



October 21, 2010

Technical Director
File Reference No. 1820-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk CT 06856-5116

Via: E-Mail

Re: Comments on the FASB and IASB's Exposure Draft on Revenue Recognition from Contracts with Customers

Dear Technical Director:

As the Chief Financial Officer of Executive Construction Inc. (ECI), a \$100 to \$150 million commercial general contractor who performs contracting services in the Chicagoland area, I am writing to express my comments and concerns with respect to the FASB and IASB Exposure Draft on Revenue Recognition from Contracts with Customers. I am appreciative of the Boards' efforts regarding revenue recognition and it is my desire to ensure that high-quality accounting for the construction industry is maintained.

I have significant concerns over how the new standard will affect ECI, as well as the parties involved within the industry (surety, banks, subcontractors, customers...). The performance obligation approach, a decided departure from the percentage of completion approach, presents significant challenges for me and the industry and carries the very real risk of adverse economic effects stemming from an inferior method of revenue recognition. Most contracts should not be subdivided into multiple profit centers, or performance obligations, because the risks associated with in a contract are inseparable. Furthermore, in a construction project ECI takes on the obligation to complete the entire, interrelated scope of work called for in the contract, and that the goods and services to be delivered flow continuously throughout the duration of the contract. Considering these matters, the percentage of completion better recognizes and matches the reality of the construction contracts.

The proposed performance obligation method for identifying and recognizing revenue contains some inherently risky consequences. Significant subjectivity will be introduced into financial reporting for allocating revenue to the performance obligations. This will lead to inconsistent reporting not only within a single company – as revenue recognition will vary from contract to contract – but also from company to company. I am quite certain the surety industry will have significant concerns over this inconsistency. In addition, as more subjectivity is introduced to the performance obligation method, estimates for revenue and profit recognition will vary with the potential for over stating profits early on in projects only to have to "give back" profits later on in projects. The risks of inconsistencies will undoubtedly put pressure on contractors to either seek alternatives to financial reporting under GAAP or risk obtaining the necessary surety credit needed in order to continue to do business.



With respect to determining the contract price, I believe that performance bonuses should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. These bonuses are highly subjective and are at risk until near the end of a contract. Until that time, I believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.

The proposed performance obligation method presents direct cost challenges in an economic environment that cannot support anymore increases to the cost structure. ECI would need to incur additional staff costs in order to implement and analyze the changes in the revenue recognition. In all likelihood, our business will continue to be managed under the percentage of completion method, thus requiring a second set of books to be maintained. Furthermore, software costs will be incurred to accommodate the requirements of the performance obligation method. I would anticipate that many smaller contractors will not be able to absorb these new costs and it could very well put them out of business.

Should the proposed standard become enacted, I ask that private companies be given at least one additional year to comply once it becomes effective for public companies.

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 principals 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.

Very truly yours,

EXECUTIVE CONSTRUCTION INC.

Glenn Jendra

Chief Financial Officer