

Message

Letter of Comment No: 25  
File Reference: 1082-300  
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**Stacey Sutay**

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**Subject:** FW: Reference #1082-300 Impact of FIN 46 on Franchising

-----Original Message-----

**From:** Steve Arendt [mailto:Steve@colortyme.com]

**Sent:** Thursday, November 13, 2003 8:56 AM

**To:** Director - FASB

**Cc:** 'mfadel@rcenter.com'; Pat Sumner; 'Sam Lowe'; Thomas Seago

**Subject:** Reference #1082-300 Impact of FIN 46 on Franchising

Dear Sir/Madam

I am writing this to express my company's concern related to the FASB Interpretation of No. 46, Consolidation of Variable Interest Entities ("FIN 46") and its significant impact on our franchise system. While we applaud the effort to insure open and accurate accounting disclosures, we believe the current interpretation goes well beyond the original intent of the legislation as it relates Special Purpose Entities (SPE's) which were created by Enron and others as part of abusive financial schemes.

As currently drafted FIN 46 would require franchisors to consolidate the financial results of franchisees, as a VIE, unless (1) the franchisee has significant equity in light of the risk inherent in its business and (2) the equity owners can make decisions about the business and realize the risks and rewards of true equity. In the vast majority of our franchise relationships, our franchisees are highly leveraged with limited to no access to equity capital. Furthermore, we as the franchisor have no way to evaluate the adequacy of the franchisee's equity. Additionally, our franchise agreement gives us very limited decision making power as it relates to many issues relevant to this proposed rule.

In my opinion, the requirements of FIN 46 will place undue burdens on franchisors and franchisees that may inadvertently create misleading financial reporting, effectively doing exactly what the intended rule is attempting to prevent. We, as the franchisor, may be required to gather financial information from our franchisees we are not legally entitled to and consolidate that information in a way that achieves consistent financial reporting. Consequently, franchisees would most likely be required to use our auditor, implement the same internal control procedures and adhere to the same accounting principles as the franchisor. The burden of these requirements would create undue strain on our existing relationships and would, in many instances, be cost prohibitive for the franchisees effectively forcing them out of business.

As part of the franchising community I respectfully request that FASB (1) defer the effective date of FIN 46 as it applies to franchising to allow for a more careful analysis of its impact on the franchise relationship and to address implementation issues and (2) clarify the applicability (or preferably, the inapplicability) of FIN 46 to franchise relationships.

Very truly yours,



Steven M. Arendt  
President & CEO  
ColorTyme, Inc.

11/13/2003