



October 23, 2003

Letter of Comment No: 78
File Reference: 1100-LEU
Date Received: 10/23/03

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

RE: Statement of Financial Accounting Standard No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

Dear Mr. Herz:

I am writing to the Financial Accounting Standards Board (the Board) on behalf of MeriStar Hospitality Corporation (MHX) to urge the Board to reconsider certain aspects of Statement of Financial Accounting Standard No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150)*. MHX is one of the nation's largest hotel real estate investment trust's (REIT). As a REIT, MHX owns 100 full service hotels in major markets and resort locations in the U.S. and Canada.

As currently being interpreted, SFAS 150 will significantly impact the way we account for certain of our partners' interests in the partnerships we consolidate. The implications of SFAS 150 have only recently become clear to us and to the industry as member companies began to implement the standard. MHX invests in entities that are organized in a partnership structure. By practice, or as required by certain state reporting statutes, these partnerships have finite lives, frequently extending 99 years, and providing for further extension. Prior to SFAS 150, we consolidated the assets and liabilities of such entities and reflect the non-owned investor's portion in the mezzanine section of the balance sheet as minority interest. As such, these minority interests reflected the *book value* of the minority partners' claim on the net assets of the consolidated entity.

We understand that pursuant to the provisions of paragraph 9 of SFAS 150, effective in the third quarter of 2003, that certain of our jointly-owned consolidated entities described above meet the definition of mandatorily redeemable financial instruments. We would therefore be required to report the minority interest ownership as a liability and measure

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the partnership assets their fair value at each balance sheet date. Further, the changes to the fair value are to be included in our operating results for the periods in which the change occurs as interest expense. We believe that this accounting does not result in financial reporting that faithfully represents the economics of MHX's interest in its' consolidated jointly owned entities.

Certain of these jointly-owned entities provide the minority party with a residual interest in the final liquidation of the net assets of the entity that is included in our consolidated financial statements. As such, the consolidation of these entities under SFAS 150 would produce an anomalous result of requiring us to record an adjustment to the minority interest liability to settlement value based on the fair value of the jointly owned entity's underlying assets even though we would continue to carry the assets at historical cost in the consolidated financial statements. Said more simply, the very changes in asset value that create the recognized adjustments to the SFAS 150 minority interest liability would not be themselves reflected in our consolidated financial statements. Therefore, if the value of an investment property held by a consolidated jointly owned entity increases by \$10 million and 30% accrues to the minority interest, we would increase the minority interest liability and charge earnings for \$3 million. At the same time, neither the \$10 million nor the \$3 million increase in the value of the underlying asset would be recognized in our consolidated financial statements. This result would misrepresent the economic reality of our interest in the jointly owned entity and the parent's operating results.

We request that the Board urgently address this inappropriate financial reporting result. We are attempting to implement SFAS 150 for the third quarter of 2003. We believe that, at the very least, the Board should defer the application of SFAS 150 to those liabilities that represent residual interests with the right to participate in the final liquidation of the net assets of an entity that is included in the consolidated financial statements.

If you have any questions regarding this response, please contact me at (703) 812-7216.

Sincerely,



Brendan J. Keating
Chief Accounting Officer,
MeriStar Hospitality Corporation