December 7, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut
06856-5116
United States

RE: Response to Exposure Draft Leases

Dear Board Members:

BakerCorp is pleased to provide comments and recommendations on the proposed accounting standards update to leases dated August 17, 2010. Our response is limited to our interpretation of the proposed changes that would directly affect our company’s operations and results. We believe our concerns would apply to all daily equipment rental businesses, and many other businesses with similar businesses models regardless of industry (e.g., car rental agencies and medical/hospital equipment lessors).

We have included our company background to illustrate the magnitude of the potential changes to our operations and results.

**COMPANY BACKGROUND**

We are a relatively small private company. The primary business of BakerCorp is the daily rental of steel and polyethylene temporary storage tanks, roll-off containers, pumps, filtration, shoring and related products to a broad range of customers for a multitude of applications. We have over 90 locations in 22 states, Mexico, Canada, the Netherlands, France and Germany.
BakerCorp Response to Exposure Draft *Leases*

Our business model is predicated on a high volume of transactions with a relatively low average daily transaction price per customer (below $100). For the year ended January 31, 2010, the company entered into approximately 85,000 individual rental transactions. Currently, we have identified over 20,000 pieces of equipment, and thousands of other ancillary pieces of equipment that we rent out on a daily basis. The nature of the rental arrangements is to provide customers with equipment on a day-to-day basis, not as an alternative for financing. The assets that we rent typically have economic lives between 7-30 years and a single asset may be on rent to several different customers during a quarterly period. Our rental terms allow for the return by the customer of the equipment at any time without penalty, there is no inherent interest charge and we reserve the right to demand the return of the equipment from the customer at any time. While vast majority of the equipment we rent is owned by the company, we also sublease a significant amount of equipment from other equipment rental companies.

**RESPONSE TO QUESTIONS**

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<td>This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less: (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64). (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65). (See also paragraphs BC41-BC46.) Do you agree that a lessee or lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?</td>
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We believe that lessees and lessors involved in day-to-day rentals (or leases) should only provide the proposed disclosures in the notes to the financial statements, and not recognize assets and liabilities.

We appreciate the Boards’ conclusion that disclosure is not an adequate substitute for recognition, and that the assets and liabilities in the statement of financial position would be incomplete and not be a faithful representation of those short-term liabilities. However, due to the unpredictable nature of day-to-day rentals, estimating a lease term for each agreement would require lessees and lessors to use highly subjective lease term estimates. The potential result is the recognition of an estimated asset and liability with a high level of risk for a material misstatement and unreliable financial information. The proposed comprehensive disclosure of the lease information in the notes to the financial statements would provide financial statement users with sufficient data to make informed lending and investing decisions without compromising the integrity of the statement of financial position.

Additionally, financial statement note disclosure by lessees and lessors of day-to-day leases would provide better comparability between financial statements due to the higher level of reliable financial information in the statement of financial position. Based on the pervasive proposed changes to leases and recognition of revenue, we believe the Board should utilize every opportunity to allow for comparability when reasonable.

Also, the evaluation of thousands of day-to-day leases, with hundreds of different customers, to be used in numerous applications for the purpose of recognizing an asset and liability would require a significant quantity of resources. We believe the cost to analyze each lease would exceed the benefit of recognizing an estimated short-term liability based on high-subjective estimates.

If the Boards maintain their position and require lessees to recognize assets and liabilities arising from short-term leases, we recommend that the Boards allow reasonable estimates of the aggregate assets and liabilities related to day-to-day leases, and not require an estimate of the assets and liabilities on a lease-by-lease basis. An estimate of the aggregate outstanding leases would be consistent with Boards’ intent to mitigate costs associated with the recognition of short-term leases by lessees.

Our final recommendation is that the Boards consider specifically including in the definition of “short-term leases” leases that include the following terms:

- no termination date and/or
- allow the company (lessor) to demand the return of, or customer (lessee) to return, the equipment, at any time without penalty

Day-to-day leases with these terms are intended to be short-term and should not be required to apply the same proposed changes as long-term leases. Based on our understanding of the proposal, day-to-day leases could be precluded from the short-term
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lease election because a termination date is not determinable. Under the proposed definition, this does not appear to be the Board’s intent. Therefore, inclusion of day-to-day leases in the definition of short-term leases would eliminate inconsistencies in the application of the simplified requirements do to interpretation, resulting in the consistent application of the election by businesses with similar types of leases, and lessees and lessors.

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<td>Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?</td>
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We agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position. However, we recommend that lessees and lessors of day-to-day leases and subleases provide the proposed disclosure in the notes to the financial statements, and not recognize assets and liabilities. Disclose in the notes to the financial statements would provide clear and transparent information regarding the economic use of our assets. We are concerned that if we were required to estimate the term of each rental transaction or for transaction in aggregate that it would require the use of highly-subjective lease term estimates resulting in a high level of risk for a material misstatement, consistent application of financial statement note disclosure by lessees, and analysis of hundreds of day-to-day head leases and subleases. The cost of analyzing hundreds of individual small dollar transaction would materially impact the economics and vitality of our business and would subject the Company’s financial reporting to a greater risk of restatement. Furthermore, given the business model of our Company, we believe that such estimates would result in a disconnect between the economic substance of our business and that which would be reported on the financial statements.

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<td>Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?</td>
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We agree with the Board’s assessment that the benefits of the proposal should outweigh the costs, but only when the right-to-use model is applied to a small number of transactions with a large dollar amount. Requiring the recognition and subsequent accounting of approximately 85,000 assets and liabilities for a company our size is simply cost prohibitive. Given our business model of offering a daily rental on over 20,000 pieces of equipment, involving short term small dollar transaction rentals without a specified lease term, it would be difficult, if not impossible for the Company to analyze each transaction at the time of inception in a cost effective manner. Additionally, the right-to-use model should
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only be used when a reliable estimate is reasonably available. Requiring the recognition of an estimated asset and liability with a high risk of material misstatement is not beneficial to the users of the financial statements. User of the financial statements must have sufficiently reliable and complete information to make informed lending and investing decisions. Furthermore, comparability is only possible when financial information is accurate and reliable. Therefore, only reasonable estimates of assets and liabilities should be recognized.

Number Question

18 Do you have any other comments on the proposals?

The application guidance contained in paragraph B3 states “a contract that permits an entity to substitute a similar asset for the specified asset after the commencement of the lease does not contain a lease because the underlying asset is not specified, even if the contract explicitly identifies a specific asset.” We believe further guidance related to specific asset identification and substitution is required. Because our rental agreements allow for the substitution of equipment at any time, our interpretation is that the rental agreements with our customers would not constitute a lease, and would therefore be subject to the guidance in the Contracts with Customers Exposure Draft. However, the proposed guidance is not clear enough to reach that determination conclusively.

We thank the Boards for the opportunity to comment on the proposed changes, and provide recommendations.

We would be please to discuss our comments further with the Boards or their respective staffs at your convenience. Please contact James Leonetti, Shanen Foye, or Marc Blythe at +1 562 342 7911.

Sincerely,

James Leonetti
Chief Financial Officer
BakerCorp