October 30, 2003

Via: E-Mail

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

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

Dear Sir:

Architecture
Engineering
Planning

I am writing this letter to request that the Financial Accounting Standards Board (FASB) reconsider implementing the Proposed FASB Staff Position No. 150-c, entitled, Effective Date and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities of FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ("Statement 150")

My firm, CUH2A, Inc., is a privately owned architecture and engineering design firm with clients, offices and operations in the U.S. and Europe. We practice as an "S-Corp" with 26 shareholders who jointly own the company. These employee/owners have invested a substantial amount of their personal net worth in their CUH2A. When they retire or otherwise cease to be full time employees of the firm, their shares are repurchased by the firm in order to maintain control over the ownership. Further, certain states' licensing provisions for professional services firms require professional employee ownership. I am very concerned about the impact of Statement 150 on our financial statements, our the ability to effectively explain to our owners, clients and potential clients, Banking partner, vendors, and other users of our financial statements that the application of this new accounting standard will completely eliminate our recorded equity.

I therefore support deferral of Statement 150, and request that the FASB reconsider the issue of mandatorily redeemable securities for nonpublic entities. To characterize mandatorily redeemable common shares as liabilities misrepresents the substance of our relationship with our owners, and of their residual interests in the success and failure of our firm. Even with a mandatory redemption, the common

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shareholders exercise ownership control and are subject to ownership risk; those risks are apparent should the business falter or fail, and this distinguishes the owners from all other obligees.

We believe 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. Our Shareholders 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. When all shareholders 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 owner agreements of privately-owned firms exist to provide their owners with liquidity that the "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.

I also request the 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 I request that FASB reconsider the issue of mandatorily redeemable securities for non public entities.

Very truly yours,

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