

December 14, 2010

Director, Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856

RE: Comment on Exposure Draft of a Proposed Accounting Standards Update of Topic 840 (Leases)

From a newsletter provided by our independent auditor, we understand that the Exposure Draft of a proposed Accounting Standards Update of Topic 840 (Leases) dated August 17, 2010 aims to respond to longstanding criticisms that lease accounting has been too permissive of off-balance sheet treatment by lessees, overly complex and dominated by arbitrary rules. A key component of the Exposure Draft is the creation of a single lease accounting model for all lessees and lessors. While we understand the rationale for creating a single right-of-use model, we do not believe this model should apply to contingent rents. Applying the proposed changes to contingent rents will dramatically impact the underlying business models of certain industry sectors and result in significant increases in complexity, cost and volatility in financial reporting. In addition, the capitalization of contingent rents implies that the economic risk associated with fixed and contingent rents is virtually the same when they are not. For those wishing to quantify risks inherent in leases, existing lease disclosures already provide sufficient information to make necessary adjustments to financial statements.

The proposed changes regarding the recordation of contingent rents will dramatically affect those firms operating in the restaurant and retail sectors where contingent rents are a key component of the operating model. To operate in an airport, mall, shopping center or travel plaza, lessees or tenants are required to pay contingent rents to a landlord based on a percentage of sales subject to an overriding minimum guarantee. Since contingent rent is a key cost component of many restaurants and retailers, the capitalization of contingent rents will result in large increases in a commonly used measure of operating cash flow (i.e. "EBITDA" or earnings before interest, taxes, depreciation and amortization) as well as the assets of these tenants, thus severely distorting the actual cash profits being generated by such businesses and by implication overstating the legal and economic rights regarding the use of those assets. For example, concessionaires like HMSHost who operate restaurants and retail stores in public transportation centers globally such as airports or travel plazas, do not have the option of owning the space outright or leasing space indefinitely in the future. A concessionaire must competitively bid for the right to occupy space in these venues for a limited period of time which can range from approximately three years to as long as fifty years. Like tenants in other venues, a concessionaire must pay rent based on a percentage of sales subject to an overriding minimum guarantee. Depending on the type and structure of concession, rents can range from single digit percentages to more than thirty percent of sales. Removing a significant cost component such as rent by virtue of the proposed change would falsely give the appearance, both to internal and external users of financial statements, that the concessions business generates substantially more operating cash flow than it actually does. Furthermore, the award of a concession contract does not convey the typical rights of ownership or unrestricted use of an asset usually defined under legal and economic principles. Concessionaires are legally bound by performance standards and restrictions on use. Any changes, including changes in prices charged to consumers, products sold, capital invested, etc. must always be pre-approved by the landlord. Contracts can be terminated by the landlord for failure to comply with performance standards or violating these restrictions. Consequently, recording an asset under the concessionaire model would not accurately reflect the legal or economic conditions of ownership. Therefore, in our view, the resulting increases in EBITDA and assets that would result from the capitalization of contingent rents and would significantly overstate and misrepresent the business model and actual level of operating cash flow and assets of the concessionaire and tenants in general.

Lessees with a large number of contingent rent contracts would be subject to an exponential increase the complexity associated with financial report preparation and changes to lease reporting would materially impact existing internal and external financial reporting requirements. As a lessee of over three hundred airport and tollroad concession contracts and a lessor of over two hundred subtenant agreements, HMSHost alone would face significant obstacles and substantial incremental costs in complying with the proposed capitalization of contingent rents. In order to comply with the proposed changes, sales generated by each of the more than three hundred individual contract and potentially each product category within certain contracts would need to be projected over the entire lease term (up to fifty years for some contracts) using a number of subjective assumptions including price increases, mix changes and volume growth as well as potential renewal probabilities. Performing these calculations on an annual basis for each contract would be extremely difficult and time consuming, and to perform these calculations on a quarterly basis would be even more burdensome to the business. Even assuming these calculations could be completed in a timely manner at little incremental or no incremental cost, the resulting financial statements, however, would not reflect the management's view of the business and consequently all internal management reports would need to be redesigned to bridge the differences between accounting statements and required management reports, placing additional burdens on financial reporting personnel. Furthermore, changes to financial statements may lead to conflicts with external reporting requirements by landlords, lenders, tax authorities, partners and other stakeholders which will need to be mitigated through additional reporting, if possible.

More likely than not, the proposed changes to lease accounting will result in additional costs to the business in at least five key areas. First, in order to perform the numerous and complex calculations, software will need to be purchased, if available (or developed if not available) to: track individual leases; project sales and rents; compute asset values, amortization schedules, lease obligations and interest expense; and generate reports. Second, systems resources will need to be retained to develop, implement and manage the new software. Third, additional personnel will need to be hired to produce assumptions, input data and analyze the information generated. Fourth, additional fees will most likely be required by auditing firms to review and analyze the information produced. And fifth, fees may need to be paid to lenders to implement modifications to loan covenants which are based on existing financial reporting standards. In

total, we believe these proposed changes will place a large cost burden on companies, especially those with a large contingent rent component.

While the proposed capitalization of contingent rents would bring all leases on to the balance sheet, there would still be significant subjectivity used by firms to calculate the value contingent rents and these valuations would be subject to a great deal of volatility between each reporting period. Frequent users of discounted cash flow models understand that small changes in assumptions can lead to large changes in valuation and determining the value of contingent rents would be no exception. For example, a small change in the growth assumption on a fifty-year lease could result a large change in the asset values being recorded on the balance sheet as well as large changes in depreciation/amortization and interest expense on the income statement. Instead of providing a consistent and solid basis for reporting, the proposed change to contingent rents could introduce inconsistent and highly variable financial statements which would also provide additional ammunition to companies who manage earnings. While correcting for off-balance sheet treatment of leases, the proposed changes have introduced a potentially more subjective and harmful method of recording leases which decreases rather than increases the reliability of financial statements.

Finally, the Exposure Draft attempts to treat all leases the same and does not materially differentiate the risk associated with a contingent rents and fixed rents. If possible, businesses enter into contingent rent structures often to reduce risk. And as mentioned previously, some businesses, such as concession companies, only have the option of paying contingent rents. Under a contingent rent structure, if the sales do not materialize as planned, rental obligations are also reduced. Theoretically, if sales are reduced to zero, rents will also be reduced to zero. By capitalizing both fixed and contingent rents, both are assumed to possess the same risk when in reality they are not the same.

The International Accounting Standards Board and the U.S. Financial Accounting Standards Board (the "Boards") have proposed an alternative to current lease classifications which will prove to be overly complex, costly and increase the variability in financial reports. The proposed capitalization also runs counter to existing business models of certain industries and does not property reflect the business risks associated with different types of leases. We believe that the existing lease disclosures provided in footnotes to financial statements provide ample information for users of financial statements to make adjustments for risks inherent in leases. We therefore hope that the Boards consider our suggestions and eliminate the requirement to capitalize contingent rents.

Sincerely,

Richard Kunkle, CPA

Vice President and Corporate Controller

HMSHost Corporation