

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

BUREAU OF BANKS AND TRUST COMPANIES

CORPORATE TRANSACTIONS AND ACCOUNTING ISSUES

QUASI-REORGANIZATION

A quasi-reorganization is an accounting procedure through which a state bank restates its assets and liabilities to fair value and restates its equity capital to eliminate a deficit in the undivided profits account.

Effect of a Quasi-reorganization

A state bank that has implemented a quasi-reorganization may begin accumulating net profits then on hand from the effective date of the quasi-reorganization. In a quasi-reorganization, when a bank's assets and liabilities are restated to fair value, the bank's net profits then on hand equal zero.

Condition for Implementing a Quasi-Reorganization

A bank may implement a quasi-reorganization provided:

- a. the aggregate balance in the equity capital accounts will not be increased as a result of the quasi-reorganization;
- b. change in control of no less than 51% of the bank's voting stock occurs and results in holding by a person who did not control the bank during the period when the losses were incurred which caused the deficit in the bank's net profits then on hand;
- c. management of the bank has changed from the management that supervised the bank during the period when the losses were incurred;
- d. management of the bank has developed a plan to correct the problems which contributed to the incurring of losses by the bank;
- e. the bank's post quasi-reorganization pro forma financial statements demonstrate that the bank will be profitable;

- f. after the quasi-reorganization, surplus equals at least one-half of capital stock, and undivided profits equals zero;
- g. the assets and liabilities of the bank are restated to fair value within six months of the date the change of control of the bank's voting stock described above became effective; and
- h. an independent certified public accountant who is not a director, officer, employee or stockholder of the bank or its affiliates for subsidiaries has provided the bank with its written opinion that the accounting adjustments made as of the effective date of the quasi-reorganization are appropriate and in accordance with Generally Accepted Accounting Practices.

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