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October 21, 2010

Sent Via email: director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06586-5116

Re: File Reference No. 1820-100
Revenue from Contracts with Customers

Thank you for the opportunity to review and comment on the Exposure Draft on revenue Recognition topic 605. Michels Corporation is a private closely held utility and road construction contractor that has been in business for over fifty years with annual revenues in the $1.0 billion range for the last few years. The company is very diversified with primary construction operations consisting of mainline pipelines for natural gas and petroleum products, horizontal directional drilling for a variety of utility crossings, telecommunications (outside plant), electrical transmission, distribution and substation construction, wind energy/wind farm construction, drilled and concrete foundations, sewer, water and tunnel construction and pipe rehabilitation.

We believe that the proposed standard, in its current form, would have a significant and undesirable impact on the construction industry. The changes will not improve internal or external reporting and we believe will result in financial reports that will be less useful and potentially misleading to the report users and decision makers. The new standard will entail a considerable amount of subjective measurement and determination while increasing our operating costs, specifically in finance accounting and IT/software where substantial modifications will be required.

Like most construction contractors, we comply with guidelines of SOP 81-1 deploying a percentage of completion methodology for revenue recognition measured on a cost to cost basis. We believe this methodology results in the most accurate matching of contract expenses and revenues and a fair and accurate recognition of contract revenue. The current percentage completion revenue recognition methodology clearly relies on estimates of total project costs but we believe that this total job cost estimation process is more consistent and less subjective and arbitrary across the industry than the determination of a "performance obligation" as required by the proposed standard. Under the exposure draft, subjectivity and discretion is dramatically increased in the areas of determining performance obligations, estimating the contract price using probability weighting and allocating the contract price to identified performance obligations. It is our opinion that the exposure draft also creates the opportunity for broad interpretations regarding contract revenue recognition which we view as a step backwards in the usefulness of the audited financial reports for the key users – management, sureties, banks, etc.

From a management perspective, we will need to continue to utilize the current percentage of completion methodology for revenue recognition as it provides the best information regarding the financial performance of our contracts and the best decision making information for our management and for the users of our financial reports. As a result, the exposure draft could result in one revenue recognition method used for internal management purposes, a different one for GAAP external reporting and possibly yet another one for tax purposes depending on the position the IRS takes. This has the potential to create confusion, poor decision making internally and with external users (i.e. sureties) and incremental costs which is a burden given the historically tight profit margins realized in the construction industry.

While we appreciate the Board's desire for consistency, we are concerned with the "one size fits all" approach to revenue recognition that is reflected in the exposure draft. The preferred solution is for the construction industry be exempt from the exposure draft, and if that is not possible, than we strongly recommend that the exposure draft be modified to incorporate as many of the provisions of SOP 81-1 as possible for application in the construction industry.

Thank you for your consideration.

John Schroeder
CFO