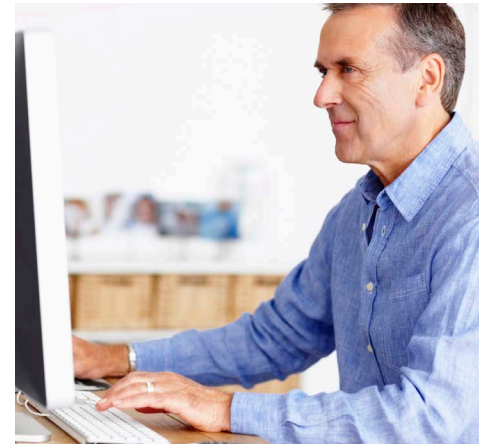


# Fresh Start Accounting

Duff & Phelps specializes in financial reporting valuations based on the rules and guidance established in SFAS 141R relating to both business combinations and fresh start accounting. Our professionals have assisted numerous clients with fresh start and related valuation issues upon emergence from Chapter 11 bankruptcy.



## Overview of Fresh Start Accounting

- Generally, upon emergence from Chapter 11 of the U.S. Bankruptcy Code (Chapter 11), a company's balance sheet is to be restated to Fair Value, as required by AICPA Statement of Position 90-7 (SOP 90-7): Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.
- The purpose of SOP 90-7 is to provide guidance on financial reporting by entities that have filed petitions with the bankruptcy court and expect to reorganize as going concerns under Chapter 11. Upon emergence from Chapter 11, companies meeting certain criteria are required to adopt fresh start accounting.
- SOP 90-7 states that the reorganization value of an entity adopting fresh start accounting should be allocated to the entity's assets in conformity with the procedures specified by Statement of Financial Accounting

Standards No. 141R. SFAS 141R requires the purchase price (reorganization value for an emerging debtor) of an acquired (reorganized) entity to be allocated to its assets and liabilities based on their Fair Values.

- Estimation of the Fair Values of assets and liabilities have become more complex with the implementation of SFAS 157, Fair Value Measurement, particularly in light of the current economic climate and financial market conditions.

## Fresh Start Accounting Services

- **Estimation of the reorganization value** to assist the debtor and the court.
- **Allocation of the reorganization value and goodwill** to various reporting units (compliance with SFAS 142: Goodwill and Other Intangible Assets) and legal entities (tax structuring).

- **Estimation of the Fair Value of tangible and intangible assets** such as inventory, real and personal property, favorable/unfavorable leases, technology/in-process research and development, customer contracts/relationships, trade names/trademarks, supply contracts and excess reorganization value (goodwill).
- **Property tax consulting, business incentive advisory, fixed asset ledger reconciliation, and cost segregation studies** are some of the other Duff & Phelps services that often generate substantial *cash savings* for our clients and may be completed concurrently with the fresh start valuation process.

DUFF & PHELPS HAS ADVISED CLIENTS ON VALUATION AND CORPORATE FINANCE ISSUES SINCE 1932, EARNING A REPUTATION AS THE LEADING PROVIDER OF INSIGHTFUL, INDEPENDENT AND OBJECTIVE VALUATION ADVICE.

## Our Approach

### Fresh Start Accounting – Our Approach

- Meet with management to understand the company's goals, objectives, and desired outcomes for all aspects of the engagement.
- Meet with the company's independent auditors to ensure agreement on the scope of services and the valuation approaches and procedures to be employed. Our experience has shown that early involvement of and consultation with the audit firm will facilitate a smooth audit review and ultimately, a cost effective and timely completion of the valuation process.
- Meet with the leaders or representatives of the company to discuss the engagement process, timing, involvement of personnel, and other project management issues.
- Deploy multi-disciplined engagement teams to the field. Simultaneous deployment is often necessary to meet aggressive deadline requirements.
- Notify company management of any opportunities for cost savings that are identified during the engagement.
- Allocate the reorganization value to the reporting units for ongoing compliance with SFAS 142.
- Prepare a preliminary analysis of the Fair Value of the tangible and intangible assets (examples of which are provided below) using the most appropriate approach(es) to value: income, market and/or cost.
- Refine asset Fair Value estimates based on an analysis of the earnings capacity of the reporting units and/or the specific asset(s) to accurately assess economic obsolescence.
- Finalize Fair Value conclusions for all assets by reporting unit for inclusion in the opening balance sheet upon emergence, including electronic fixed asset ledgers.
- Work with our clients throughout the process to ensure that all regulatory issues are met and provide support in responding to auditor questions and SEC comment letters. *It is critical to accurately allocate the total reorganization value among reporting units and then subsequently among tangible and intangible assets as a material misallocation would likely result in significant impairment risk for either goodwill or long-lived assets subsequent to emergence.*

### Sample Intangible Assets

- Favorable and Unfavorable Leases
- Technology/In-Process Research and Development
- Customer Contracts and Relationships
- Trade Names/Trademarks
- Supply Contracts

### Sample Tangible Assets

- Inventory
- Real Property
- Personal Property

### Other

- Investments in Joint Ventures/Affiliates
- Minority Interests
- Contingent Claims/Liabilities

For more information please visit our website:

[www.duffandphelps.com](http://www.duffandphelps.com)

### About Duff & Phelps

As a leading global independent provider of financial advisory and investment banking services, Duff & Phelps delivers trusted advice to our clients principally in the areas of valuation, transactions, financial restructuring, dispute and taxation. Our world class capabilities and resources, combined with an agile and responsive delivery, distinguish our clients' experience in working with us. With offices in North America, Europe and Asia, Duff & Phelps is committed to fulfilling its mission to protect, recover and maximize value for its clients.

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