June 18, 2009

Dear Director:

KBR, Inc. appreciates the opportunity to comment on this Discussion Paper. We are a leading global engineering, construction and services company supporting the energy, hydrocarbon, government services and civil infrastructure sectors, with approximately $12 billion in annual revenues.

We support the Financial Accounting Standards Board's ("FASB") joint revenue recognition accounting project with the International Accounting Standards Board ("IASB") (collectively, "the Boards") to decrease complexity and increase consistency within revenue recognition guidance; however, we have concerns, with regard to certain views within the Discussion Paper, particularly with respect to revenue recognition for construction contracts.

We offer the following comments:

Scope of revenue recognition project

The Discussion Paper indicates that the Boards are considering excluding derivative financial instruments, insurance contracts, and leasing contracts from the scope of final revenue recognition standard due to concerns about the decision usefulness of the financial reporting that would result from the application of the Discussion Paper's revenue recognition model to those contracts. We have a similar concern with respect to the application of the Discussion Paper's revenue recognition model to contracts that are currently within the scope of AICPA Statement of Position No. 81-1, Accounting for Performance of Construction Type and Certain Production Type Contracts, and International Accounting Standard No. 11, Construction Contracts.

A significant portion of our business is the construction of large capital projects in the energy industry (for example, liquified natural gas and gas-to-liquids facilities, refineries, and petrochemical projects). These projects, which are customized to the specifics of the hydrocarbon properties, the size and capacity specified by the owner as well as climate and geographical conditions at a given client location, can have a value of up to $5 billion and often take four to five years to complete. We currently apply the guidance in SOP 81-1 to these contracts and believe the guidance in SOP 81-1 results in a representationally faithful portrayal of the underlying economic activity in our financial statements.
The Discussion Paper revenue recognition model is based on the premise that revenue is to be recognized as an entity satisfies its performance obligations by transferring control of the promised asset to the customer. An asset may be in the form of a promise to transfer a good or a service.

The proposed revenue recognition model is based on "transfer of control" focusing on a contract-based approach including control language to determine revenue recognition emphasizing legal form rather than economic substance. If revenue is deferred until the asset is physically transferred to the client, following the examples in the Discussion Paper, we do not believe the model would provide decision-useful information to users of financial statements; it could result in deferred revenue recognition similar to the completed-contract method, which we believe is generally not useful.

The Discussion Paper provides several examples of indications that control has been transferred and accordingly, revenue should be recognized as the work progresses. These examples indicate that control transfers if the constructed asset is customized or built on property owned by the Owner. Additional examples were provided indicating that control does not transfer if the contractor holds title to the work-in-progress.

This concept that satisfaction of a performance obligation is measured by the customer's control and ownership of an asset is difficult to determine given the various attributes that often exist on any one contract. In most of our projects, the constructed asset is built on property owned and controlled by the customer while the customer has the right to take possession of the work-in-progress during the construction period for a variety of reasons, including contractor non-performance. The contractor typically has lien rights against the asset with respect to goods and services furnished by the Contractor under the contract. Following the principles in the Discussion Paper, it is suggested that the customer has control and ownership. However, other examples provided in the Discussion Paper suggest that control does not transfer until the project is near completion. For example, a contract may specify that care, custody and control of the work-in-progress, risk of loss to the work-in-progress and/or title to equipment and/or materials provided by contractor reside with the contractor until a point when the constructed asset is mechanically complete. These contractual terms are common in our industry and are written for the purpose of administering the contractor's insurance during the construction period.

Because conflicting indicators of control and ownership as defined in the Discussion Paper can exist, it is not clear to us whether the application of the Discussion Paper revenue recognition model to our construction contracts would result in revenue being recognized over time as a continuous sale or being recognized at the end of the project. The difference in accounting between the two possible outcomes would be dramatic.

We believe the financial reporting that would result from recognizing revenue at the end of the project would not be representationally faithful of the underlying economic activity and therefore would not be decision useful information for investors and other users of our financial statements. Consequently, if the final revenue recognition standard would not allow for the recognition of revenue over the term of such contracts, we believe that better decision useful information would result from excluding contracts currently within the scope of SOP 81-1 from the final revenue recognition standard.

Should the Boards not exclude construction contracts from the scope of the final revenue recognition standard, we have the following comments on the operability of the Discussion Paper to our construction contracts.

*Measurement of rights or progress*

The Discussion Paper does not address the concept of measurement of the contract rights or progress toward receiving the receipts associated with such rights. SOP 81-1 discusses various input and output methods for the measurement of construction progress. The Discussion Paper does not mention any such concepts or methods.
Cost guidance addressing contract cost

Although one wouldn’t necessarily expect a revenue standard to address cost, eliminating SOP 81-1 would create a void in necessary contract cost guidance. The Discussion Paper does not provide any cost guidance.

Currently both SOP 81-1 and IAS 11 provide similar guidance on the types of costs included in accounting for construction contracts versus the types of costs that would be included as a period expense.

In addition, the Discussion Paper indicates that revenue recognition may not be appropriate until certain projects have been completed. The Discussion Paper does not provide guidance for deferring costs. This implies that costs associated with a contract will be expensed as incurred unless they met the definition of an asset under another standard such as inventory, fixed assets or intangible assets.

The Discussion Paper proposes that after contract inception, the measurement of a performance obligation should not be updated unless the performance obligation is deemed onerous. The Discussion Paper does not appear to allow for recognition of any improvements in estimated profitability as progress is made. The Discussion Paper appears to imply an increase in estimated project margin would not qualify for a remeasurement of the performance obligation as the work progresses. Rather, the Discussion Paper suggests the increase in estimated profits would only be reported in the financial statements once the project is complete. As often occurs, the estimated profits and margins on long-term construction contracts may actually increase during the life of the project due to favorable cost trends for procurement, construction or other reasons. Not reporting these improvements until the project is complete could result in misleading or inaccurate interim financial statements particularly for projects that span multiple years.

The lack of guidance for accounting for contract costs creates a void that is currently not present in either SOP 81-1 or IAS 11.

Contract combination or segmentation

The Discussion Paper does not provide guidance on contract combination or segmentation. Both SOP 81-1 and IAS 11 provide developed and similar guidance.

We believe that this area should be addressed within the Boards’ future deliberations on the Discussion Paper for the following reasons:

- Where a contract does not meet the segmenting criteria of SOP 81-1, paras. 39-42, we do not separate, nor determine all the deliverables associated with the project.

- Under these circumstances, we believe that accounting for the individual performance obligation is not practicable, nor would provide additional useful information to financial statement users.

- If we were required to segregate the activities into various performance obligations with differing profit margins, we would be required to operate the project as if there were various contracts and perform the same tracking, evaluating and managing of multiple contracts instead of one; the results of which, we believe, would not be a cost effective and practical model as it would not provide more relevant information for decision making than if those obligations were accounted for together.

- This model, in conclusion, would only add complexity, increase the risk of errors and the overall cost of business.
Recognition of change orders and contingent consideration

The Discussion Paper does not provide guidance related to change orders; nor contingent consideration such as incentive fees, early completion bonuses, unapproved change orders and claims. Both SOP 81-1 and IAS 11 provide developed and similar guidance.

In addition to the concerns stated above, a change from the developed and widely used concepts of revenue recognition per SOP 81-1 or IAS 11 to the concepts per the Discussion Paper would be difficult to administer and costly to implement for the contractor. Given the concerns about the quality of the financial reporting that would result from applying the concepts in the Discussion Paper to our construction contracts as compared to our current financial reporting for these contracts, we doubt the costs to preparers of requiring such a change is worth the benefit to users of our financial statements.

Respectfully,

[Signature]

John W. Gann, Jr.
Vice President and Chief Accounting Officer