



October 14, 2010

Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk CT 06856-5116  
Attn: Technical Director – File Reference No. 1820-100 FASB  
(Via U.S. Mail and Electronic Mail)

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

Gentlemen,

I am the President and primary owner of Vance Brown, Inc. We are a privately held general contracting firm located in Palo Alto, California. We are primarily a commercial contractor performing private sector work (office buildings, parking structures, athletic facilities, laboratories, dormitories, etc.) in the San Francisco Bay Area. We perform a significant amount of work annually on the Stanford University campus. We have recently completed a \$150 million corporate headquarters for Brocade and a rooftop sculpture garden for the San Francisco Museum of Modern Art. Our annual revenues in 2009 were approximately \$250 million.

As President of Vance Brown Inc., I am truly concerned about the Board's project on revenue recognition. We believe that this proposed standard, in its current form, would have a significant and undesirable impact on both our company as well as the entire construction industry. The changes will not improve internal or external financial reporting, will entail a considerable amount of subjective measurement and determination and will only add to our current workload. This change will also increase administrative, service provider and software costs.

When our company is busy, we may have 50-70 construction projects showing on our financial statements. The billings for each of these projects typically have between 25 and 60 line items (i.e. grading, striping, sitework utilities, plumbing, HVAC, electrical, reinforcing steel, etc.). Under the proposed FASB revenue recognition rules, we will have several thousand line items to track. Not only will we be burdened with having to separately track these thousands of lines on our financial statements, but we will also be required to treat each line item separately from a profit/loss standpoint. This requirement significantly changes the way we fundamentally do business and the way we contract with owners.

VANCE BROWN

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The line items that I have referred to in the preceding paragraph are cost estimates; that is, they represent the contractor's best estimate of costs necessary to complete the particular item of work prior to beginning a project. It is rare for every project to be built exactly as envisioned. Thus, actual costs for a line item calculated at the end of the project will invariably be different than the pre-project estimated cost for that line item. The actual cost of some line items will exceed the estimated cost while the actual cost of other line items will come in for less than the estimated cost. The current system acknowledges the normalcy for job costs to be different than the estimated cost. The proposed revenue recognition system will penalize contractors where there are variances between actual costs and estimated costs.

The contractual basis for most of our projects is a not-to-exceed Guaranteed Maximum type contract. These contracts do not require the contractor to guarantee individual line items, only the total project cost. We don't track profit/loss on the individual line items and nor do we want to (because it increases risk to the contractor). If we have an aggregate of savings on all the line items combined, we make our entire contractor's fee. If our aggregate costs (on all of the line items) go over the estimate, it comes out of our contractor's fee. We can set up the organization of our cost estimates the way we want to and specific to the characteristics of each project we undertake.

Approximately eighty percent of our work involves specialty subcontractors. Consider also, that many of our subcontractors may be performing work that involves multiple line items on our billings or, in the future, "performance obligations". The creation of multiple subcontracts with a single subcontractor to satisfy your Revenue Recognition program is a daunting task, not only for the general contractors, but the subs as well.

As a privately held construction company (as are about 95% of construction companies in the United States), the usual users of our financial statement management (i.e. me), our bank, our surety company and our insurance carrier. Not one of these parties would use the detailed information that FASB is intent on imposing through the proposed FASB/IASB accounting rules. These proposed rules do not help users assess their risks (associated with doing business with us).

I can understand that accountants might like to make their own industry efficient, however, increasing efficiency for accountants should NOT be at the expense of some or all of the very clients that they serve. To suggest that ALL industries, globally, use single standard accounting seems simplistic. I understand that SOP 81.1 is thirty years old, but it has served us well. Rather than replace, I suggest that the language in SOP 81.1 be updated for clarity of the terminology and intent. The new FASB/IASB accounting rules have the potential of creating yet another set of accounts for



construction companies to create. Owners will continue to require one bill, lenders and surety companies will still require their familiar Works in Progress schedules and, now, this new set of accounting books. The cost of new software and additional accounting staff expenses will be an onerous burden on, particularly, smaller private companies. This will close some companies' doors and be a huge burden on our already struggling industry.

Construction needs to be run by contractors; not by accountants. We want to efficiently operate our businesses as well and the proposed revenue recognition rules do not streamline our business nor produce any information which would help us manage our business better or more efficiently. Accountants should serve the needs of contractors, not create new impediments for contractors. These new revenue recognition rules produce no tangible net benefits for the construction industry and contractors who must have audited financial statements (for surety, banking and insurance reasons, etc.) would have no way to opt out of these new rules.

We do not need to create some huge bureaucratic cost accounting mess. Please respect the status quo in our industry and retract your proposed extra accounting rules.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

VANCE BROWN, INC.

A handwritten signature in black ink, appearing to read 'Loren Brown', written over the printed name.

Loren Brown  
President