

The Cutler Group
Consultants to Management

September 10, 2003

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Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Attention: Mr. Robert H. Herz, Chairman

Dear Board Members:

The financial officers of the firms listed on the bottom of this letter wish to express serious concerns regarding the severe impact that we believe Statement of Financial Accounting Standards No. 150 ("SFAS 150") will have upon the business situations of a vast number of employee-owned companies in the United States, and to urge that the Financial Accounting Standards Board (the "Board") reconsider its decision to make SFAS 150 applicable to non-public entities.

SFAS 150 will require firms like ours to classify as liabilities any financial instrument issued in the form of shares that is "mandatorily redeemable." Included in this definition are shares with repurchase obligations linked to age, death, or termination of employment of an individual shareholder. A vast number of non-public entities, including many employee-owned and small businesses, have for years had agreements with their shareholders obligating the entity to redeem a shareholder's interest when that shareholder dies, retires, or resigns.

These agreements are also particularly important for businesses that desire to limit ownership solely to active employees. Elected officials have long supported the objective of employee ownership, both legislatively and through tax policies.

Frequently, these agreements represent the only means for owners of a business to realize value for their interest other than through the sale of the entity. Moreover, the entity itself represents the only source of assets available to enable departing shareholders to realize value for their interests.

Non-public entities have operated successfully for many years with redemption agreements in place, without having to recognize the effects of these arrangements directly on their balance sheets, and without creating any disclosure or other problems as to their financial condition.

The practical effect of the requirements of SFAS 150 is to wipe out the net worth of the entities which are parties to agreements with their owners obligating the entity to redeem shares when their owners die or terminate their employment. In instances where shares trade within the corporation at a value above the book value, this (subject to final interpretation of the new standard) could lead to balance sheets reflecting a negative net worth.

We believe that SFAS 150 places non-public companies facing the reclassification of their equity at a significant disadvantage in relation to competitors that are public companies. SFAS 150 will force non-public entities to choose between having a balance sheet that shows a "net worth" comparable to that of public companies, or to severely restrict the agreements among the entity and its owners. This situation can be very difficult for non-public entities that must satisfy "net worth" requirements for particular purposes, such as qualifying as a bidder for government contracts, or satisfying credit quality standards for lenders, suppliers and other third parties. The need to show a balance sheet having a "net worth" may compel many businesses to contrive organizational arrangements solely to avoid the application of SFAS 150, without changing their actual financial position or underlying economic characteristics.

Convincing shareholders and third parties that no fundamental economic change in the enterprise has occurred will be difficult. At a minimum, non-public companies will likely be forced to restructure ownership, banking, leasing and other agreements to mitigate or avoid the adverse effect of SFAS 150 on their balance sheets. Such restructuring is inherently unfair because it subjects the non-public firm to an unnecessary and expensive process that does not change the underlying fundamentals.

We also believe that, when applied to non-public entities, the requirement of SFAS 150 presents an overly pessimistic picture of the entity's financial position. In most cases the assets of the entity are available to satisfy obligations to creditors prior to the obligations to redeem shares, just as with a public entity. Indeed, state corporate laws include provisions that govern the ability of a corporation to redeem its shares, and such laws clearly provide that contributed capital and retained earnings constitute equity and not a liability.

In contrast to the owners of interests in non-public entities, owners of shares of public companies have access to the public capital markets if they wish to dispose of their investment. For this reason, only in unique circumstances would public companies be parties to an arrangement that would render their shares subject to "mandatory redemption." Moreover, applying SFAS 150 to public companies makes sense in order to address abusive accounting practices that some public companies have adopted when dealing in their own shares.

In short, while we appreciate the benefit that SFAS 150 can provide in the context of public entities, we believe that SFAS 150 will have unduly harsh and unwarranted consequences when applied to non-public entities.

We respectfully urge the Board to act promptly to reconsider, or, at a minimum, amend the new standard to substitute broader disclosure elements in lieu of the reclassification of equity to debt.

Thank you for your consideration.

Sincerely,



George Cutler, Principal (On behalf of the firms listed below)

cc: Listed firms

THE FOLLOWING FIRMS SUPPORT THE POSITIONS EXPRESSED IN THE FOREGOING LETTER TO FASB FROM THE CUTLER GROUP REGARDING FAS150:

David Evans & Associates, Bill Amadon
Camp Dresser & McKee, Bob Anton
Maguire Group, Inc., Ray Bush
HNTB, Terry Campbell
HDR, Inc., Terry Cox
Kimley-Horn and Associates, Nick Ellis
Parsons Brinckerhoff, Joan Fabio
Brown & Caldwell, Angela Ferrif
Woolpert, LLP, Mark Haberstroh
Greeley & Hansen, Paul Haglund
MWH Global, David Harper
DMJM + Harris, Tom Joldersma
Gannett Fleming, Lynn Knepp
STV, Inc., Peter Knipe
Civil & Environmental Consultants, Inc., Don Latkovic
Wilbur Smith Associates, Don Leahy
Terracon, Doug Loveridge
O'Brian & Gere Companies, Joseph McNulty
Malcom Pirnie, Dan Shevchik
Burns & McDonnell, Mark Taylor
EDAW, Dana Waymire
O'Neal, Inc., Gordon White
