



June 8, 2005

Mr. Lawrence W. Smith  
Chairman of Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116

Dear Mr. Smith:

Brinker International is pleased to provide comments on Issue No. 05-3 “Accounting for Rental Costs incurred during the Construction Period” to be discussed in the June 15-16, 2005 EITF meeting. We support View A which allows an entity to capitalize lease costs associated with ground and building leases incurred during construction. We believe View A represents the more appropriate accounting treatment based on our review of the authoritative literature referenced below.

***Ground leases***

We believe FAS 34 supports capitalization of lease costs incurred during the construction period. Paragraph 6 of FAS 34 states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. It further identifies interest costs associated with construction of a long-lived asset as part of the asset’s historical cost and should be capitalized.

We believe straight-line rent allocated to the construction period is a construction cost similar to capitalized interest. They both are carrying costs necessary to allow us to construct the restaurant. When we purchase land to construct a restaurant, we capitalize interest during construction for the cost of capital related to the land. When we lease land to construct a restaurant, we should capitalize the straight-line rent allocation during construction instead of interest for the carrying cost of the land. The decision to purchase or lease the land is typically controlled by the land owner.

We also believe that Illustration 3 in SOP 98-5 has been used inappropriately as a basis for determining that lease costs should be expensed. This illustration relates to an asset that was primarily ready for its intended use and did not require significant leasehold improvements. Our position is supported by the illustration using the phrase “it will require three months to *set up* the space for the shelter” and makes the statement that the “organization will hire a security firm to secure the premises” which suggests that the facility is of value during the set up process.

Instead, we believe paragraph 8 of SOP 98-5 (reiterated in Illustration 1) is more relevant in a ground lease situation. This guidance states that the costs of acquiring or constructing long-lived assets, particularly new assets, and getting them ready for their intended use are not considered start-up costs and are excluded from the scope of SOP 98-5. Since the asset is clearly not ready for its intended use under a ground lease situation, we believe that allocated rent costs should be capitalized during the construction period.

### ***Building leases***

As it relates to building leases, we believe that as long as the asset is not substantially ready for its intended use, then capitalization of lease costs is appropriate for the reasons previously noted. For example, we often lease space in shopping centers where a portion of the structure does exist; however, it is not substantially ready for its intended use. We are required to make significant structural improvements including, but not limited to, construction of the kitchen and related storage areas, bar area, seating area and bathroom facilities. The average construction period for these leasehold improvements is four to six months and is comparable to the time required to construct a new restaurant.

In summary, we believe that capitalizing lease costs associated with ground and building leases incurred during construction is appropriate based on the previously referenced authoritative literature.

We appreciate the opportunity to provide our perspective related to this issue. We would welcome the opportunity to discuss our comments in greater detail with you. I may be contacted at 972-770-9320 or in my absence you may contact Marie Perry at 972-770-1276.

Very truly yours,

David Doyle  
Senior Vice President and Controller