JACOBS

1111 South Arroyo Parkway 91105
P.O. Box 7084
Pasadena, California 91109-7084 U.S.A.
1.626.578.3500 Fax 1.626.578.6894

Letter of Comment No: 65
File Reference: 1082-300
Date Received: 11/26/03

November 26, 2003

Director of Technical Applications and
Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Via email to
director@fasb.org

Re: File Reference No. 1082-300

Dear Sir or Madam:

In response to your invitation to comment, we are submitting this letter to respectfully urge the FASB to consider amending FIN 46 to exclude from its scope investments in project-specific, unincorporated joint ventures by companies in the engineering and construction industry.

There is no question the need for additional guidance in this area of accounting is real. As the FASB states in paragraph C5 of the Interpretation, "Transactions involving variable interest entities have become increasingly common . . . [and] some enterprises have entered into arrangements using variable interest entities that appear to be designed to avoid reporting assets and liabilities for which they are responsible, to delay reporting losses that have already been incurred, or to report gains that are illusory." The transactions described in this paragraph appear to us to be a fairly obvious reference to the type of thinly capitalized, special purpose entities used by Enron, and which we learned about shortly after the collapse of that company. However, although we agree with the FASB that guidance is required to help curb the use of such sham transactions, the fact remains that FIN 46 as it currently exists has the potential to create accounting confusion in our industry - an industry that, to our knowledge, has never used partnerships and joint ventures to perpetrate the types of accounting improprieties the FASB was targeting when it drafted FIN 46.

As the EITF states in paragraph 2 of Issue 00-1, "There is a longstanding practice in the construction industry . . . of investors displaying investments in separate legal entities on a proportionate basis". The theory behind this accounting convention is self-evident: In a true partnership among parties involved in the design and construction of a tangible asset for a client, where each party has an undivided interest in the assets and liabilities of the partnership, the most accurate method of reflecting the activities of the partnership in the books of the partners is to permit each partner to record it's share of the partnership's business in its financial statements. Proportional accounting is one of the predominant methods of accounting that's been used consistently within the engineering and construction industry.

The use of partnerships and joint ventures in the engineering and construction industry to design and build projects for customers predates the type of SPEs used by Enron and others. As a result, the accounting for project-specific, unincorporated joint ventures used in our industry is well established. Current accounting principles and standards for our industry (i.e., pre-FIN 46 principles and standards) already prohibit any delay in the recognition of losses, and require contractors to reflect their share of the net assets of investees in their balance sheets. To issue this Interpretation without an exception for investments in project-specific, unincorporated joint ventures by companies in the engineering and construction industry will upset unnecessarily a well understood and widely accepted accounting practice, and invariably confuse our shareholders, creditors, bonding agents, vendors, subcontractors, and employees.

The joint ventures we have are generally in existence for less than five years. Their assets consist primarily of receivables and payables relating specifically to the underlying engineering and construction project for which it was formed. It is very rare for our partnerships to hold any amount of third-party debt. Virtually all of our partnerships are unpopulated (in other words, they have no employees; services which the joint venture is obligated to provide is subcontracted out to the individual partners, based on the specific areas of expertise of the partners). Due to the nature of engineering and construction projects, these partnerships often experience large swings in revenues as the project moves into its later phases (specifically, when engineering and design activities decline, and procurement and construction activities increase). To require us to consolidate these JVs – which again, are the same type of entities we've been using for many years – will result in unpredictable variations in the individual line items in our financial statements, which will undoubtedly create a significant amount of confusion and misunderstanding for our shareholders and other investors.

As mentioned above, long-term construction contractors have used project-specific, unincorporated joint ventures for decades as vehicles to deliver engineering and construction services to their clients. In its Audit and Accounting Guide for Construction Contractors, the AICPA lists some of the reasons contractors use joint ventures to hold and execute contracts. In addition to the reasons enumerated by the AICPA, joint ventures are often used for purposes of marketing, and maintaining client relationships. Some partnerships are formed simply at the request of the customer.

In summary, we understand the need for guidance in this area. However, we believe the FASB ought to fashion its guidance in a way that is least disruptive to the shareholders and investors of companies in industries that have used joint ventures and partnerships legitimately for years.

Should your staff wish to discuss this matter further, please feel free to call the undersigned at (626) 578-3500.

Very truly yours,

JACOBS ENGINEERING GROUP INC.

By: /s/ JOHN W. PROSSER, JR.

John W. Prosser, Jr.
Senior Vice President
Finance and Administration