

Letter of Comment No: 77
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October 24, 2003

Mr. Robert Herz Chairman Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Dear Chairman Herz:

On behalf of the member companies of the National Electrical Contractors Association (NECA), I am writing to express my concerns with Statement of Financial Accounting Standards No. 150 (FAS 150). NECA is the nationally recognized spokesman for the electrical construction industry. This industry is comprised of over 80,000 electrical contracting firms employing over 650,000 electrical workers, producing an annual volume of over \$95 billion.

FAS 150 requires that issuers classify as liabilities any financial instrument issued in the form of shares that is "mandatorily redeemable." A financial instrument is "mandatorily redeemable" if it requires the issuer to redeem it by transferring its assets at a specified or determinable date upon an event that is certain to occur. Among such events are the death or termination of employment of an individual shareholder of the entity. The requirement to list buy/sell agreements as a liability will, in many cases, force a company to have to report a zero net worth on the bottom line.

The majority of NECA member companies are non-public firms. FAS 150 will have unintended consequences to these entities because balance sheets will no longer reflect the true financial state of the company. A misleading balance sheet can dramatically affect business operations and lead to the loss of future business for the company. Many companies in the construction industry will face these consequences. Due to the ramifications this rule will have on non-public entities, it is important that FASB reconsider its decision to make FAS 150 applicable to both public and non-public companies.

Even though a company may be fiscally sound, a zero net worth on a financial statement caused by adherence to FAS 150 will greatly harm a company's ability to obtain and finance its work. A company might experience problems in trying to obtain loans, surety bonds, pre-qualification for projects (particularly government work), and even business licenses. All of these things require a company to demonstrate the strength of its financial health. FAS 150 will provide a misleading picture. Another risk posed by FAS 150 is that, in an effort to avoid the effects of this standard, companies will revise their

buy/sell agreements so that no contractual obligation exists. This is a financially risky direction for a company to take, and makes the financial future of that company less stable and secure. Based on these potential results, we believe FASB must reconsider the effect of FAS 150 on non-public, non-SEC registered firms.

Thank you for your consideration. NECA looks forward to working with FASB to create a mutually acceptable solution to this critical problem. Please do not hesitate to contact me with any questions.

Sincerely,

Íohn M. Grau

NECA, Chief Executive Officer