27 August 2013

Financial Accounting Standards Board
401 Merritt 7 PO Box 5116
Norwalk, CT 06856

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH United Kingdom

Dear Board Members:

Thank you for the opportunity to respond to the Financial Accounting Standards Board’s and International Accounting Standards Board’s Exposure Draft on Leases (Topic 842), 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 a very significant impact on our industry, the contract drilling rig industry. We believe the proposed guidance for lessor accounting would overly complicate the fairly simple revenue recognition model currently used by our industry and lead to a lack of transparency in our financial statements.

Our core business is the contract drilling of oil and gas wells. We provide our customers with the expertise and manpower to drill oil and gas wells, as well as the drilling rig to accomplish the contracted activity. Our contracts specify that our customers are responsible for designating the well location, providing access to the well location and establishing and directing the drilling program for the rig. We are contractually responsible for the operation of the rig and the safety of our crews, the rig and the rig equipment; including maintaining and directing the movement of our rig.

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, or zero rate, 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.

Currently we recognize revenue from our drilling contracts as services are performed. We recognize revenue on the basis of the dayrate per contract for the number of days worked. We believe that this is the appropriate revenue recognition model for our industry.

We are concerned that the concept of control included in paragraphs 842-10-15-9 through 842-10-15-16 of the ED is ambiguous, and will be interpreted inconsistently when applied to contracts typical for our industry. Specifically, the ED is unclear as to how to evaluate whether a customer has the ability to direct the use of an asset and whether the customer has the ability to derive benefits from use of assets in our industry, where the use of the asset is a part of the service we provide. While we believe our contracts are for drilling services and the final standard should
clearly preclude us from being required to account for our contracts under the proposed lessor model of accounting, we are concerned that some may interpret our industry to be required to modify our revenue recognition model. We request that in the final standard, at a minimum, you clarify that an asset can be incidental to a service even if it is a very large expensive asset.

If the guidance in the ED results in our industry applying the lessor model to our revenue arrangements, we have identified numerous issues that will obscure the transparency of our financial statements. Some of the identified issues are:

- Our contracts do not differentiate between rates for services vs. rates for use of equipment. With rare exceptions, there are no standalone observable prices for either services provided on a rig or use of a rig. The guidance provides that if there are no observable standalone prices an estimate of prices should be made considering all information available. This bifurcation will introduce an element of subjectivity into our financial statements that does not exist in our current revenue recognition model. It will obscure comparability of similar contracts among industry members.

We believe it is inappropriate to bifurcate the value of services from equipment for our contracts as we believe the entire contract is a service contract; not a lease contract.

- Under the ED, the fair value of a rig assigned at the contract inception will drive the amount of gain recognized on day one of the contract; however there is no Kelley Blue Book for rigs. The sale of rigs is a relatively infrequent occurrence and, although there are similarities among certain types of rigs, each rig has its own characteristics rendering it different from other similar rigs for purposes of determining fair value. Therefore, determination of the fair value of a rig at inception of a contract will be inherently highly subjective and there is the opportunity for manipulation of earnings. We will also lose comparability among industry members and rigs.

We are not selling our rigs, or a portion of our rigs, to our customers. Our rigs are our “stock-in-trade” and they are depreciating assets that will be contracted out multiple times to multiple customers over their useful lives. It is inappropriate to record a gain each time a new contract is signed. (Currently, many rigs in our industry have net book values that are below fair value.)

- Consistent with our belief that we are not selling our rigs, we do not believe that any part of the income generated from the use by our customers of our rig should be characterized as interest income. We believe our contracts are contracts for services and all of our revenue should be characterized as such. Interest income which will be front ended over a contract term does not reflect the economics of how we are earning our revenue.

- Estimating the payments that will be received under the contract at the inception of the contract will be subjective and cannot be made with any degree of accuracy. This will introduce another element of subjectivity into our revenue recognition process. As previously stated, our revenue currently recognized in any given period is calculated on the basis of our dayrate per our contracts for the number of days our rigs work during that period. We have downtime days for equipment failures for which no revenue is earned or the dayrate earned is at a lower rate. Some of our contracts are well-to-well. In those
situations we do not know number of days that we will be under contract at inception. Additionally, our term contracts may not be terminated on schedule if our customer is in the process of drilling a well as the term will be extended until the well is completed.

In summary, if contracts for drilling services are considered to be lease contracts under the ED, revenue recognition for the contract drilling industry will become highly subjective. Comparability of the performance of entities within our industry that have similar rigs with similar contracts will no longer exist as the revenue for the industry will no longer reflect the actual economics of the contract drilling business model. We believe that the current revenue recognition model appropriately reflects our industry economics; therefore the final standard should not alter the existing revenue recognition model for the contract drilling industry.

Respectfully,

[Signature]

Beth G. Gordon
Controller