committees, or advisory groups of state CPA societies, state boards of accountancy, the AICPA, the Financial Accounting Foundation, and the PCAOB. We have nearly 50 other active partners, principals, and directors who formerly worked at the SEC and Financial Accounting Standards Board in senior staff positions. These opportunities provide our professionals with valuable background and perspectives that enhance our commitment to quality. They also enable us to contribute to the overall level of quality in the auditing profession and in financial reporting. Just a few of these leaders include:

Robert Kueppers, Deputy CEO of Deloitte LLP, was a Professional Accounting Fellow in the SEC's Office of the Chief Accountant for two years. Subsequently, he has served on various AICPA committees and on the PCAOB's Standing Advisory Group, and he is currently on the Advisory Board of the Milstein Center for Corporate Governance at Yale University. He also serves as the advisory partner for several large clients, in addition to his role as Deputy CEO for Regulatory and Public Policy.

Douglas Alkema, Partner, Deloitte & Touche LLP, spent two years as a Professional Accounting Fellow in the Office of the Chief Accountant at the SEC. He currently serves as an audit partner for one of our largest clients and also as a deputy professional practice director for the Chicago office.

Christine Davine, Partner, Deloitte & Touche LLP, spent eight years with the SEC in the Division of Corporation Finance prior to joining Deloitte & Touche LLP. She currently serves as our national director of SEC services and is a frequent speaker on current SEC accounting and financial reporting issues.

Paul Kraft, Partner, Deloitte & Touche LLP, was an assistant chief accountant in the SEC's Division of Investment Management for three years and is now one of the senior partners in our Financial Services practice. In that capacity he serves some of our largest financial services clients and speaks frequently on industry accounting and reporting matters.

Randall Sogoloff, Partner, Deloitte & Touche LLP, spent two years as a Practice Fellow with the Financial Accounting Standards Board. After several years in the National Accounting Standards and Communications group, he is currently on assignment to DTTL's IFRS Global office in London where he leads its Global IFRS Communications group.

National Professional Practice Directors (NPPDs) and Audit Professional Practice Directors (PPDs) — NPPDs and PPDs are senior technical partners who support the implementation of all audit quality control processes at the regional and individual office level. They consult with engagement teams on a broad range of accounting, auditing, and quality assurance matters and interface as needed with other resources in the Professional Practice Network. They are also responsible for recommending the quality ratings for the majority of audit partners.

Industry Professional Practice Directors (IPPDs) — IPPDs are designated industry specialists and review and concur in conclusions on industry-specific accounting or auditing matters.

Subject Matter Resources (SMRs) — SMRs are partners/principals, directors, senior managers, or managers who maintain subject-matter knowledge of particular accounting or auditing topics — such as financial instruments, income taxes, or internal control — and who are assigned as local resources.

As discussed further under "Engagement performance — Professional guidance and communications," throughout the year, National Office posts in-depth communications on significant issues and developments to the online Technical Library. It also hosts regular conference calls, webcasts, and in-person meetings for the Professional Practice Network to update the group on current accounting, auditing, and other practice-related matters.

Differences of opinion

We encourage all our professionals to assess professional decisions thoroughly. When differences of professional opinion arise either among members of the engagement team or with those in a consultative capacity, we have procedures for the escalation of the issue to more senior levels of authority in order to achieve an appropriate resolution. In order for differences of opinion to be resolved, all of those involved in the consultation and related escalation must "not object" to the final outcome. In the event that resolution of an accounting consultation involves a position by our National Office, no partner has the authority to sign an opinion on financial statements that do not comply with our conclusion.

Acceptance and continuance of clients

The clients that Deloitte & Touche LLP chooses to serve have a significant impact on our reputation. As a result, risk management procedures are essential in assessing and considering the companies and individuals who are or may become our clients and in establishing the engagement terms that are appropriate for the specified services.

Client acceptance

Our procedures for assessing whether to accept a new audit client relationship are rigorous and encompass many factors, including the following:

- Reputation and integrity of the audit committee and management
- The management environment, including management's commitment to the appropriate application of generally accepted accounting principles and to implementing and maintaining effective internal control over financial reporting
- Whether certain risk factors may be present relative to the prospective client or the nature of the services we are requested to perform
- Independence and conflict-of-interest assessments and considerations
- The apparent financial viability of the entity at the time of our assessment

The client acceptance process includes the careful evaluation of these and other factors by the recommending partner or director and the applicable PPD, who are required to approve prospective clients in all cases. When the prospective client is a public company or other conditions are present (heightened risk, for example), review and approval by the NPPD and the regional audit leader is required. In addition, the IPPD is required to approve prospective clients in certain specified industry sectors.

Background checks, including searches for regulatory sanctions, are performed on those principal officers of a prospective client who are responsible for the financial statement presentation. For prospective clients that report to the SEC or are expected to become subject to SEC reporting, members of the prospective client's audit committee are also subject to background checks. Searches for past SEC or other regulatory sanctions are performed on other members of the board of directors.

Engagement letters

Our policies require the terms of each audit engagement to be documented on an annual basis in a formal engagement letter. For public companies, the Sarbanes-Oxley Act of 2002 requires that the audit committee engage the audit firm.

Client continuance

Each audit client is evaluated at least annually by the partner or director responsible for the engagement and the PPD to determine whether to continue the client relationship and under what conditions. The same factors discussed above in the client acceptance process are reviewed to ascertain whether the relationship should continue. Approval by the NPPD and regional audit leader is also required in certain circumstances. Engagements assessed as having "much greater than normal" risk are placed in the Risk Management Program (discussed below under "Monitoring"), and a special review partner is required to concur in the client continuance decision.

Client continuance is also evaluated whenever there is a significant adverse change in company management, ownership, financial condition, or the nature of the business. Any differences of opinion regarding acceptance or continuance of a client relationship are resolved through established policies and procedures that require escalation of the decision to more senior levels of authority.

Engagement risk assessment

The assessment of the risk associated with an engagement is a key component of both client acceptance and continuance considerations. The audit engagement risk assessment begins during the client acceptance or continuation process and continues on an ongoing basis throughout the engagement. The process is designed to evaluate the risks of material financial statement misstatement (including misstatements resulting from fraud) and to inform decisions about the planning and performance of the audit in light of those risks.

The risk assessment process is based on an understanding of the entity and its environment and may include factors such as internal controls, financial statement elements that require significant judgment, prior-year adjustments, and major changes in earnings. The risk assessment also considers the results from Deloitte Radar (DDAR), a software tool which uses publicly available data and proprietary quantitative techniques to provide an indication of each public client's susceptibility to business failure and financial statement fraud. The final result of the risk assessment process is an audit approach tailored to the specific risks identified for each client.

Engagement performance

We strive to perform consistently high-quality audits based on an uncompromising commitment to professional and technical standards. The quality control mechanisms related to engagement performance build on the results of the risk assessment process and are composed of the following:

- Selection of the audit engagement team
- Audit approach and use of specialists
- Professional guidance and communications
- Communications with audit committees

Selection of the audit engagement team

The selection of the engagement team is a key element in the development and execution of an effective and efficient audit. The team is led by an audit partner or director and ordinarily includes one or more of each of the following: audit senior manager, audit manager, senior, audit staff, and internal specialists. In the case of public companies, the audit engagement leader must be a partner.

The size and composition of the engagement team will vary depending on the size, nature, and complexity of the client entity's operations. The engagement partner or director is responsible for determining the nature, timing, and extent of appropriate auditing procedures in accordance with Deloitte & Touche LLP policies and the applicable auditing standards, as well as for determining that the engagement team collectively has the capabilities and competencies needed to perform the audit engagement. The engagement partner or director also has the primary responsibility for compliance with Deloitte & Touche LLP policies as to the issuance of the audit report.

Audit approach and use of specialists

The DTTL audit approach uses as its foundation the International Standards on Auditing (ISAs) and is supplemented in the United States to incorporate all elements of the PCAOB standards. The U.S. version of the audit methodology is also used by other member firms of the Deloitte Network when they perform parts of U.S. audits around the world. The Deloitte & Touche LLP audit methodology is risk based, and the planning phase of the audit includes a risk assessment, as described above, designed to evaluate the risk of material misstatement of the financial statements.

Our audit policies and procedures are designed to comply with professional standards and to provide professional personnel with direction on how to plan, perform, supervise, review, document, and communicate the results of each audit. The DTTL audit approach includes a fully integrated audit methodology, common documentation, and related proprietary audit software. It facilitates communication among member firms and promotes the efficient execution of high-quality audits for multinational clients.

In today's environment of increasingly complex and global business structures, a key factor in delivering a high-quality audit is the ability to access specialists in many disciplines from across the Deloitte U.S. Entities. All engagement teams have access to specialists in areas such as control assurance, fair value, tax, actuarial sciences, and fraud, among others. As discussed under "Consultation and the Professional Practice Network," a network of consultation resources is also available to assist in resolving questions or issues that arise in the course of the audit engagement.

Professional guidance and communications

Deloitte & Touche LLP proactively communicates with its professionals regularly regarding accounting developments and other standard-setting activities that may affect the performance of audits.

A day in the life of an audit senior accountant

Early next week, my biggest public company client is planning to file its annual Form 10-K with the SEC. As the audit senior accountant, I've been checking to see that all the final steps are complete, which can often be a challenge. It's definitely a relief when everything is finally complete. Today, we were focusing on three final items that we had to resolve.

First, just this morning, we received the legal letter from the company's outside counsel on environmental matters, which was a key piece of our documentation supporting the disclosures for a significant contingent liability. Then, the audit committee chairman requested a meeting with our fair value specialist to discuss the valuation of a complex derivative and the procedures we performed to audit that model. Since the manager wasn't available, the partner asked me to join them in the meeting — primarily to take notes, but still it provided me with valuable insight into our interactions with the audit committee. Lastly, I worked closely with the manager and partner to ensure that the engagement quality review procedures were completed — an extensive process that involves addressing comments from the technical review partner and professionals in Deloitte's SEC Services group. The technical review partner also wanted to review our audit procedures related to the valuation of the derivative before it was discussed with the audit committee chairman. Throughout all of this, I also had to find time to answer questions from the staff accountant on archiving work papers and to reply to four calls from the client's financial reporting manager on final revisions to the disclosures in the footnotes — all key parts of my duties as the senior accountant.

All of this can be a lot to handle, but I'm glad to have had the significant learning and growth opportunities that this year's audit has provided me. I hope to be promoted to manager next year, and I really feel that I'm ready. In the shorter term, though, tomorrow is another day, and now I have to prepare for the classroom training course on auditing pension benefit plans. That should be really helpful for my new benefit plan client.

The *Audit Approach Manual* is revised as necessary to reflect changes in professional standards or to clarify existing policies and guidance based on implementation experience. Our *U.S. Accounting Manual*, which is updated weekly, links all professional accounting guidance to the relevant subject matter and includes approximately 3,000 proprietary interpretations of U.S. GAAP and SEC financial reporting matters.

Accounting, auditing, and financial reporting developments that affect audits are summarized in a weekly publication distributed to all audit professionals. Special alerts, distributed directly to all audit professionals, communicate significant changes in standards, policies, or other matters directly affecting the audit practice. These communications, along with other newsletters, are available online as well as in databases for offline use. Policy changes are also covered, as applicable, in professional development courses and webcasts for audit professionals and in periodic meetings and conference calls for NPPDs, PPDs, IPPDs, and other relevant groups.

Communications with audit committees

In conjunction with the planning and the completion of each public company audit engagement, we communicate with the company's audit committee on matters related to the scope and results of our audit that are, in our professional judgment, relevant to the committee's oversight responsibilities. These communications are designed to assist the audit committee in understanding the audit process and in determining areas that require its attention. The communications address, among other things, control deficiencies, significant accounting policies, and our judgments regarding the quality (not just the acceptability) of the company's application of its financial accounting policies.

These communications also address any matters that could reasonably bear on our independence. In particular, the communications document the audit committee's preapproval of all nonaudit services, including the related fee arrangement and our conclusions that the services are permissible from an independence perspective.

Monitoring

Our monitoring activities focus on various components of audit quality as well as the risks associated with our audit practice. They can be divided into the following areas:

- Engagement supervision and review
- Engagement quality control review
- National Office preissuance reviews of SEC documents
- Risk Management Program
- Internal and external inspections
- Assurance insight and analysis
- Leadership Oversight Committee

Engagement supervision and review

The engagement partner or director is responsible for the overall planning and conduct of the audit, including supervision of the engagement team. In general, more experienced team members supervise less experienced members, so that professionals at each level receive the guidance and coaching necessary to perform their work effectively. The documentation of all audit work performed on an engagement is reviewed by a member of the engagement team who is more experienced than the initial preparer. Depending on the materiality and complexity of the audit work, it may be reviewed by several team members, including the audit engagement partner or director and the engagement quality control reviewer (described below).

Engagement quality control review

In addition to the engagement partner or director, every audit engagement is assigned an engagement quality control review (EQCR) reviewer, who is independent of the engagement — either the PPD or a partner designated by the PPD. The objective of the EQCR is to make an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing our audit report(s) in order to determine whether to provide concurring approval of issuance.

The EQCR includes the significant judgments that relate to engagement planning and the engagement team's assessment of identified significant risks, among other matters. The EQCR process also includes reviews of the financial statements, management's report on internal control over financial reporting, and our related audit reports.

National Office preissuance reviews of SEC documents

National Office professionals who specialize in SEC matters review documents to be filed with the SEC in connection with the sale or exchange of securities when those documents include an audit or other attest report of Deloitte & Touche LLP, the consent to include such a report, or a reference to such a report. This review takes place before the documents are filed with the SEC.

Risk Management Program

The Risk Management Program is administered by the National Office and includes all engagements assessed as exhibiting "much greater than normal" risk. Engagements assessed as "greater than normal" risk are also considered for inclusion in the program. If a client has been placed in the Risk Management Program, this is communicated by the engagement partner to those charged with governance of the company's financial reporting process, typically the audit committee. This communication covers the following matters: (1) overall assessment of engagement risk; (2) specific risk factors that contributed to the overall risk assessment; and (3) specific procedures designed to respond to engagement risks identified.

The Deloitte Center for Corporate Governance

Strong corporate governance is a key factor in the quality of financial reporting and, therefore, in sustaining and building public confidence in the capital markets. To promote the connection between good governance and investor trust, our Center for Corporate Governance (CCG) provides thought leadership on governance issues and encourages dialogue and knowledge-sharing to advance collaboration among financial reporting stakeholders on current and emerging governance matters. The CCG's efforts assist not only the full board in enhancing performance effectiveness, but also individual board committees. In particular, the CCG is dedicated to providing tools, resources, and insights to help audit committees in their financial reporting oversight duties.

Among the CCG's activities and resources to maximize board and audit committee effectiveness are:

- Director education programs, including audit committee education on financial reporting matters
- A monthly *Audit Committee Brief* discussing topics of current importance to audit committees and providing perspectives on leading audit committee practices
- An *Audit Committee Resources Guide*, template charter, and checklist to help audit committees understand and execute their responsibilities
- Research on leading boardroom topics
- A monthly governance webcast series
- A Web site (www.corpgov.deloitte.com) providing timely and relevant governance information and resources

A special review partner, in addition to the engagement partner and the EQCR reviewer, is assigned to all engagements included in the Risk Management Program. This partner provides an additional level of competency and objectivity in planning and executing the audit engagement. In addition, specialists in fraud-related risks are involved in the planning for audits of clients included in the Risk Management Program.

For each client in the Risk Management Program, the engagement team identifies, and the Risk Management Department reviews, the steps and milestones necessary to mitigate the risk factors that led to the inclusion of the audit engagement in the program. Clients who successfully mitigate these risk factors move out of the program; in other circumstances, Deloitte & Touche LLP may decide to terminate the client relationship. Since the Risk Management Program began in its current form in 2005, our association with approximately 50 percent of the clients that entered the program has ended, and, on average, the remaining clients have moved out of the program after approximately three years.

The Internal Inspections Group is designed to evaluate compliance with the system of quality for our audit practice. Each partner or director who supervises audit engagements has an engagement inspected at least every three years.

Internal and external inspections

Internal Inspections Group — Our audits of financial statements are subject to inspection internally and by the PCAOB (as discussed under “External inspections of audit quality”). The internal inspections function is designed to evaluate compliance with Deloitte & Touche LLP’s system of quality control for its auditing practice

by reviewing the elements of quality control and inspecting the work performed for a sample of attest engagements.

Inspections are led by a full-time group composed of partners and directors with significant prior inspection experience and senior managers who are identified for their superior technical skills. Other partners, directors, and senior managers with industry or other specialized knowledge assist as needed.

Each partner and director who supervises audit or other attest engagements has an engagement inspected at least every three years. Beginning with the 2010 inspection process, each public company audit engagement will be selected for inspection at least every five years, which allows for a representative cross-section of engagements to

be inspected each year while maintaining unpredictability in the selection process. Engagements are reviewed to determine whether Deloitte & Touche LLP policies, generally accepted accounting principles, generally accepted auditing standards, and standards of the PCAOB or other applicable regulatory bodies were followed. The findings are shared with both the engagement team and PPD in the applicable office and reported to regional and national leadership. Corrective action is taken when necessary, and the results of the inspections are used to improve audit quality.

Reviews are also performed across the practice to assess compliance with policies and procedures related to independence, client acceptance and continuance, recruiting and hiring, assignments and rotation, learning and professional development, evaluation and promotion, and CPA licensing. To assess the level of understanding of quality control policies and procedures, focus group discussions are conducted with professional staff, managers, and senior managers in selected practice offices.

External Inspections Group — Our External Inspections Group coordinates the PCAOB’s annual inspection of Deloitte & Touche LLP. In that process, the group supports engagement teams selected for inspection; monitors and tracks PCAOB inspection findings; coordinates with other groups to analyze PCAOB inspection results and responses to identified issues; and supports communications about inspection activities and results. The External Inspections Group also coordinates peer-review activities, which examine the system of quality control for clients that are not SEC registrants, as well as external inspections of Deloitte & Touche LLP by regulatory agencies such as the Department of Labor and the U.S. Government Accountability Office.

Inspection coverage and findings — In 2010, approximately 16 percent of the more than 1,000 public company audits conducted by Deloitte & Touche LLP were inspected by our internal program, and the PCAOB inspected approximately 5 percent. The types of findings from our internal inspections and the themes identified in the PCAOB’s inspections are generally consistent and involve such matters as auditing of management estimates and internal controls, resolution of errors in accounting or disclosure, and appropriateness of consultation.

Our ongoing improvement activities are discussed in the “External inspections of audit quality” section of this document.

Assurance insight and analysis

Deloitte & Touche LLP has a dedicated group that analyzes selected engagements to identify areas needing systemic improvement. Engagements are selected for review based on certain triggering events, such as financial statement restatements or significant findings in internal inspections, PCAOB inspections, or peer review (see “Peer review — audits of non-SEC issuers” below). Our processes evaluate the root causes of these triggering events, and the reviews have resulted in various actions to improve audit quality, such as changes to our policies and guidance for performing audits, development of national training courses and practice aids, and additional internal communications on specific audit issues.

For instance, our root cause analysis identified a need for greater understanding of what constitutes a well-reasoned and well-documented professional judgment. We have developed a practice aid on auditing management estimates, as well as a framework for using professional judgment. Related workshops on the application of professional skepticism and professional judgment have been delivered to all audit personnel from partners through staff.

Leadership Oversight Committee

In addition to these various monitoring processes, the Leadership Oversight Committee (LOC) provides senior leadership attention to quality matters involving particular Deloitte & Touche LLP partners/principals and directors. The LOC’s general responsibility is to determine and direct appropriate remedial actions, including any deployment restrictions, for these individuals.

Events that may cause the referral of partners/principals or directors to the LOC include, among others, adverse findings from internal inspections, PCAOB inspections, or peer reviews or regulatory proceedings or civil litigation raising possible audit quality issues. Remedial actions, when appropriate, may include additional training or oversight, restrictions on deployment, or counseling individuals to separate from the Deloitte U.S. Entities.

The challenge for auditors

Although there are features common to all audits, each audit is unique, with its specific issues and challenges. Basically, a public company audit involves testing a company’s internal controls over financial reporting, its records, and its financial reports to an extent sufficient to provide reasonable assurance — although not absolute assurance — that the financial statements are free of material misstatement. Audits typically test samples of transactions and other relevant data, and the audit process requires the exercise of substantial judgment about audit evidence. For instance, judgment is involved in determining what evidence is necessary, how it should be obtained, and how much is enough.

Some transactions are straightforward to audit — such as the revenue from the sale of products at a set price with no ongoing obligations or the interest expense on a traditional bank loan. However, in today’s rapidly changing business environment, accounting and auditing issues are increasingly complex.

Some transactions have numerous parts and conditions that affect their underlying substance. Other accounting determinations require multiple assumptions in order, for instance, to calculate estimates of fair value, impairment, or the amount of revenue to recognize in the current period. The independent auditor must corroborate the substance of transactions, the reasonableness of the assumptions, and the accuracy of the data in order to evaluate compliance with the relevant accounting standards.

Many times, there are no “hard facts” or tangible benchmarks on which to rely, and the ultimate conclusions involve professional judgments based on the totality of the available evidence, some — or much — of which may be subjective. The challenge for auditors is to keep improving their ability to understand the substance of increasingly complex and constantly evolving transactions and to identify the best approaches first to assess the appropriateness of the accounting and then to document the basis for the conclusion. The public’s trust in independent audits requires that auditors meet this challenge, and Deloitte is committed to doing so.

External inspections of audit quality

Overview

Annual PCAOB inspections are required for registered public accounting firms that perform more than 100 U.S. public company audits each year. The PCAOB report on each inspection includes a public and a nonpublic portion. The public portion of the inspection report includes an overview of the inspection procedures and observations on certain of the engagements inspected in that year. The nonpublic portion includes the PCAOB's observations on audit performance and on the firm's system of quality control.

The PCAOB's observations are constructive and we evaluate each comment for potential improvements to our processes. We know that there are areas where we can improve our performance, and, although very few of the inspection findings have resulted in restatements of financial statements or reissuance of our reports, we are steadfastly committed to continuously raising the bar on audit quality.

We work continually to improve our performance, and we have undertaken specific actions to address the PCAOB inspection findings. At the same time, we have confidence in the many quality control programs that we have in place and believe that our current system of quality control fully meets professional standards and provides reasonable assurance that our audits comply with professional and regulatory requirements.

A peer review of accounting and auditing practices related to non-SEC clients is conducted once every three years by another major auditing firm as an independent reviewer. Our last peer-review report indicated that our system of quality control had been designed and was complied with during the peer-review year to provide Deloitte & Touche LLP with reasonable assurance of performing and reporting in conformity with applicable professional standards.

PCAOB inspection — public company audits

Background

As the regulator of the public company auditing profession in the United States, the PCAOB has a central role in promoting audit quality and investor confidence in the capital markets. Annual PCAOB inspections are required for registered public accounting firms, such as ours, that perform more than 100 U.S. public company audits annually. The scope of the inspections includes specific audit and review engagements, quality control procedures, and other elements deemed appropriate by the PCAOB.

Deloitte & Touche LLP is supportive of and committed to working with the PCAOB to continue to strengthen trust in the integrity of the independent audit. We believe that the PCAOB's inspection process is an important factor in achieving our shared objectives of improving audit quality and serving investors and the public interest. Although the PCAOB's inspection process is not a component of

our system of quality control, it serves to promote audit quality by focusing attention on the systems and controls we have in place to comply with auditing standards and independence requirements. The inspection process yields comments and criticisms of our work and of our system of quality control. We take seriously all PCAOB observations and implement remedial steps tailored to each observation.

The PCAOB's *2009 Report on Inspection of Deloitte & Touche LLP*, dated May 4, 2010, is the most recent inspection report issued by the PCAOB on our audit practice. The 2009 inspection included, among other things, reviews of audits of financial statements for years ended from April 1, 2008 through March 31, 2009. The PCAOB's 2010 inspection included reviews of audits of financial statements for years ended from April 1, 2009 through March 31, 2010. The report on that inspection has not yet been issued.

PCAOB inspection reports

The PCAOB report on each inspection includes a public and a nonpublic portion. The public portion of the inspection report includes an overview of the inspection procedures and observations on certain of the engagements inspected in that year. The full text of the public portion of the PCAOB's 2009 Report on Inspection of Deloitte & Touche LLP and our related comments are available at http://pcaobus.org/Inspections/Reports/Documents/2010_Deloitte_Touche_LL.pdf.

The public portion of each inspection report includes the audit deficiencies that the PCAOB considers to be of particular significance. For those deficiencies, as well as for any other auditing deficiencies identified in the inspection process, PCAOB standards require the inspected firm to assess whether the findings affect the firm's ability to support its previously expressed audit opinions. The firm must also determine what corrective actions need to be taken. These corrective actions may involve additional audit documentation, additional audit procedures, or reissuance of an audit report.

The nonpublic portion of each inspection report includes the PCAOB's observations on audit performance and on the firm's system of quality control, including comments on the five areas listed below that the PCAOB has identified as influencing audit quality.

- Management structure and processes, including tone at the top
- Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions
- Policies and procedures for considering and addressing the risks involved in accepting and retaining clients
- Processes related to the use of audit work performed by a foreign affiliated audit firm on the non-U.S. operations of U.S. issuer audit clients
- Processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, processes for responding to weaknesses in quality control, and independence policies and procedures

The Sarbanes-Oxley Act of 2002 requires that the PCAOB's observations on the firm's quality control system not be made public provided that the firm addresses those observations to the PCAOB's satisfaction within 12 months of the date of the inspection report. Once the PCAOB is satisfied with a firm's remediation plan for a given inspection year, the PCAOB typically closes that year. If the PCAOB judges that a firm has not made sufficient progress in its remediation efforts, then the PCAOB may decide to make public some or all of its observations on the firm's quality control system for that inspection year.

Our responses to the PCAOB inspection reports through the 2006 inspection year have been accepted by the PCAOB. We have filed our remediation responses with respect to the 2007 Report (issued on May 19, 2008) and the 2008 Report (issued on April 16, 2009). Currently, we are in the process of evaluating the observations in the 2009 Report and preparing our response. Unless our remediation efforts are formally accepted as satisfactory, certain of the PCAOB's observations on our system of quality control for one or more years may be made public. Regardless of the ultimate resolution of our open past inspection years, we remain steadfastly committed to identifying and remediating the root causes of deficiencies and to a process of continuous improvement in audit quality.

Inspections results — the larger context

As the PCAOB points out in each report, inspections are designed to identify weaknesses and deficiencies related to a firm's audits, and inspection reports are not intended to serve as balanced report cards or rating tools. Inspections review only a small portion of the total audits performed by a firm. Moreover, if a potential weakness is identified during an inspection, the PCAOB may revise its inspection plan to identify additional similar deficiencies, thus potentially increasing the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years. In addition, other variables may affect the number and type of inspection findings from year to year. For instance, the PCAOB itself has acknowledged the challenge of understanding, identifying, and responding to all issues that arose as a result of the recent economic uncertainty.

For all these reasons, the number of findings identified in any inspection does not necessarily represent the frequency of deficiencies throughout the firm's practice. As a consequence, the PCAOB specifically cautions against using the reported number of deficiencies as the basis for conclusions about the comparative merits of different firms.

In order to provide information to the investing public about the audit risks and challenges identified in the inspection process, the PCAOB periodically issues reports that summarize its observations on the audit deficiencies commonly identified across the largest firms in the profession, which are inspected annually. These reports are referred to as 4010 reports because of the rule authorizing their issuance, and we consider them particularly helpful in communicating areas for professionwide improvements in auditing public companies. They also help investors and other capital markets stakeholders understand the nature and challenges of the audit process. The deficiencies cited in the PCAOB's 4010 reports are consistent with the issues the PCAOB has raised in its inspections of Deloitte & Touche LLP. For example, the common areas of deficiency cited in the 2008 PCAOB 4010 report included departures from GAAP, auditing of accounting estimates and income taxes, reliance on controls and service organizations, use of specialists, professional skepticism, and supervision and review.

In the most recent 4010 report issued on September 29, 2010, the PCAOB emphasized deficiencies in audit areas that were significantly affected by the economic crisis, such as fair value measurements and impairment of intangible assets. Not surprisingly, many of the observations in the report related to the auditing of management estimates, which is also an area where the PCAOB has criticized us. We agree with the PCAOB about the importance of appropriately auditing management estimates, and we believe that the extent of testing is more susceptible than many other audit areas to differing professional judgments based on the circumstances.

Public portion of inspection reports

The deficiencies identified in the public portions of our 2007, 2008, and 2009 PCAOB inspection reports related primarily to the following:

- Application of generally accepted accounting principles and PCAOB auditing standards pertaining to hedge accounting for interest rate swaps, the accounting for deferred tax assets, and classifications in the statement of cash flows
- Adequacy of audit procedures and documentation related to areas such as derivatives, income taxes, sale of a subsidiary, guarantees and contingent liabilities, and certain confirmations
- Testing of data and underlying assumptions related to management estimates (including asset and liability valuations)
- Testing of internal controls related to certain revenue and valuation matters, including a failure to identify a material weakness in an issuer's internal controls over its allowance for doubtful accounts

Nonpublic portion of inspection reports

Over the years, many of the observations included in the nonpublic portion of our inspection reports have related to the same matters included in the public portion of the reports. These observations also have been consistent with the results of our internal inspections. The kinds of issues identified in the nonpublic portions of our 2007, 2008, and 2009 PCAOB inspection reports related primarily to the following areas:

- The impact on the tone at the top of decentralizing certain quality control policies and processes
- Addressing departures from GAAP and other reporting requirements
- Adequacy of auditing procedures and documentation related to areas such as management estimates (including fair values), derivatives, investments, income taxes, revenues, and inventory

- Testing of system-generated reports, internal controls, the work of specialists, and procedures related to confirmations
- Adequacy of certain firm policies such as those relating to engagements identified as greater than normal risk, consideration of materiality and evaluations of unadjusted audit differences, materiality guidance for multilocation audits, accounting consultation, and the archiving of working papers
- Certain general observations concerning audit performance, including professional skepticism, supervision and review procedures, education and training, partner evaluations, processes for monitoring audit performance (including internal inspections, root causes, and independence), and the consistency and completeness of certain remediation activities
- Procedures to monitor the services that other DTTL member firms perform for U.S. audit clients and the ability of U.S. engagement partners to assess a non-U.S. member firm's qualifications and knowledge of U.S. accounting principles and auditing standards

Our perspective and commitment to continuous improvement

The constantly evolving process of auditing public companies underscores the need to focus on continuous improvement. Under PCAOB standards, the purpose of an audit is to provide "reasonable assurance" that the issuer's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles. Deloitte & Touche LLP continually monitors the systems and processes of our audit practice, as well as the ever-changing economic environment and new auditing standards. Based on this monitoring, we make timely changes to our methodologies, policies, and procedures as we identify opportunities to enhance audit

quality. From our National Office to our individual partners, we are committed to delivering audits of the highest quality that serve to foster investors' trust in the capital markets. We have confidence in our professionals and the many quality control programs that we have in place, and we believe that our current system of quality control fully meets professional standards. At the same time, we also recognize that our performance can always be improved. As a result, we are committed to identifying and remediating the root causes of findings and to a never-ending process of continuous improvement.

Because technical standards are complex and often involve exercising professional judgment related to difficult and subjective matters, we anticipate that we will always receive comments from inspections. And when we identify opportunities for improvement either from internal or external inspections, we take action.

We believe the PCAOB's observations are constructive. We have carefully considered each observation, and we have invested substantial thought, time, and resources to address the specific points made. For comments related to specific engagements, we performed additional procedures or supplemented our audit documentation, as necessary. None of our reports on the issuers' financial statements was reissued as a result of the PCAOB's 2009 observations, and no issuer financial statements were restated. In one case cited in the public portion of the 2008 Report, our report on internal control over financial reporting was amended, and in one case the issuer's financial statements were restated in a subsequent filing; in two instances cited in the public portion of the 2007 Report, the financial statements were restated. For comments related to our quality control system, we have developed appropriate remediation plans that we believe will be effective.

Our commitment to audit quality and to continuous improvement is evidenced by the serious and substantial investments we have made in evaluating all the PCAOB's inspection findings and in implementing changes in order both to address the deficiencies identified by the PCAOB as part of the inspections process and to continue to strengthen all aspects of our audit processes. This sustained remedial effort has included:

- The design of new processes, targeted to inspection findings, that are embodied in changes to our Audit Approach
- New processes to increase the number of required consultations during audits
- A reinvigorated strategy for communications with our professionals
- More rigorous training
- Development of additional processes, policies, guidance, tools, and other resources designed to enhance performance in our audit practice

We continually monitor the results of these efforts and continue to invest significant funds and human capital in these and other continuous improvement efforts. We are firmly dedicated to building confidence in the independent audit process. To that end, we will respond appropriately to all inspection findings and spare no effort to maintain and enhance quality in the face of increasing complexity in professional standards and the ever-changing economic environment.

Peer review — audits of non-SEC issuers

In addition to the inspections performed by the PCAOB, professional requirements of the AICPA and many states require that CPA firms undergo a peer review of their accounting and auditing practices related to non-SEC issuers. The peer reviews are conducted by an independent reviewer, generally another licensed CPA firm, every three years. Peer reviews consider both a firm's system of quality control and performance on selected engagements.

Deloitte & Touche LLP's last peer review was performed in 2008 by Ernst & Young. Ernst & Young issued a peer-review report with a rating of "pass." Possible ratings are "pass," "pass with deficiencies," or "fail." A peer-review report with a rating of "pass" means that the system of quality control was designed to meet the requirements of the quality control standards for an accounting and auditing practice and the system was complied with during the peer-review year, thereby providing Deloitte & Touche LLP with reasonable assurance of performing and reporting in conformity with applicable professional standards.

Quality assurance reviews — D TTL member firms

Each D TTL member firm has a quality assurance review of its auditing practice at least every three years. These reviews assess the performance of every audit partner at least once in each three-year period and are subject to guidance and oversight by a partner from another D TTL member firm. Reviews encompass national engagements and inbound/outbound transnational engagements. Like Deloitte & Touche LLP, many of the larger member firms perform these reviews annually. In addition, most member firms' auditing practices are subject to periodic external reviews conducted by professional or regulatory bodies in their countries, and in some cases also by the PCAOB.

U.S. litigation environment

Overview

Similar to the experience of the public company auditing profession as a whole, we incur significant litigation costs, which are driven by various factors unrelated to audit quality, such as trends in the economy and the capital markets.

Our primary concern is not the historic average level of litigation costs; rather, it is the very real possibility that unlimited liability could result in a catastrophic loss that would threaten the economic sustainability of even the largest firms and put the capital markets and investors at risk.

Similar to the experience of the public company auditing profession as a whole, we incur significant litigation costs. Some argue that the potential for legal claims against public company audit firms enhances audit quality. Others maintain that the extent of litigation is a reasonable measure of audit quality and that there is an inverse relationship between the number of claims and the quality of a firm's audits. We do not agree with either of these statements.

First, audit partners are professionals who care deeply about the quality of their work, which is the basis for their firms' reputations and their livelihoods. In addition, we now have an extensive regulatory framework for public company auditors, with significant oversight and enforcement powers. These factors contribute far more to high-quality audits than legal claims do.

On the second point, many factors that have nothing to do with audit quality — such as trends in the economy and the capital markets or in specific industries — drive the number of litigation claims and litigation settlements. Audit firms are subject to claims by a wide variety of plaintiffs and are subject to different standards in state and federal courts. Audit firms also face concentrated risk from class-action lawsuits, which subject firms to the risk of an adverse legal judgment, potentially up to the entire amount of a client's market capitalization, with no regard to the amount of the related audit fee.

It is not unusual for each of the six largest auditing firms to have pending claims of more than \$1 billion arising from public company audits. It would take only one judgment of that magnitude to seriously weaken a firm, and because of the magnitude of damage claims, an audit firm may not be able to afford to risk a loss in court, even when the firm is confident of the quality of its audit and legal position.

We consider some level of exposure to professional liability to be appropriate, and we believe that we can sustain our operations and deliver high-quality audits with the current level of continuing litigation costs, which consist principally of negotiated settlements of asserted claims and legal fees. Nevertheless, we are deeply concerned by the very real possibility of a catastrophic loss resulting from potentially unlimited liability. Such a loss would threaten the economic sustainability of even the largest firms and would put the capital markets and investors at risk of severe disruption in the public company audit market.

Earnings of partners/principals

Overview

The compensation practices of the Deloitte U.S. Entities are designed to comply with applicable independence requirements; to emphasize the shared values of quality, integrity, and professional excellence; and to assess key competencies. As an important part of the annual appraisal process, audit partners receive a quality rating which accounts for at least half of the overall rating and is a key consideration in deployment and earnings allocation. Furthermore, audit partners are prohibited from receiving compensation, bonuses, or other direct financial incentives for selling products or services, other than audit, review, or assurance-related services, to their audit clients.

Annual earnings process

The compensation practices of the Deloitte U.S. Entities are designed to comply with applicable independence requirements; to emphasize the shared values of quality, integrity, and professional excellence; and to assess the characteristics and skills outlined in our human resources competency model. For partners/principals, the system is an earnings allocation process. Typically, every year partners/principals are allocated interests in the applicable partnership, known as units, under recommended guidelines related to their level, role in the Deloitte U.S. Entities, responsibilities, and overall performance appraisal.

Goal setting

At the start of the fiscal year, partners/principals set goals based on expectations for their level, role, and organizational strategic objectives. Goals are in areas such as quality, practice management, client service and leadership, and talent development. Goals are subject to review and input by leadership, and progress against goals is assessed during a mid-year review and again at fiscal year end.

Appraisal ratings

At the end of the fiscal year, partners/principals receive overall appraisal ratings based on their actual performance against established goals and expectations. As an important element of the appraisal ratings, partners/principals in Deloitte & Touche LLP also receive a specific quality rating that reflects performance in relation to specific quality attributes. These ratings are a critical component of our overarching commitment to quality, integrity, and continuous improvement throughout our practice. Each partner/principal is carefully evaluated on an ongoing basis and is rated annually on a scale of "1" (highest) to "5," taking into consideration specific quality attributes related to integrity and ethical conduct, technical proficiency, professional skepticism, and the conduct of engagements, including, where applicable, the results of internal and external inspections. For audit partners we have increased the impact of the quality rating. Quality now accounts for at least half of the overall rating for audit partners and is a key consideration in deployment and in the peer grouping and unit/earnings allocation process described below. For fiscal years 2010 and 2009, the average quality rating for all audit partners was a "2." A remedial plan, which may include oversight of work and/or limitations on assignments, is generally established for any audit partner below the "clearly competent" rating of "3."

Peering and units

During the performance assessment process, partners/principals are peered into five successive groups based on specific criteria, including guidelines for quality, client service, practice management, eminence, teamwork, and talent development. Generally speaking, the greater the responsibility a partner/principal has, the higher the peer group placement. Peering establishes a structure for the unit/earnings allocation process by equating roles, responsibilities, and performance with earnings. Overall year-end ratings, peer group changes, and unit allocations are subject to oversight, review and concurrence by business (function-specific subsidiary), cross-functional, regional, industry, quality, and risk management, and human resource leadership teams, a subcommittee of the board of Deloitte LLP and the Office of the CEO. The Deloitte LLP board reviews all year-end ratings, peer group changes, and unit allocations.

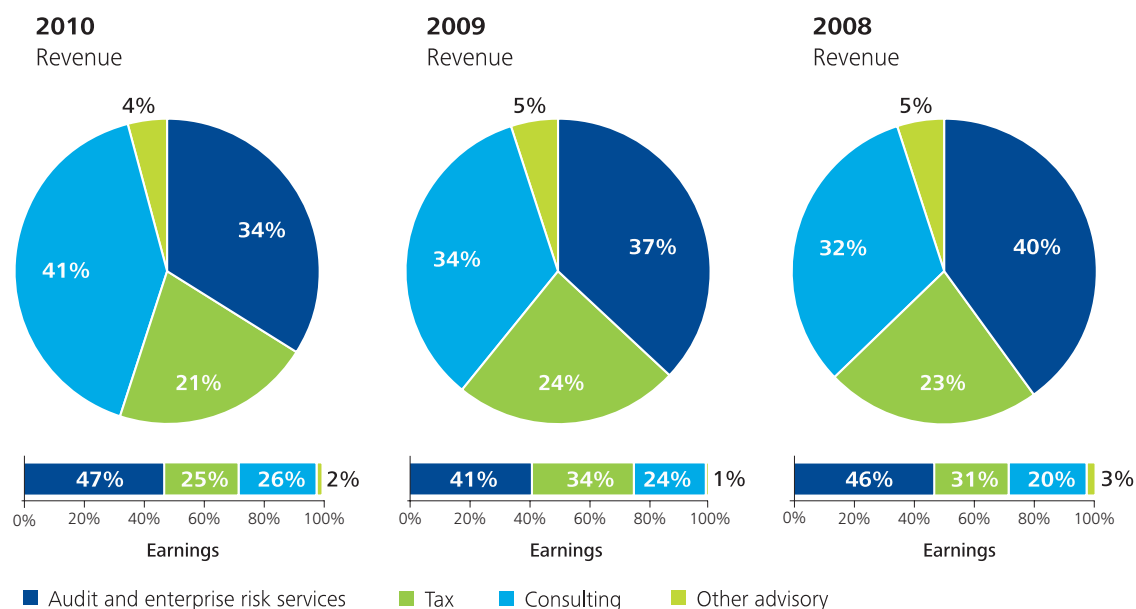
In addition, in order to reinforce audit partners' focus on their primary responsibility to provide audit services of the highest quality, the policies of the Deloitte U.S. Entities, which are consistent with U.S. law, forbid them from receiving compensation, bonuses, or other direct financial incentives for selling products or services, other than audit, review, or assurance-related services, to their audit clients. Prior to the final overall approval of the annual earnings allocation process by the Deloitte LLP board, each partner responsible for the rating, peering, and unit allocation recommendation for an audit partner certifies that no consideration was given to any such other services provided to an audit client.

At the end of the fiscal year, units are valued based on the performance of the Deloitte U.S. Entities. The earnings of partners/principals are determined by their number of units at the applicable unit value. We use a single unit value across all the businesses of the Deloitte U.S. Entities.

Financial and other information

The following table summarizes the revenues and other statistics of the Deloitte U.S. Entities:

Fiscal year ended May 31	2010	2009	2008
Revenue (U.S. \$ in millions)	\$10,938	\$10,722	\$11,042



	2010	2009	2008
Employee compensation and benefits as a percentage of revenue	44%	43%	41%

Capital structure

The majority of our capital structure consists of capital contributed by our partners and principals. In addition to this paid-in partner/principal capital, a portion of our capital structure consists of long-term privately placed debt. Such long-term debt is rated "1" by the National Association of Insurance Commissioners, which is comparable to "A"-rated corporate debt.

Note: The accounting records of the Deloitte U.S. Entities are prepared on the accrual basis and in a manner that management uses to operate the businesses. The financial information shown above is not prepared in accordance with accounting principles generally accepted in the United States. The revenue amounts shown include reimbursable expenses billed to clients. Earnings for individual entities include direct costs and expenses, as well as allocated amounts of shared costs and expenses.

Deloitte U.S. Entities: Professional headcount and other information

2010	All Deloitte U.S. Entities	Deloitte & Touche LLP
Personnel		
Partners/principals/directors	4,295	1,494
Senior managers	4,476	1,419
Managers	5,849	1,645
Senior staff	9,017	3,226
Staff	12,934	3,409
Client service professionals	36,571	11,193
Administrative professionals	9,159	
Total personnel	45,730	

Other statistics		
Personnel mix		
• Percent women	43%	40%
• Percent minorities	33%	28%
Women partners/principals/directors	1,041	351
Minority partners/principals/directors	450	144
Interns	1,635	913
Global deployment		
• Outbound	253	164
• Inbound	271	171
Number of CPAs	8,757	5,039
Number of cities with offices	89	

List of public company audit clients

A list of the U.S. public company issuers for which Deloitte & Touche LLP was the auditor of record as of January 1, 2011, may be found on our Web site at <http://www.deloitte.com/us/TransparencyReport>.

