

Raiph W. Christle, Jr., P.E. President and CEO Chairman of the Board

October 7, 2003

Letter of Comment No: 16
File Reference: 1100-LEU
Date Received: 10/7/03

Merrick & Company 2450 S. Peoria Street Aurora, CO 80014-5472 Phone 303-751-0741 Fax 303-751-7967 www.merrick.com CONTRACTOR CONTRACTOR

Financial Accounting Standards Board Attention: Mr. Robert H. Herz, Chairman 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Re: SFAS 150

Dear Board Members:

Merrick & Company expresses our serious concerns regarding the severe impact that we believe statement of Financial Accounting Standards No. 150 ("SFAS 150") will have upon the business situations of a vast number of employee-owned companies in the United States. We urge that the Financial Accounting Standards Board (the "Board") reconsider its decision to make SFAS 150 applicable to non-public companies. Merrick employs approximately 500 engineers, architects, land surveyors, and other specialists, responsible for more than \$50 million of public and private works annually.

SFAS 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. Included in this definition are death and termination of an employment of an individual shareholder of the entity.

It is common for non-public engineering firms, including many employee owned companies to have long-standing agreements with their shareholders obligating the firm to redeem a shareholder's interest in the entity when that shareholder dies, retires, or resigns. Frequently, these agreements represent the only means for owners of a business to realize value for their interests other than through the sale of the firm. These agreements are also particularly important for businesses that desire to limit ownership solely to active employees, as is the case with numerous professional engineering firms, and these agreements facilitate generational change of ownership within the firm. Moreover, the firm itself represents the only source of assets available to enable the parting shareholders to realize value for their interests.

Non-public entities have operated successfully for many years with redemption agreements in place, without having to recognize the effects of these arrangements

An Employee-Owned Corporation

Financial Accounting Standards Board October 7, 2003 Page 2

directly on their balance sheets, and without creating any disclosure or other problems as to their financial condition.

The practical effect of SFAS 150 could seriously erode the net worth of some same firms, which are parties to agreements with their owners obligating the firm to redeem shares when their owners die or terminate their employment.

Merrick believes that the mandatory redemption provisions of SFAS 150 places non-public companies facing the re-classification of their equity at a significant disadvantage in relation to competitors that are public companies. SFAS 150 will force non-public entities to choose between having a balance sheet that shows a "net worth" comparable to that of public companies, or to severely restrict the agreements among the entity and its owners. This situation can be very difficult for non-public entities that must satisfy "net worth" requirements for particular purposes, such as qualifying as a bidder for government contracts, or satisfying credit quality standards for lenders, suppliers and other third parties. At a minimum, non-public companies will likely be forced to restructure ownership, banking, leasing and other agreements to mitigate or avoid the adverse effect of SFAS 150 on their balance sheets. Such restructuring is inherently unfair because it subjects the non-public firm to an unnecessary and expensive process that does not change the underlying fundamentals.

In contrast to the owners of interests in non-public entities, owners of shares of public companies have access to the public capital markets if they wish to dispose of their investment. For this reason, only in unique circumstances would public companies be parties to an arrangement that would render their shares subject to "mandatory redemption".

In short, while Merrick appreciates the benefits that SFAS 150 can provide in the context of public entities, we believe that SFAS 150 will have unduly harsh and unwarranted consequences when applied to non-public entities.

We respectfully urge the Board to act promptly to reconsider its decision to make SFAS 150 applicable to non-public entities or, at a minimum, amend it to substitute broader disclosure elements in lieu of reclassification of equity to debt.

Thank you for your consideration.

Sincerely,

Ralph W. Christie, Jr. President and CEO

RWC/jrj

น และเกิดเลย์เ**ตร์เดร์ตร**์เตรียกเลย์เลย์