



Letter of Comment No: 75
File Reference: 1100-LEU
Date Received: 10/24/03

October 24, 2003

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

Re: Statement of Financial Accounting Standard No. 150. *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

Dear Mr. Herz:

We, as management of Prentiss Properties Trust (Prentiss), are writing to the Financial Accounting Standards Board (the Board) to urge the Board to reconsider certain aspects of Statement of Financial Accounting Standard No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150)*. Prentiss is a real estate investment trust which owns primarily office properties in eleven markets across the United States.

As currently being interpreted, SFAS 150 will significantly impact the real estate industry. The implications of SFAS 150 have only recently become clear to us and other real estate companies as we and others have begun to implement the standard. Further, the impacts of SFAS 150 on the industry's financial reporting will be exacerbated by the implementation of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (FIN 46)*, which will increase the extent to which the real estate industry will be required to report minority interests in consolidated entities.

Many real estate companies invest in entities that are organized in a partnership structure (or partnership-like structures such as a limited liability companies). By practice, or as required by certain state reporting statutes, these entities often have finite lives, frequently extending 99 years, and providing for further extension. When a real estate company controlled the jointly owned entity, the assets and liabilities of such entities were consolidated and the non-owned investor's portion were reflected in the mezzanine section of the balance sheet as minority interest. Prior to the issuance of SFAS 150, these minority interests reflected the *book value* of the minority partners' claim on the net assets of the consolidated entity.

We understand that pursuant to the provisions of paragraph 9 of SFAS 150, effective in the third quarter of 2003, the jointly-owned consolidated entities described above may meet the definition of mandatorily redeemable financial instruments. They would therefore be required to be reported as liabilities and measured at their fair value at each balance sheet date. Further, the changes to the fair value would be included in the parent's operating results for the periods in which the change occurs. This accounting would not result in financial reporting that faithfully represents the economics of a parent company's interest in consolidated jointly owned entities.

The great majority of these jointly owned entities provide the minority party with a residual interest in the final liquidation of the net assets of the entity that is included in the consolidated financial statements of the parent. If these entities are consolidated in the financial statements of their parent, SFAS 150 would produce an anomalous result of requiring the minority interest liability to be adjusted to settlement value based on the fair value of the jointly owned entity's underlying assets that continue to be carried at historical cost in the consolidated financial statements. Said more simply, the very changes in asset value that create the recognized adjustments to the SFAS 150-minority interest liability would not be themselves reflected in the parent's consolidated financial statements. This result would misrepresent the economic reality of the parent's interest in the jointly owned entity and the parent's operating results.

An example of this is a transaction in which assets are acquired in a joint venture arrangement at the peak of the real estate cycle, shortly before an unforeseen economic downturn. As the decrease in market rental rates and increase in tenant concessions decrease the projected cash flows, it is likely that the fair value of the properties will decline. It seems counter-intuitive for the consolidating entity to recognize positive earnings as a result of a decline in the fair value of its consolidated assets and conversely, negative earnings as a result of an increase in the fair value of its consolidated assets.

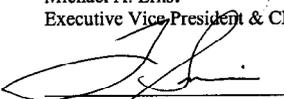
We request that the Board urgently address this inappropriate financial reporting result. We believe that, at the very least, the Board should defer the application of SFAS 150 to those liabilities that represent residual interests with the right to participate in the final liquidation of the net assets of an entity that is included in the consolidated financial statements.

We appreciate the opportunity to participate in the Board's standard setting process. If you have any questions regarding this response, please contact Michael A. Ernst, Thomas P. Simon or Scott W. Fordham at (214-654-0886).

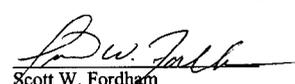
Sincerely,



Michael A. Ernst
Executive Vice President & CFO



Thomas P. Simon
Senior Vice President & Principal Accounting Officer



Scott W. Fordham
Vice President & Director of Financial Reporting