August 20, 2010

Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update—Leases (Topic 840)

Board Members;

As I read through the proposed changes for accounting for leases I developed the following concerns of potential impact on businesses, specifically in the area of operating leases:

- One of the primary benefits from using, and purposes of using operating leases will be eliminated.
  - Operating leases provide a means to acquire needed new equipment, machinery, or vehicles where or when a company’s balance sheet is not strong enough to add debt to the liability side.
  - Banks and other financing institutions will inevitably include the liability of total lease payments of an operating lease in their calculations of debt capacity and loan repayment capacity of a business while not including, or at least discounting, the operating lease asset due to it not being available to them as collateral or equity. The result will be to shrink, probably seriously, the lending capacity a bank or finance institution will provide to a business. For growth mode businesses or start-up businesses this is a potential growth or survival killer.

- Other concerns or points to consider –
  - Lease of facilities, buildings, and office space – what value would be required to be recorded as the lease asset? The total lease payments over the lease term or the fair market value of the facility? If it is the fair market value then how do you balance the entry between the asset and the liability?
  - Recording an asset for a true operating lease or facility lease will artificially inflate the assets of a business. These asset values would be for equipment and other items that the business does not own, and will never own. Assets are to reflect what a business owns; recording a lease asset from an operating lease or a standard facility lease arrangement would seem to violate this premise.
o If the asset for an operating lease simply equals the liability recorded, which is the total lease payments, then both the asset and the liability have an interest factor embedded in the amount. To be proper this interest factor would need to be recorded as interest expense as the asset is amortized, which is not a requirement now under a true operating lease.

o What will be the true amortization or depreciable period of the lease asset? The term of the lease, the useful life of the asset? In the case of facility leases, what life should be assigned where a lease is a month-to-month lease term or has as its renewable option a simple month-to-month feature?

I believe the current standards for lease accounting are adequate. The required footnote disclosures provide enough information for potential users of the information to determine the obligations of any operating leases going forward. I believe the proposed new changes would require the assets of a business to reflect non-owned assets instead of only owned assets, requiring users of a balance sheet to understand this and, in effect, remove that figure to arrive at the true assets of a business. The recording of a liability eliminates a viable option to a business, the operating lease that allows it to grow or sustain operations when its balance sheet and liabilities are not strong enough to allow it to incur more traditional debt or capital leases. The proposed changes do not have the benefits outweighing the costs and harm to businesses and confusions that will follow among users and readers of financial information, in my opinion.

Regards,

[Signature]

David J. Davis, CPA
Controller