

DLR Group

October 29, 2003

Director, TA&I-FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position No. 150-c.

DLR Group was founded by three individuals in 1966, who aspired to start and grow a full service architectural engineering firm with employee ownership as one of the firm's main strengths. Today, DLR Group is comprised of 425 employees, in 17 locations across the United States. 312 of these employees are shareholders in this privately held firm. DLR Group has successfully transitioned from its founders to a second generation of leadership and has laid the groundwork for another leadership succession process. All of this would not be possible without employee ownership and its associated benefits. DLR Group is a member of the American Institute of Architects Large Firm Roundtable, and we appreciate the opportunity to comment on No. 150-c.

As previously mentioned, DLR Group is a privately owned architecture and engineering design firm with clients, offices and operations throughout the United States.. DLR Group is a C corporation, and our employee owners invest a substantial amount of their personal net worth in the firm. Upon termination of employment (retirement, death, or otherwise), their equity interests are repurchased by the firm in order to maintain control over the ownership of DLR Group. In addition, certain states' licensing provisions for professional services firms require professional employee ownership. DLR Group is very concerned about the implications of Statement 150 on our financial statements, and the ability to effectively explain to our employee owners, clients and potential clients, financial institutions, vendors, and other users of our financial statements that the application of this new accounting standard has the potential to completely eliminate our recorded equity.

DLR Group not only supports deferral of Statement 150, but we strongly recommend FASB reconsider the issue of mandatory redeemable securities for nonpublic entities.

DLR Group strongly disagrees that mandatory redeemable common shares be considered liabilities. To characterize them as such is a misrepresentation of the substance of our relationship with our employee owners, and of their residual interests in the success and failure of our firm. Even with a mandatory redemption provision in the shareholders' agreement, the common shareholders exercise ownership control and are subject to ownership risk. This control even would allow them to cancel any contractual redemption provision, for example, if they decide to sell the company to a third party. The risks are apparent should the business falter or fail, and this distinguishes the employee owner from all other obligees.

DLR Group has assumed this position is supported by the FASB's own conceptual framework. Assets are resources available to an entity. Liabilities represent claims against those resources. Equity represents the residual interests in those assets assuming the satisfaction of all the claims. Common equity holders are residual interest holders until such time as the claim for the redemption of their shares is made and fixed, which only occurs at the point that the mandatory redemption provisions are effective, regardless of whether the redemption is at fair value, formula value, or book value. When all equity holders have the same rights of redemption upon termination, retirement, or death, all will receive their pro rata interest in the entity's net assets. Therefore, they are in the same position as if the redemption requirement did not exist; they are residual interest holders.

Clearly, in addition to controlling ownership, redemption features in shareholder agreements of a privately-owned firm such as DLR Group exist to provide our employee owners with liquidity that "public markets" provide for public entities. By eliminating the equity sections of most nonpublic companies, Statement 150 will put nonpublic companies at a competitive disadvantage compared to similar public entities and global competitors not subject to these accounting rules. Nonpublic companies' balance sheets, on their face, will appear insolvent, when all other things being equal and assuming a going concern, there is substantively little difference between public and nonpublic entities. In addition, owners in each firm, when seeking their own personal financing, will be placed at a competitive disadvantage when they are asked to submit financial statements supporting the valuation of their equity interests in the firm.

DLR Group also requests FASB reconsider this accounting change on the basis of cost-benefit for nonpublic companies and the users of their financial statements. Currently, nonpublic entities are required to disclose the redemption provisions in the notes to the financial statements; a practice incorporated, generally accepted and understood in the user community for decades. An alternative would be to carve out an exception to the mandatorily redeemable financial instruments provisions of Statement 150 for nonpublic entity ownership interests, and provide a requirement to include the wording "subject to mandatory redemption" in the equity section of the balance sheet. This would eliminate the non-productive time and expense of having nonpublic companies and their counterparties renegotiate and amend agreements containing covenants or representations related to reported equity.

It is for these reasons that DLR Group requests FASB reconsider the issue of mandatorily redeemable securities for non-public entities.

Thank you for your consideration of the matters. If you have any questions or comments, please feel free to contact me at (503-224-3860).

Sincerely,

Dennis L. Wiederholt
Chief Financial Officer
DLR Group