EXHIBIT 2
Illustration: Amortization of Leasehold Improvements

On September 1, 2005, Seaford Corporation (lessee) signed a lease agreement with Aker Properties, Inc. (lessor) for office space to serve as its headquarters. The lease has an initial noncancelable term of 10 years beginning January 1, 2006, and provides Seaford with one renewal option for an additional five years. The property is in a desirable location where the market for equivalent space is tight. If exercised, the renewal option requires a "market-rate" adjustment to the rent payments. There is no cash penalty, however, if Seaford does not exercise the option. At no time does Seaford expect to extend a loan or guarantee debt of Aker that is directly or indirectly related to this property. Seaford invests $3 million during the remainder of 2005 for leasehold improvements in order to upgrade the space to be suitable for its needs. The improvements have an estimated useful life of 25 years. Seaford occupied the new space on January 3, 2006, and commenced operations.

Proper Accounting Treatment

Seaford should amortize the leasehold improvements over the shorter of the estimated useful life of the assets (25 years) or the lease term. As discussed in Exhibit 1, judgment is required in determining whether the five-year renewal period should be added to the initial 10-year term. Though it faces no cash penalty, Seaford must evaluate whether it would suffer an "economic detriment" upon termination at the end of the initial term.

Based upon a full review of the facts and circumstances, Seaford concluded that the lack of alternative space in the market, coupled with the abandoned leaseholds, would constitute a penalty such that, at the inception of the lease, renewal is reasonably assured. Accordingly, the lease term would be 15 years and would represent the period over which the leasehold improvements should be amortized. Seaford would recognize annual amortization expense of $200,000 per year ($3 million divided by 15 years).

Past Accounting Errors

Using the above facts, assume that the original lease contained a second five-year renewal option that was not reasonably assured of being exercised. Also assume that Seaford incorrectly used a lease term of 20 years (10-year initial term plus both five-year options) to amortize the leasehold improvements. Accordingly, amortization expense of $150,000 ($3 million divided by 20 years) for 2006 would be understated by $50,000. If Seaford discovered this error in 2007, the restatement of 2006 results (pretax) would be as follows:

Summary Financial Impact: 2006

	As Originally Reported	Adjustment Dr. (Cr.)	As Restated
Balance Sheet			
Leasehold improvements	$3,000,000	$0	$3,000,000
Less: accumulated amortization	($150,000)	($50,000)	($200,000)
	$2,850,000	($50,000)	$2,800,000
Income Statement			
Amortization expense	$150,000	$50,000	$200,000
Statement of Cash Flows		**Inflow (Outflow)**	
Net cash flow from operating activities*	$0	$0	$0

**Note: The restatement has no net effect on the statement of cash flows due to the noncash nature of the adjustment.*