August 4, 2010

Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116
Attn.: Technical Director

File Reference No. 1820-100

I am the controller for a small specialty contractor in Indiana and am very concerned about the impact the proposed revenue recognition rules would have on our company. We have annual revenue of between six and ten million dollars a year and usually perform as a subcontractor on projects.

We currently use the percentage of completion method in determining revenue and the percent is calculated using cost to date compared to estimated cost. Change orders are recognized as an increase to the contract only when received but costs are included as incurred. We do not include owner allowances in the contract amount until they are earned. This is the most conservative approach and the one which our bonding company, auditors and bank prefer.

It is my understanding that under this proposal costs and revenue will no longer be related and that a contract will not necessarily be a profit center but might be broken up into multiple performance obligations. Indy Walls has always done a lot of school and hospital work. School remodeling projects might extend over a several year period and it would obviously have a huge impact on our financial statements to withhold revenue until the customer has the use of the building. I understand that we *may* qualify for progressive recognition, but since we are a subcontractor would our general contractor be in control of the work in progress or would the owner?

There is significant judgment involved in making the decisions required under the new rules. The idea of using a weighted amount to determine the probability we will receive a change order would truly be a guess in the worst sense of the word. I understand that change orders would have variable pricing, but our contracts do not allow for that. We are required to submit costs with the original contract and those figures have to be used to calculate the cost for additional work performed. If subsequent changes are to be allocated back to the inception of the contract, that would require yet more revising and duplication of effort which just adds an additional layer of expense.

When we bid a project it is bid as a whole using estimating software we purchased at great expense in addition to our accounting software. Any contracts that required separation into performance obligations would mean the project managers would have to completely re-estimate each performance obligation. I anticipate substantial cost for the software companies to update their products to accommodate tracking work at a level different than the contract. We have very low margins and any duplication of work by staff would create a serious burden to our ability to remain in business.

I understand different output methods may be used for various performance obligations. One of those methods is an engineering audit. I could not begin to estimate the cost of that to our company but I suspect, based on other professional fees we pay, that any requirements of that nature would either make us lose money on the obligation or require the costs to be passed to the owner. There is not much work available now and I believe any increase in costs will further reduce commercial construction projects.

We currently recognize potential losses on our jobs at fiscal year end under the GAAP accelerated loss rules. I understand that a loss on one performance obligation would be recognized immediately even if the rest of the job obligations were profitable. I see the potential for manipulation by project managers, owners, accounting personnel, etc.

As a private company, we will want to maintain our schedule of values for a job and manage our jobs in the same way we currently do. How will the surety and bank reconcile our interim financials with year end? It looks like there will be even more difference than between current GAAP and tax and I understand that the IRS has not weighed in on whether they will even recognize this proposed revenue recognition. If not, we will have to keep separate sets of books. The costs could be staggering. All of the subjectivity will require our outside accounting firm to do additional analytical work for our audit and that will also greatly increase our expenses. There could be conflicts between their judgements and that of the owners, CFO's, project managers, etc. The fact that all of this also has to be documented in additional footnote disclosures again increases our costs substantially.

I do not believe that the users of our financial statements will see the benefit of the increased work and costs for providing a more subjective, possibly less accurate, financial statement. I understand that you want to establish a one size fits all procedure, but our industry is very complicated and I would urge you to reconsider the effects of this rule on the construction industry.

I have discussed this with our bonding company and outside accountants, but am not sure they have enough information or are truly aware of how this will impact the industry and the substantial changes this will require of everyone. I know the comment deadline is set for Oct. 22, 2010 but would encourage you to extend that period to allow financial statement users more time to research this and comment.

Thank you for your consideration.