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

Attention: Mr. Robert H. Herz, Chairman

Letter of Comment No: 15 File Reference: 1100-LEU Date Received: 09/02/03

Dear Board Members:

We write to express 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 and other non-public entities in the United States, and to urge that the Financial Accounting Standards Board (the "Board") reconsider its decision to make SFAS 150 applicable to non-public entities.

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. Among such events are the death or termination of employment of an individual shareholder of the entity. SFAS 150 also requires that the issuer recognize a loss at the time of the redemption of the "mandatorily redeemable" financial instrument in the form of shares equal to the excess of the amount of the redemption liability over the amount paid for the shares redeemed.

A large number of non-public entities, including many employee-owned and small businesses, have for years had agreements with their shareholders obligating the entity 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 interest other than through the sale of the entity. These agreements are also particularly important for businesses that desire to limit ownership solely to active employees. Moreover, the entity itself represents the only source of assets available to enable departing 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 directly on their balance sheets, and without creating any disclosure or other problems as to their financial condition.

The practical effect of the requirements of SFAS 150 is to wipe out the net worth of the entities, which are parties to agreements with their owners obligating the entity to redeem shares when their owners die or terminate their employment.

We believe that SFAS 150 places non-public companies facing the reclassification 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. The need to show a balance sheet having a "net worth" may compel many businesses to contrive organizational arrangements solely to avoid the application of SFAS 150, without changing their actual financial position or underlying economic characteristics. Redemption agreements will be converted to cross-purchase agreements among stockholders solely to avoid SFAS 150. 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.

We also believe that, when applied to non-public entities, the requirement of SFAS 150 presents an overly pessimistic picture of the entity's financial position. In most cases, the assets of the entity are available to satisfy obligations to creditors prior to the obligations to redeem shares, just as with a public entity. Indeed, state corporate laws include provisions that govern the ability of a corporation to redeem its shares, and such laws clearly provide that contributed capital and retained earnings constitute equity and not a liability. We suggest that if disclosure of the redemption obligation is required, footnote disclosure is sufficient.

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." Moreover, applying SFAS 150 to public companies makes sense in order to address abusive accounting practices that some public companies have adopted when dealing in their own shares.

In short, while we appreciate the benefit 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.

Thank you for your consideration.

Sincerely,

Dannible & McKee, LLP

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