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Financial Accounting Standards Board

401 Merritt 7
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Attn: Technical Director – File Reference No. 1820-100
(Via U.S. Mail and Electronic Mail)

Re: FASB Exposure Draft on Revenue Recognition

I am writing to convey to the Board my concerns over the Exposure Draft on Revenue Recognition. I have been the Chief Financial Officer for Shook National Corporation in Dayton, OH for the past 15 years, and previously served a number of construction industry clients during eight years spent at Deloitte & Touche. My primary goal in addressing the implications of this project is to ensure that consistent and high-quality accounting standards are maintained for the construction industry, and particularly for our Company. We rely on the support of our banking partner, PNC and our bonding partner, Liberty Mutual, in obtaining and executing our work. It is essential that these partners be able to fully comprehend the way revenue and margin are accounted for in our industry, and that they be able to perform financial benchmarking against our peers with the assurance that consistent practices are being applied in the determination of revenue and margin.

I fully understand the need for convergence of the FASB and IASB standards, as we operate in an increasingly global economy, making it preferable to have consistent accounting and reporting standards and practices throughout the world. I also understand that it is not the intent of the FASB to completely abandon the principles of SOP 81-1, but that there is a need to modernize the language of the standards, and achieve convergence with the IASB in the process. At the same time, I have significant concerns over how the new standard may be applied to our industry, and I cannot reconcile the fact that there will be little or no benefit, and might be detrimental to the primary users of our financial statements, i.e., banks, bonding companies, customers, vendors and shareholders.

The current guidance in the Exposure Draft for recognizing revenue at the “performance obligation” level presents significant challenges in our company and in our industry. Of primary concern to me is the inherent subjectivity of the process for identifying and allocating revenue to performance obligations. I feel this will lead to *less* consistency and transparency in the financial reporting process in our industry. Different companies and different auditing firms will have varying interpretations of “performance obligation”. Even within our own company, there

could be inconsistent approaches applied to individual contracts that could have a substantial impact on the timing of revenue and margin recognition. The inherent subjectivity also opens the door to manipulation of financial results to an even greater degree than might occur under the current POC rules.

There are significant concerns in the surety community about any approach that diminishes consistency and increases subjectivity. I believe surety credit will become more difficult to obtain in the future in order to offset the risks associated with accounting rules that are less consistent and more difficult to understand and apply.

I am an active member of the local chapter of the CFMA, and we believe the reason that the Boards are hearing negative feedback from the construction industry has to do with the fact that the proposed revenue recognition rules are divorced from economic reality. We also have discussed that it is possible to make relatively modest refinements to the guidance under the proposed standard in order to align the revenue recognition rules with economic reality, and keep them more consistent with current practice.

Specifically, we request that the Boards recognize that in most cases, the series of construction activities related to a given project are highly interrelated and have interdependent risks that could and often do affect the overall results of a project. Therefore, construction companies lack a basis for determining the price at which we would sell the components of a contract separately and as such characteristics of distinct profit margin will not be met (in most cases). Hence there is typically no more than a single performance obligation for most construction contracts. My Company does about 40% of our annual revenue in the water and wastewater treatment plant market. Our customers hold anywhere from 5% to 10% retainage against our billings until the project is complete. They do that to ensure that the overall performance obligation is met. There are almost never circumstances where a portion of the retainage would be released upon completion of an interim performance obligation. On the vast majority of our projects, it would be difficult if not impossible to divide the contract into separate performance obligations and assign margin to the various aspects of work. Any attempt to do so would be highly subjective, and would certainly lack consistency both within our company and our industry.

We concur with the guidance in the Exposure Draft regarding continuous transfer and we believe it is appropriately reasoned.

With respect to determining the contract price, we believe that any bonuses or penalties (referred to in the ED as "variable consideration") should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. Until that time, the inclusion is highly subjective and as a matter of course, we believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.

While we appreciate the Boards efforts to create a single standard to apply to virtually all industries and transactions, we maintain a belief that the key principles of the proposed standard need to be interpreted in such a way to preserve the key tenets of SOP 81-1. Otherwise, the Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.

Given the complexities that will be involved with the eventual adoption of any new Revenue Recognition Standards, we ask that private companies be given at least one additional year to comply with the proposed standard once it becomes effective for public companies. It will take at least that long to educate and inform our stakeholders to be able to understand the nature and impact of the changes.

Thank you for your consideration. If you have any questions, I can be reached at 937-276-6666.

Kind Regards,

Dianne Brush
Chief Financial Officer



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