



Air Conditioning Contractors of America

*The Essential Partner  
For Contractor Excellence*



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October 15, 2003

Mr. Robert Herz  
Chairman, Financial Accounting  
Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Letter of Comment No:** 36  
**File Reference:** 1100-LEU  
**Date Received:** 10/15/03

Dear Chairman Herz:

We are adding our voice to hundreds of other small business interests who are concerned that the new State of Financial Accounting Standards No. 150 (FAS 150) will have an extremely negative impact on our member companies.

The Air Conditioning Contractors of America (ACCA) is the national non-profit trade association representing the technical, educational and policy interests of the men and women who design, install and maintain indoor environmental systems. We represent approximately 4,000 independent heating, ventilating, air conditioning and refrigeration contractors. Most are privately owned family businesses and are often called upon to show their financial statements.

Many of our member companies are structured with "mandatory redeemable" events, such as "buy/sell" agreements and ESOP plans which put them at the forefront of FAS 150. Under FAS 150 they must show these arrangements as liabilities on their balance sheets.

We have many member companies whose net worth is equal to 100% of the stock ownership that is divided among family members. Other companies are structured as ESOPs where the workers are employee-owners. By requiring them to show this stock as a liability, FAS 150 will give the impression that the companies have a zero or even negative net worth. Even if they have insurance to handle a buy/sell agreement and other "mandatory redeemable" events, it still shows up as a liability.

Our members bid on federal and state jobs. In many instances, having a positive net worth is one of the indications of their ability to perform the assignment, and thus, a qualification to bid. Additionally, the government and many private sector employers often require contractors to be bonded. You can't qualify for a bond with a negative or zero net worth.

FAS 150 even impacts their ability to work. In many states, you must submit your balance sheet to demonstrate the financial responsibility needed for a class A business license. Once again, having a positive net worth is part of the process.

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Many of our members have lines of credit with their banks. To keep these lines, they must meet certain financial requirements, including a positive net worth. Obviously, this becomes a factor if they wish to extend their loan or even apply for a new one somewhere else.

As a possible solution, we support the alternative of requiring non-public companies to disclose the terms of a buy/sell or ESOP agreement, including the events that would produce a liability, as opposed to actually showing it as a liability on the balance sheet. FAS 150 would only be applied when a triggering event occurred.

Another suggestion is that a "mandatory redemption" still appears as a liability on the balance sheet but that it is footnoted to explain the situation. Unfortunately, we don't believe this will work, even with an extensive education campaign. For example, we are concerned that many people involved in approving our members' businesses – such as clerks in state licensing offices – may not have the interest, time or direction to read the fine print of the footnotes. At the least, it will be confusing.

We understand the purpose of FAS 150 was to address the accounting abuses in publicly held companies. We support this effort. However, you cast your net too far. For our members to continue doing business, they must satisfy generally accepted accounting practices. To do this with FAS 150 in place puts them between a rock and a hard place. Consequently, we urge you to repeal or modify the rule so it would exempt privately held companies.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Stalknecht", written over a white background.

Paul Stalknecht  
President and CEO