June 19, 2009

Technical Director
Financial Accounting Standards Board
Norwalk, CT. 06856-5116

Subject: File Reference No. 1660-100

Dear Director:

Thank you for the opportunity to provide comments on the Financial Accounting Standards Board (the “FASB”) Discussion Paper (the “DP”) entitled Preliminary Views on Revenue Recognition in Contracts with Customers issued December 19, 2008. McDermott International, Inc. is an engineering and construction company with specialty manufacturing and service capabilities focused on energy infrastructure with 2008 reported revenues of approximately $6.6 billion and over 26,000 employees. Our projects include steam generating and environmental equipment for the power industry, offshore oil and gas production facilities and pipelines and nuclear components and services for the U.S. government. We provide a wide range of products and services with a heavy focus on sizable, multi-year projects. We currently recognize revenues and related costs for our long-term construction contracts under the guidelines of the Statement of Position 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” (“SOP 81-1”), issued by the American Institute of Certified Public Accountants.

We support the FASB’s efforts to simplify the revenue recognition rules into a more principles-based standard; however we are concerned that the proposed revenue recognition model in the DP does not adequately address the specific and complex characteristics of the engineering and construction (“E&C”) industry. We are concerned that the DP model may lead to a form-over-substance, legalistic approach to revenue recognition versus the current long-standing and well understood methodology under SOP 81-1 that reasonably reflects the economic substance of the earnings process for companies engaged in long-term, multi-period construction projects. The DP in its current form could result in inconsistent accounting treatment for similar transactions and lead to deterioration of decision-useful information for the investment community.

This response reflects the perspective and views of the management of McDermott International, Inc. However, we recently participated in an E&C Industry Controllers’ Roundtable and it is our understanding that other participating companies will also be providing comments on the DP expressing similar concerns to ours. In addition, we would welcome the opportunity to meet with the FASB to discuss the practical issues and questions that we have considered in developing our response.
Identification of Performance Obligations

Separate identification of and accounting for performance obligations is an aspect of the DP that we believe would provide little benefit to users of financial statements for those construction projects currently being accounted for under SOP 81-1. Contracts with our customers tend to be very detailed and complex; however, they are generally intended to meet a primary customer need or performance obligation. Further, segmenting a contract into separate elements of accounting to follow the tasks of a project would be inherently difficult, arbitrary and impractical for our operations and result in the disclosure of information that is not very meaningful for our current and potential shareholders.

Also, we believe the model proposed by the DP would result in greater variability in accounting treatment for economically similar contract arrangements due to contracts being designed with non-substantive terms to meet specific revenue recognition criteria.

In addition, we believe that separate identification, and resulting revenue recognition, for such items as warranty obligations, as proposed by the DP, would not reflect the economic substance of many contractual arrangements if the provisions of the DP were implemented. Current practice is to accrue estimated expenses based on experience. This cost approach to contractual warranty obligations, as opposed to a deferred revenue recognition model is a better reflection of our warranty exposure, and provides decision-useful information that is more transparent and better understood by readers and users of our financial statements. Warranty obligations do not occur evenly over the periods during which we provide our products and services. As a result, the framework proposed in the DP would make allocation and recognition of revenues to such items onerous and arbitrary.

Satisfaction of Performance Obligations/Customer Control

The DP proposes a revenue recognition model in which revenue would be recognized only when performance obligations (which are enforceable explicit or implicit promises to transfer assets to customers) are satisfied by transferring assets to customers as evidenced by when the customer controls the asset. Chapter 4 (section 4.10) of the DP states “When determining whether an entity has transferred an asset to a customer (that is, when determining whether the customer has received a promised good or service), it is important to distinguish between the transfer of control of an asset and the transfer of the risks and rewards of owning an asset. In some cases those notions coincide, but in other cases they do not.”

For some of our long-term construction projects, physical control of an asset may not transfer to the customer until final completion of the construction project and commissioning activities. For example, when an oil and gas production platform is transported to and installed at a customer’s offshore facility. However, prior to physical delivery, the customer may in effect control the asset under the terms of the contract, by specific statutes/regulations in a particular country or as demonstrated through their oversight and on-going direction of construction of the project at our facilities or on board our vessels.
If under the model proposed by the DP, control by a customer does not occur until the end of the production cycle for a long-term construction project, and revenue would not be recognized until final completion of the project, this would, in effect, result in accounting for the long-term construction projects under the completed contract method. We feel that a move toward completed contract or similar methodology would misrepresent the economic substance of our business activities and lead to a reduction in decision-useful information since earnings under these arrangements are generated throughout the duration of our contracts as a direct result of providing our products and services to our customers’ through the execution of their projects. We believe the proposed DP model would significantly increase the volatility of our reported results on a quarterly and annual basis and would largely leave investors “in the dark” on the progress for multi-year projects until the very end.

SOP 81-1 outlines a basic framework for revenue recognition in the construction industry for long-term construction contracts providing meaningful decision-useful information to users of the financial statements. Paragraph .22 of the standard indicates the relevance of percentage-of-completion accounting to the economic substance of a company’s operations:

The percentage-of-completion method recognizes the legal and economic results of contract performance on a timely basis. Financial statements based on the percentage-of-completion method present the economic substance of a company’s transactions and events more clearly and more timely than financial statements based on the completed-contract method, and they present more accurately the relationships between gross profit from contracts and related period costs. The percentage-of-completion method informs the users of the general purpose financial statements of the volume of economic activity of a company.

The concepts articulated in SOP 81-1 are clearly relevant to the DP and we feel the FASB should incorporate these concepts into the proposed standard. Further, we recommend that any meaningful differences between the current standards and any future proposed revenue recognition model be clearly reconciled and explained.

**Measurement of Progress to Satisfy Performance Obligations**

Provided that a continuous control and transfer approach could be justified, the DP does not clearly delineate an acceptable method to determine progress with respect to the performance obligations under long-term contracts. The DP seems to indicate a preference for output metrics to determine project performance progress; however, typically for our contracts output metrics are not clearly measurable or objective. A much more practical approach would be to use inputs that represent progress towards completion as a proxy for output performance. It may be appropriate to use partial costs in certain cases when those costs are representative of progress versus other costs that do not necessarily indicate meaningful progress toward completion such as procurement and materials costs. Because the DP does not provide clear guidance in this area, we recommend the FASB consider clarifying that, for contracts providing for continuous transfer of assets, underlying costs are an appropriate indicator of performance under the proposed revenue recognition model.
Measurement of Performance Obligations

We believe that it is appropriate to measure performance obligations at contract inception based on the transaction price; however, we think it is also appropriate to subsequently re-measure the transaction price as a result of material changes in the contract resulting from change orders, claims, incentive bonuses, contingent criteria, etc. It is our view that contingent consideration should be estimated at the beginning of a contract and allocated to the performance obligations so that the contingent consideration, as estimated, is recognized as the performance obligations are performed. We believe that re-measurement of project revenues and related costs at each reporting period using management’s estimates is appropriate for our industry and results in more meaningful decision-useful information.

In general, it is our view that the DP model should provide further guidance with regard to recognition of costs. The DP states that construction costs must be expensed as incurred unless such costs meet the definition of an asset under another standard such as inventory, fixed assets or intangible assets. If this principle is followed, costs incurred on performance obligations for which control has not passed to the customer will be deemed incomplete and treated as period expenses with no associated revenue being recognized for the construction progress-to-date. This will lead to misleading and, we believe, inaccurate gross profit recognition on profitable long-term construction projects... We do not believe that, following this model will yield meaningful results to the users of our financial statements. We recommend that the FASB address recognition of the cost components of long-term construction projects in a manner that gives due consideration to the operations of companies in the engineering and construction industry.

While we support the effort to simplify and unify the accounting for revenue recognition, we feel that the unique nature and complexities of accounting for long-term construction contracts requires special consideration. We believe that the risk and reward criteria promulgated by SOP 81-1 represent the most accurate measure available for recognition of revenues and related costs for long-term construction projects. We strongly believe percentage-of-completion accounting provides the users of our financial statements with the best measurement of financial progress on our long-term construction projects.

We appreciate the opportunity to share our comments and would be willing to meet with the FASB and members of our E&C Industry Controllers Roundtable to discuss our views.

Very truly yours,

Dennis S. Baldwin
Vice President and Chief Accounting Officer