

International Accounting Standards Board
30 Cannon Street
London
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14 December 2010

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT
06856-5116, USA

Re: File Reference No. 1850-100
Exposure Draft - Proposed Accounting Standards Update (“ASU”) – *Leases (Topic 840)*

Dear IASB and FASB members,

Jacobs Engineering Group Inc. (“Jacobs”, “we” or “our”) is one of the largest technical professional services firms in the United States. With fiscal 2010 revenues of \$10 billion, our business focuses exclusively on providing a broad range of technical, professional, and construction services to a large number of industrial, commercial, and governmental clients around the world.

We are pleased to respond to the above-referenced Exposure Draft (“ED”). We have considered the Boards’ views discussed in the ED and have set forth in this letter our comments on the most concerning aspects of the proposed model.

While we understand the Boards’ objective of developing a single, comprehensive model to address the criticisms of the existing lease accounting standards, effectively ending off-balance sheet reporting for leases, we do not believe that the proposed model is consistent with the needs of the users of our financial statements. In addition, there are certain technical and practical difficulties with applying the proposed model.

Impact on Financial Statement Users

As a global provider of engineering and construction services, we are engaged in thousands of active projects at any time. For those projects on which we perform construction or maintenance services, we rent virtually all of the large tools and equipment necessary to execute the contract and provide the services required by the projects. This includes, for example, trailers, cranes, earth-moving equipment, compressors, and generators. The contracts with our clients for construction and maintenance services specifically provide that the rental costs associated with leased tools and equipment are “reimbursable costs” under the contracts (i.e., as we incur the cost

to rent the tools and equipment, we are simultaneously accruing the right to be reimbursed for that cost from our clients in the form of contract revenue).

We hope the Boards appreciate that in this situation, the concept that agreements to rent such tools and equipment somehow represent “right to use *assets*” to us – the contractor – is illusory. Any supposed “asset” is matched by an obligation contained within the contracts with our clients to employ the leased asset on the clients’ projects. There is no, true, economic benefit inuring to us by virtue of such lease agreements. The benefits represented by all such leased assets are consumed immediately by our clients as the assets are used on their projects.

The agreements relating to such leased assets contain terms that can range from days to years, and are designed to be sufficiently flexible so as to accommodate periodic project delays which are not unusual in the engineering and construction industry.

Because the rental costs for these tools and equipment are passed through to our customers as reimbursable project costs, we effectively enter into these leases as an intermediary (and sometimes as agent) for our customers. Therefore, recording these numerous leases on our balance sheet as assets truly misrepresents the underlying economics, and will not provide meaningful or decision-useful information to the readers of our financial statements.

The users of our financial statements who are generally most interested in evaluating our outstanding liabilities are our banks and the sureties that provide bonding for our construction and maintenance projects. These users already have models in place to evaluate our obligations using information disclosed in the financial statements under the current accounting standards. None of these users have requested a change to the financial information currently provided.

Impact on Our Business and Client Contracts

The proposed model does not align with the current Federal Acquisition Regulations (“FAR”) or the Cost Accounting Standards (“CAS”) that we are required to follow for our contracts with the U.S. federal government. In general, many cost accounting requirements applicable to U.S. federal government contractors are predicated on the classification of costs under U.S. GAAP. And whereas FAR 31.205-36 specifically provides that rent expense under operating leases is an allowable cost, FAR 31.205-20 specifically deems interest expense as an unallowable cost. Therefore, under the new model, we would not be able to bill and recover the portion of our lease payments that would be classified as interest. With over 25% of our revenues earned either directly or indirectly from agencies of the U.S. federal government, this change would cause a material impact to our operating results and cash flows.

In addition, there are many states within the U.S., as well as certain local governments, whose standard form of contract incorporates the provisions of FAR and CAS. These clients represent another estimated 5% of our revenues. If the proposed ASU is adopted as presented in the ED, there will be significant negative financial repercussions to us as well as to other government contractors.

Accordingly, we believe it would be inappropriate to adopt the proposed ASU before clarification is obtained as to how this change in accounting will be treated within FAR and CAS.

Technical Concerns with the Proposed Model

Definition of Lease Term:

We strongly disagree with the Boards' definition of lease term as the "longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease" (the "LPT").

At Jacobs, we have numerous leases of real property (specifically, office space used to provide engineering, design, and project management services) where the base term of the lease corresponds to the estimated length of a client contract (the contract that caused us to go out and secure additional office space). Option periods in such real estate leases exist in order to provide us flexibility should the related client contract be extended, or follow-on work is awarded to us. To require us to estimate the LPT in such a situation will introduce a level of speculation into accounting that is unwarranted, inherently risky, and will not result in better accounting for leases. We also believe that the concept of LPT will result in the recording of obligations onto preparers' balance sheets that do not represent liabilities as users of financial statements currently understand that term. Accordingly, we believe that any new definition of lease term should include only those option periods that are probable of being exercised.

Treatment of Contingent Rentals:

The proposed ASU requires the use of an expected outcome technique to reflect in the lease payments, and therefore the value of the right to use assets and liabilities we would be required to record in our financial statements, contingent rentals and expected payments under term option penalties and residual value guarantees. We disagree with the concept that such contingent amounts ought to be included in the determination of lease obligations. Much like the concerns identified in the ED's definition of "lease term", we believe that the nature of contingent rentals are too uncertain as to be included in the determination of a liability recordable under U.S. GAAP. We also presently do not possess either the capability or the expertise to accurately forecast the range of variables that could affect the amount of contingent rentals we *may* be required to pay in the future. Accordingly, we urge the Boards to reconsider this aspect of the proposed model, focusing instead on a "minimum lease payments" approach as defined by current guidance.

Treatment of Transaction Costs:

We note there is a difference in the accounting treatment of transaction costs between this ED and the Revenue Recognition exposure draft. This ED allows capitalization of costs of obtaining and negotiating contracts. Under the Revenue Recognition exposure draft, the costs of obtaining a contract are expensed as incurred. We believe that the principle should be consistently applied across both standards.

Practical Difficulties

In addition to the concerns discussed above, there are cost considerations and certain practical implementation issues which should be considered. As mentioned above, we are engaged in thousands of active projects at any time. In a typical year we could have well over 100,000 pieces of leased tools and equipment on our construction and maintenance sites. The administrative requirements imposed by the ED will require significant additional effort relating to the tracking of and accounting for leases - resources that we do not currently possess - and will significantly increase the cost of doing business.

As an example, when a client project requires the use of scaffolding, we enter into a rental agreement for the individual scaffolding components. We could have hundreds of scaffolding components on a large construction or maintenance project. Individual components will be delivered and removed from the construction site at varying times (in connection with the progress of the related project). As each scaffolding component is delivered we would have to determine the lease term and the appropriate discount rate to be applied to the payment stream. Subsequently, each leased scaffolding component would have to be inventoried and evaluated at every balance sheet date in order to amortize the right-to-use assets and assess them for impairment, and adjust the lease obligation liabilities for changes in lease terms and contingent rentals.

Since most of the leases for the tools and equipment used on our construction and maintenance sites are for indefinite terms, extensive modeling would be required (potentially on an individual piece-by-piece basis) to determine the longest possible lease term that is more likely than not to occur, adding another level of complexity in implementation. The effort required upon the initial adoption of the standard would be even more significant, as existing leases are not grandfathered under this ED.

Furthermore, as discussed above, the proposed accounting model creates inconsistencies with the project accounting required by our public and private-sector clients. Therefore, two sets of books will need to be kept – one for project accounting and another for financial reporting purposes.

Adopting the proposed ASU will be a multi-million dollar compliance effort for Jacobs affecting lease accounting, project billing, financial reporting, and FAR / CAS compliance. The cost of implementing all aspects of the model will far outweigh the benefits of doing so.

Summary

For the various reasons discussed above, we do not believe the proposed model presented in the ED is an effective way to achieve the Boards' objectives. The proposed ASU will be extremely costly to implement and maintain, and may have significant unintended consequences for U.S. government contractors. The users of our financial statements are not dissatisfied with the current accounting for leases.

We believe the Boards' intentions can be met through additional disclosures. We understand that the Boards may view additional disclosure as an inadequate substitute for accounting it

believes is more accurate, but we believe the accuracy the Boards seek to achieve is too theoretical in nature as to justify the additional costs that preparers will incur. However, if a new leasing model is predestined, the Boards should consider an exclusion for leasing arrangements whereby lessees are effectively acting as intermediaries for another party, so that accounting treatment of these pass-through leasing costs are consistent with both the economics of the situation as well as the treatment of other, project-related costs of performing the projects. We also believe that the Boards should consider an exclusion for small-dollar, short-term leases of routine leased equipment that every business has. Capitalizing such properties onto the balance sheets of companies will not produce decision-useful information sufficient as to justify the costs to implement and maintain the accounting processes required.

We appreciate the opportunity to comment on such an important issue and would be happy to discuss this issue with you should you have any questions.

Very truly yours,

s/n JOHN W. PROSSER, JR.

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