

14 December 2010

Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856

Dear Board Members:

Thank you for the opportunity to respond to the Financial Accounting Standards Board's Exposure Draft on Leases (Topic 840), or ED. Although the ED would impact our company from both the lessor and lessee perspectives, the focus of this comment letter is on lessor accounting as it is expected to have the most significant impact on our industry. We believe the proposed changes to lessor accounting would overly complicate a fairly simple revenue recognition model currently used by our industry and lead to less transparency in the financial statements.

Our core business is the contract drilling of oil and gas wells. We provide our customers with a drilling rig and the crew to operate that rig. Our customers are responsible for establishing and directing the drilling programs and they retain all of the economic benefits and risks from production of the wells. We are responsible for the operation and safety of our crews, the rig and the rig equipment. Our drilling contracts to provide drilling services vary in their terms and provisions. They generally provide for a basic drilling rate on a fixed dayrate basis regardless of whether or not such drilling results in a productive well. Our drilling contracts may also provide for lower rates during periods when the rig is being moved or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other conditions beyond our control. Our dayrate contracts may provide for the ability to earn an incentive bonus from our customer based upon performance or we may be penalized for delays. Some contracts may include cost escalation clauses for drilling labor and expenses. In many instances the drilling contracts provide that the term of the contract may be extended by the customer for the drilling of additional wells or for an additional length of time, generally at competitive market rates and mutually agreeable terms at the time of the extension. Under dayrate contracts, we generally pay the operating expenses of the rig, including wages and the cost of incidental supplies.

Currently we recognize revenue from our drilling contracts as services are performed. The basic revenue recognition formula is dayrate times the number of days worked.

Our key concerns with the ED are summarized as follows:

1. The Contract Drilling Industry Will No Longer Have A Highly Transparent Revenue Recognition Model. — Within our industry key performance indicators (i.e. dayrates, revenue per day, utilization rates and revenue generating days) are made available to users of our financial statements. We believe that this information is very concise and useful to the users and readily lends itself to analysis. The user community can identify trends and make judgments regarding the comparability of operating results using classic price-volume variance analysis. Adoption of the "right to use" model as proscribed by the ED requires that the right to receive lease payments be calculated at the present value of the probability-weighted average cash flows for a reasonable number of outcomes, considering contingent rental receivable (contract extensions, performance bonuses and/or penalties and other operating assumptions) for which the

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"lease" revenue varies. A considerable amount of judgment will be required to perform this calculation. In addition, we will be required to attempt to bifurcate our agreements between an equipment rental and service component. Such bifurcation, if possible, will not be meaningful and will vary between industry participants, as well as among individual drilling rigs within our fleet. Considerable judgment will also be required in determining the initial lease term as market drivers, internal business factors and other lessee specific factors must be considered. The numerous judgments and estimates required to account for our drilling contracts under the ED will obscure the underlying economics of our business and make analysis by the user community challenging if not impossible.

- 2. There Will Be Significant Additional Burden on Preparers. The highly transparent and relatively simple revenue recognition model used today will be replaced by an onerously complex model. In addition to making our business difficult to understand the numerous judgments and estimates required by the ED will increase the time and cost of our accounting and our audits. The increased time to account for our contracts will be further exacerbated by the requirement to continuously reevaluate both the term and total income expected under each contract. Additionally, we expect company management to continue to manage day-to-day operations under the predecessor accounting model as it follows the cash flows of the operation. In order to provide this information to management, a dual set of accounting records will need to be maintained with the management records reconciled to the GAAP records. We believe that separate reporting models for internal and external reporting will be grossly inefficient. We also believe that the information used to manage our business on a day-to-day basis is the same information that the users of our financial statements will continue to require in order to evaluate our business so we expect that there will be a significant increase in non-GAAP disclosures and reconciliations thereof.
- 3. There Will Be a Lack of Comparability Among Industry Members and Rigs The proposed accounting model, without significant reconciliation and disclosure, will eliminate comparability among industry members and even between similar rigs owned by a single company. For example two similar rigs owned by two different industry members but earning the same dayrate and in the same economic/geographic market could conceptually report two entirely different revenue streams. The revenue earned by each company will be based on assumptions regarding bifurcation of service vs. equipment rental components, future lease payments, depreciation of the underlying asset and the chosen incremental borrowing rate. The same could also hold true for similar rigs owned by the same company as, even if the rig were earning the same dayrate, assumptions regarding future lease payments could vary as will the depreciation of the underlying asset.

Adoption of the proposed lease accounting rules will result in lack of transparency, comparability and clarity for our industry. We propose that the Board exempt our industry from the scope of this ED or, at a minimum, remove the numerous instances of judgment and estimation contained therein.

Respectfully,

Beth G. Gordon Controller