Huron
CONSULTING GROUP

FSPSOP907A

LETTER OF COMMENT NO. 5

March 28, 2008

Mr. Russell G. Golden
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP SOP 90-7a

Dear Mr. Golden:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or "Board") exposure draft of proposed FASB Staff Position No. SOP 90-7a, "An Amendment of AICPA Statement of Position 90-7" ("Proposed FSP"). Huron Consulting Group has significant experience in advising clients in bankruptcy, including providing assistance with claims management and the reporting requirements of Chapter 11 and SOP 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.*

We agree that eliminating the guidance in paragraph .38 of SOP 90-7 requiring an entity emerging from bankruptcy to adopt all new accounting standards that require adoption within the twelve months following emergence will avoid conflicts with the transition guidance in standards that prohibit early adoption. Although the Basis for Conclusions to SOP 90-7 does not explain why entities emerging from bankruptcy are required to early adopt any new accounting standards, we do not foresee any problems with eliminating that requirement. However, we recommend modifying the final sentence in paragraph 6 of the Proposed FSP to require an entity emerging from bankruptcy to follow the transition provisions in new standards that are not yet effective. As currently worded, paragraph 6 would prohibit an entity emerging from bankruptcy from adopting a new standard, even if the Board has permitted early adoption. Changing the wording as suggested would allow an entity emerging from bankruptcy to adopt a new standard when the Board has not prohibited early adoption.

We believe the Proposed FSP should also address the accounting when the fair value of the identifiable net assets of the reorganized entity exceeds the reorganization value (i.e., negative goodwill). Although negative goodwill arises infrequently, it has occurred in a number of high profile bankruptcies, including most recently Kmart Holding Corporation (which reported negative goodwill of $5.6 billion), Trico Marine Services, Inc., and ATA Holdings Corp. FASB Statement No. 141 (revised 2007), *Business Combinations*, requires an acquirer to recognize negative goodwill immediately in post-combination earnings. For entities emerging from bankruptcy, negative goodwill usually results from an expectation that the entity will continue to report losses for some period after emergence. The expectation of continuing losses reduces the entity's reorganization value, but does not affect the fair value of the identifiable assets, resulting in negative goodwill. We are concerned that requiring an entity emerging from bankruptcy to report a day one gain will present a misleading picture of the entity's financial position, particularly when the negative goodwill results from future losses the entity expects to report. We are also concerned that reporting a day one gain on the negative goodwill would be inconsistent with the guidance in paragraph .39 of SOP 90-7, which states, in part:

> Adopting fresh-start reporting results in a new reporting entity with no beginning retained earnings or deficit.

We believe it would be more appropriate to report the gain from the negative goodwill as part of the effects of applying fresh-start accounting as required by paragraph .39, which would result in recognizing the gain in the predecessor entity's financial statements.

* * * * * *

We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct any questions or comments to Mike Sullivan at 646-277-2213, Jim Lukenda at 646-277-2207, or Jeff Ellis at 312-880-3019.

Sincerely,

/s/ Michael C. Sullivan	*/s/ James M. Lukenda*	*/s/ Jeffrey H. Ellis*
Michael C. Sullivan Managing Director	James M. Lukenda Managing Director	Jeffrey H. Ellis Managing Director