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Letter of Comment No: 1  
File Reference: FSPFAS142D  
Date Received: 1/2/06

December 25, 2005

FASB  
Norwalk, CT

Ladies and Gentlemen:

## Reference: Proposed FSP on Renewable Intangible assets

I suggest that the proposed FSP, amending SFAS 142, may have serious unintended consequences with respect to the intangible asset known as "Customer Relationships".

As written originally, SFAS 141 and 142 called for using a contractual relationship as the basis for recognizing and valuing any intangible asset. Customer relationships based on an open purchase order were not deemed initially as meeting the true test of an ongoing contract – specifically with respect to legal enforceability. In other words if a company like Staples had an open purchase order at the purchase date from a customer for a ream of paper we did not feel that this created the intangible asset known as a customer relationship. There was no assurance that the customer on his next order wouldn't go to Office Depot.

However, it is our understanding that the EITF, at the Board's suggestion, modified the definition of 'contractual relationship' to pull in any customer who had even a single open purchase order. The definition was even broadened to include 'closed purchase orders', if there were likelihood the customer had ordered in the past and could or would order in the future.

Now this proposed FSP is changing the ground rules for determining the life of customer relationships because by any definition they fall in the category of renewable assets. Further you are adding a complexity regarding capitalization of future 'renewal costs'. Take the Staples example. . For a company like Staples we would not attempt to value individually each of many thousands of customers. Instead we would look at recent overall sales history to determine what percentage of current sales was made to repeat commercial customers and what percentage to retail customers. In valuing the Customer Relationships we would disregard the retail sales and value only the 'contractual sales' related to companies that used purchase orders

We would assume some annual decrement in sales to the panel of existing commercial customers in arriving at an overall weighted average life. In determining the Fair Value of the customer relationship for Staples we would look to the anticipated gross margin on future sales to that customer and the related SG&A expenses. We would assign the same life for amortization that we used in the calculation of the Discounted Cash Flows.

Now, if we read your FSP correctly, customer relationships will fall in the category of 'renewable' intangible assets. This means that companies will have to start capitalizing ongoing selling and advertising costs (e.g., catalogs) and amortizing them over the 'renewal period'. What is the renewal period for contractual customer relationships when the individual purchase order contracts extend for only one month but you want them picked up indefinitely into the future because they can be 'renewed'?

Perhaps you did not intend to encompass customer relationships into the new FSP. But if that is the case you will have to distinguish renewals of purchase orders from renewal of other contracts. At this point I do not see the difference.

I would be pleased to discuss this with you.

Respectfully submitted,

*/s/ Alfred M. King*

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