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To: AICPA/FAF/NASRA "Blue Ribbon" Panel  
on Standard Setting for Private Companies

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The following is our response to your questions related to accounting for private companies.

*Item 1* - The form is attached.

*Item 2* - This is N/A since we are not users.

*Item 3a* - The current U.S. GAAP has become too complex and there is a disconnect between what is required and what is meaningful for management to operate their businesses. Most private companies that we work with run their businesses without considering many of the current GAAP requirements such as Fair Value, FIN 46R, FIN 48, other comprehensive income, noncontrolling entities, and Goodwill value. In fact, most of these complex requirements are recorded as part of the year end adjustments and most of the time we are helping them to determine how to record and disclose these items.

We find similar feelings where we are in discussions with local bankers. For example, they have told us that they do not consider Goodwill in their analysis of borrowing capacity because there is no realistic way to value it.

Companies are considering moving to the income tax basis of accounting because they believe it is less onerous and more relevant to the way they operate their business. We believe that fair value accounting creates more uncertainty than historical cost accounting. All you need to do is look at the Mortgage Banking industry to see the effects of using fair value. The assumptions used are so subjective that different people can look at the same asset and develop significantly different fair values. Granted, some fair values are more accurate than others, e.g. level 1 values, but those, too, are only accurate on the balance sheet date.

GAAP for the private sector needs to be more practical and pragmatic. The accounting standard setters are creating a product, current U.S. GAAP, which is becoming

irrelevant to private business and for that reason irrelevant to CPAs whose practice is wholly private companies.

*Item 3b* - We believe the issues and concerns are systemic.

*Item 3c* - The issues and concerns encompass a broader spectrum than just private companies. We believe the concerns are shared by many bankers and attorneys.

*Item 4* -

Short term -

1. Discontinue all fair value accounting except for assets that have Level 1 values because of the subjectivity of the other valuation methods.
2. Goodwill should be charged against equity at acquisition's date. Companies do not see Goodwill as a real asset.
3. Other comprehensive income should be discontinued and all adjustments should be recorded through the income statement. Most small businesses and bankers do not understand this hybrid method.
4. FIN 48 should be abandoned. It provides no realistic value to users and besides, if there is a significant liability the accounting literature already requires recognition or disclosure. And most believe it provides a road map for the IRS.
5. FIN 46R should not be applicable for small businesses. We have been told by several financial institutions that they prefer to see separate financials statements for each entity. They lend to the individual entity and not the consolidated entity and thus want to see financial statements for the entity.

*Item 5a* - IFRS appears to have many of the same problems as current U.S. GAAP. An SEC requirement would only affect public companies.

*Item 5b* - As we have discussed above; we believe that many readers of private company statements have the same concerns. They do not understand many of the current GAAP accounting and reporting requirements. They believe they are too complex.

*Item 6* - Nothing additional to add.

*Item 7* - These responses represent the view of Packer Thomas, a regional CPA Firm.