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Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File No. 1660-100

Discussion Paper - Preliminary Views on Revenue Recognition in Contracts with Customers

Fluor Corporation (NYSE: FLR) delivers engineering, procurement, construction, maintenance and project management to governments and clients around the world. We serve a diverse set of industries worldwide including oil and gas, chemicals and petrochemicals, transportation, mining and metals, power, life sciences and manufacturing. We had 2008 revenue of \$22.3 billion, and total assets and project backlog of \$6.4 billion and \$33.2 billion, respectively, as of December 31, 2008. We work under cost reimbursable and fixed price contracts, which have various incentive, penalty, and guaranteed performance provisions. Our contracts are frequently executed over multiple years.

We appreciate the opportunity to comment regarding the *Preliminary Views on Revenue Recognition in Contracts with Customers* Discussion Paper ("DP"). We applaud the efforts of the FASB and the IASB to attempt to streamline the accounting guidance as to when an entity should recognize revenue and to develop a single, contract-based revenue recognition model. However, we believe that the uniqueness and complexity of revenue recognition for long-term contracts in the engineering and construction (E&C) industry require more specificity than what is currently provided in the DP in order to achieve consistency and decision-useful information.

We do not believe the DP provides clearer guidance than current accounting standards for determining when revenue should be recognized in the E&C industry. The current accounting guidance for our industry has stood the test of time. Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1") has been followed by our industry for over a quarter of a century. As permitted by SOP 81-1, our company uses the cost-to-cost percentage-of-completion method for revenue recognition. This method results in recognition of revenue ratably over the contract period based on an objective input (cost). For each dollar of cost recognized, revenue is recognized, in accordance with the matching principle, resulting in continuous revenue recognition during the contractual term. Under SOP 81-1, changes in circumstances (such as for change orders or changes in the estimated profitability under the contract) are immediately reflected in the forecast and in the recognition of revenue.

The DP appears to indicate that, at least in some cases if not all, continuous revenue recognition using an input basis such as cost would not be allowed. The DP (in ¶S28(a)) states: "For instance, entities that at

present recognize revenue for construction-type contracts would recognize revenue during construction only if the customer controls the item as it is constructed." We are concerned that under the DP, there would be situations when revenue recognition would not occur until the end of the contract period which, for a large, complex project, could be several years after the work commences. This shift to essentially a completed-contract method (allowed under SOP 81-1, but not preferred and typically only used when reliable estimates are unavailable) would likely result in less comparable and less decision-useful financial information. (Regarding the completed-contract method, SOP 81-1, ¶30 states: "Financial statements based on this method may not show informative relationships between gross profit reported on contracts and related period costs.") Even where transfer of assets could be interpreted to occur throughout the contract period, we believe that revenue recognition could fluctuate significantly from one reporting period to another, depending on the timing of completion of certain performance obligations and how continuous transfer is measured.

There are a variety of other areas that impact revenue recognition in the E&C industry that would need to be addressed if SOP 81-1 and other industry-specific guidance (such as EITF 00-1) are completely superseded, including:

- > Customer-furnished materials
- > Change orders
- ➤ Claims
- > Combining and segmenting contracts
- Pre-contract costs
- Back charges
- > Proportionate consolidation of certain joint ventures

Any significant change to the current revenue recognition model will result in significant changes to existing work practices and accounting / ERP systems for companies in the E&C industry. Changes of the magnitude required by the DP are likely to be very costly, particularly if retrospective application is required and every project is impacted.

We have included our responses to the DP questions in an addendum to this letter.

We again thank you for the opportunity to share our views on the DP and hope that our comments are considered in the formulation of the Exposure Draft. In addition, we would welcome the opportunity to meet with representatives of the FASB and/or IASB to discuss our comments and concerns.

Best Regards,

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ADDENDUM RESPONSES TO DP QUESTIONS

Question 1: Do you agree with the Boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

Although we agree that there would be certain advantages to developing a single revenue recognition model to be used for all industries, we believe that the uniqueness and contractual complexities in the E&C industry require certain revisions to the DP. Absent these revisions, it is likely that the E&C industry will have to establish its own set of principles or guidelines to ensure comparability of financial statements within the industry. We believe that the guidance in SOP 81-1 which is not included in the DP is useful within our industry, including guidance on combining and segmenting of contracts (SOP 81-1, ¶35-51); whether customer-furnished materials should be included in revenue (SOP 81-1, ¶60); and how to account for change orders (SOP 81-1, ¶61-63), claims (SOP 81-1, ¶65-67) and precontract costs (SOP 81-1, ¶73-75).

Generally speaking, revenue recognition based on changes in an entity's contract asset or contract liability appears to be a reasonable approach since it puts the emphasis on the contract. However, with the emphasis on the contract, it is possible that "form over substance" accounting will occur. This model leaves open the opportunity for companies to structure their contracts in such a way to accelerate revenue recognition. For example, contracts could be written to define deliverables throughout the contract period to avoid deferring revenue recognition until the project is completed.

Question 2: Are there any types of contracts for which the Boards' proposed principle would not provide decision-useful information? Please provide examples and explain why? What alternative principle do you think is more useful in those examples?

The proposed principle may not provide decision-useful information for the E&C industry, as noted in our response to Question 1 above. Within our industry, we do not believe that deferring revenue until the end of a contractual period, which could span several years on a large, complex E&C project, would provide decision-useful information. This could well happen if a continuous control and transfer approach cannot be justified such that revenue is deferred until the project is physically delivered to the client at project completion. In addition, we believe that recognition of revenue on the basis of asset transfer would decrease the comparability of financial information from quarter to quarter and from company to company within our industry. We believe that revenue recognition under the percentage-of-completion method with consistent use of input (such as cost-to-cost) or output measures is more decision-useful.

Question 3: Do you agree with the Boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We agree with the Boards' definition that "a contract is an agreement between two or more parties that creates enforceable obligations." The definition is general enough to cover various types of contracts, including oral agreements. We know of no jurisdictions or circumstances in which it would be difficult to apply the Board's definition.

Question 4: Do you think the Boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

The proposed definition of a performance obligation is "a promise in a contract with a customer to transfer an asset (such as a good or service) to that customer."

We do not believe that the guidance in the DP is specific enough to create consistency in recognition based on deliverables within our industry. It is not clear in the DP whether a performance obligation should be interpreted to only mean the transfer of an asset when it is complete at the end of a project or if the delivery of the myriad of goods and services during the execution of a contract would result in the satisfaction of performance obligations. Revenue recognition using a single performance obligation at the end of an engineering/construction contract could defer revenue recognition inappropriately and result in extreme volatility of revenue and income in our industry depending on timing of the completion of large, long-duration projects.

It is not reasonable for E&C companies to recognize revenue on large, long-duration projects at the end of the project. Yet, it could be interpreted as a requirement of the DP, especially for fixed price turnkey projects, such as design and construction of a power plant. We do not believe that deferring revenue recognition for a two to three year period, until the completion of a power plant, provides decision-useful information to investors.

We believe that additional guidance is needed on defining deliverables related to construction contracts. Are deliverables individual buildings or components of buildings? Is piping a single deliverable even though it is a significant part of many processing facilities (such as refineries and pharmaceutical facilities)? If not, how do we break it into smaller components? How do we ensure consistency in defining deliverables across companies within our industry?

Question 5: Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customers? Why or why not? If not what principle would you specify for separating performance obligations?

In the E&C industry, we believe that separation of performance obligations on the basis of when an entity transfers the promised asset to the customer may not be appropriate for the reasons discussed in our response to Question 4 above. We believe that a model using continuous transfer/recognition based on an input factor (such as cost-to-cost percentage of completion) is more objective and reasonable.

Question 6: Do you think that an entity's obligation to accept a returned good and refund of the customer's consideration is a performance obligation? Why or why not?

No comment.

Question 7: Do you think that sales incentives (for example, discounts on future sales, customer loyalty points, and "free" goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

No comment.

Question 8: Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good is transferred.

We do not believe that customer control or physical receipt of the good is a reasonable basis for revenue recognition in the E&C industry especially since the projects being constructed are typically to the customers' specifications and on the customers' property. We believe that there is a continuous transfer to the customer during the duration of the contract in this industry. In E&C contracts, there is usually a provision allowing the customer to terminate the contract and take over performance or have another company take over performance. As a result, we believe this is one indicator that there is a continuous transfer to the customer. We believe that the cost-to-cost percentage-of-completion is more appropriate.

Question 9: The Boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

As previously noted in our response to Question 4, depending on how the definition of performance obligation in the DP is interpreted, a significant amount of the revenue on contracts in the E&C industry could be recognized upon project completion instead of as a project progresses toward completion. As a result, companies in our industry may experience significant fluctuations in revenue and profits compared to the current state. We believe these fluctuations would not necessarily be indicative of meaningful financial trends or performance and, therefore, would result in the lack of decision-useful information for users of our financial statements. We believe that the use of continuous recognition of performance obligations (for example, using the percentage-of-completion method) results in information that is more decision-useful.

Question 10: In the Boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

We agree that the performance obligations should be measured initially at the transaction price since this is the most objective measurement.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

We agree, that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation. For long-term contracts, we believe the assessment of whether a contract is onerous should be made at the contract level, not individual performance obligation (component) level, due to the level of subjectivity that may be involved. We also believe that further guidance is necessary to consider the impact of change orders, claims, incentives and changes in estimates-to-complete since all are common in the E&C industry and can impact revenue recognition.

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so what characteristic of the obligation makes that approach unsuitable? Please provide examples.

Please refer to our responses to Questions 4 and 10(b) above.

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

Please refer to our responses to Questions 4 and 10(b) above.

In the E&C industry, we do not think that it is reasonable to account for warranties as revenue. The amount of warranty costs incurred can vary significantly among projects. We believe accounting for warranties by recording a reserve is more reasonable in our industry.

Question 11: The Boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (for example, selling costs) are included in the initial measurement of the performance obligation. The Boards propose that an entity should recognize those costs as expenses unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the cost of obtaining the contract should be included in the initial measurement of an entity's performance obligation? Why or why not?

We believe that the guidance in SOP 81-1 for precontract costs is a reasonable approach. Costs may be deferred if they are directly related to a specific future contract and recoverability from the contract is probable.

(b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

Please refer to our response in 11(a) above.

Question 12: Do you agree that the transaction price should be allocated to the performance obligations on the basis on the entity's standalone selling prices of the goods or services underlying the performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

To the extent that a standalone selling price is available, we agree. Currently, this approach is used in the E&C industry to segment a contract, for example, if there are different profit rates for engineering work versus construction work. In many cases, it would be very difficult to determine standalone selling prices for performance obligations below the segmentation level (i.e., at the component level).

Question 13: Do you agree that if an entity does not sell a good or service separately, it should estimate the standalone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

Please refer to our response to Question 12.