

1820-100
Comment Letter No. 412
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Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
Attn: Technical Director – File Reference No. 1820-100
(via U.S. Mail and Electronic Mail)

Re: Comments on the FASB and IASB Exposure Draft on Revenue Recognition from Contracts with Customers

Dear FASB Technical Director,

We are responding to the Financial Accounting Standards Board's ("Board") invitation to comment on the above-referenced exposure draft. We welcome the opportunity to comment on the exposure draft and agree with the Board's objective to clarify and simplify the accounting guidance for revenue recognition.

Sanmina-SCI is a global provider of customized, integrated electronics manufacturing services, or EMS. We provide these services primarily to original equipment manufacturers (OEMs) in a variety of industries. Our business strategy is to provide end-to-end supply chain solutions to a diversified customer base within key markets. End-to-end supply chain solutions encompass the entire lifecycle of a customer's product, from product design and engineering, through manufacturing, to direct order fulfillment and after-market services and support.

Our end-to-end services include:

- <u>Product design and engineering</u>, including initial development, detailed design, prototyping, validation, preproduction services and manufacturing design release;
- <u>Manufacturing</u> of components, subassemblies and complete systems, including final system assembly and test ("manufacturing services");
- Direct order fulfillment and logistics services; and
- After-market product service and support

Our manufacturing services are vertically integrated, allowing us in certain instances to build a finished product for our customer using both components manufactured by us and components purchased by us from other vendors.

The proposed Accounting Standards Update of Topic 605, Revenue Recognition – Revenue from Contracts with Customers ("Proposed Standard"), would require companies to identify the separate performance obligations in a contract and recognize revenue separately for each performance obligation as it is satisfied. Because we provide a broad range of services to our customers and our manufacturing services generally involve delivery of electronics products manufactured in accordance with customer specifications, we are deeply interested in ensuring that our financial results, as affected by the timing of revenue recognition, remain aligned with the underlying economics and substance of our business.

We strongly believe that each service we provide (as noted above) represents a separate performance obligation as defined in the Proposed Standard and are in agreement that each service should be accounted for separately since the customer receives the services at different times and each service is distinct from the other services provided to the customer. However, specific to the manufacturing services we provide, we are concerned that the criteria used to determine when a performance obligation has been satisfied could result in what we believe would be inappropriate changes to the timing of revenue recognition and inconsistencies in the timing of revenue recognition within our industry.

Under the Proposed Standard, revenue for each performance obligation would be recognized when the performance obligation is satisfied. A performance obligation is satisfied when the customer obtains control of a good or service. Control is transferred to the customer when the customer has the ability to 1) direct the use of the asset; that is, the present right to use the asset for its remaining economic life and to consume the asset in the customer's activities and 2) receive the benefit from the asset; that is, has the present right to obtain substantially all of the potential cash flows from that asset (either cash inflow or reduction in cash outflow) through use, sale, exchange, etc. Control also includes the ability to prevent other parties from directing the use of and receiving the benefit from the asset.

Indicators that the customer has obtained control of a good or service include the following:

- The customer has an unconditional obligation to pay
- The customer has legal title
- The customer has physical possession
- The design or function of the good is customer-specific

No single factor in isolation is determinative of whether the customer has obtained control of the goods or services.

For some contracts, it may be difficult under the Proposed Standard to determine whether an entity has promised to transfer goods and services continuously or at a point in time, particularly when the entity promises to manufacture an asset specifically for a customer. For example, the commitment to manufacture a highly customized product for a customer might be considered providing services and related materials, and revenue could be

recognized as the manufacturing services are being provided. However, it also might be considered solely the delivery of a finished product, in which case revenue would be recognized at the time of delivery. In a contract to manufacture an asset, an entity would distinguish a good from a service by evaluating whether the customer controls the asset as it is manufactured. If the customer has the ability to direct the use of and receive the benefit from the work in process (rather than the completed goods), the contract would be to transfer an asset continuously to the customer and the entity would recognize revenue on a continuous basis as the asset is manufactured.

Our business involves manufacturing products to a customer's unique specifications. Some of the materials used in the manufacturing process are unique to the customer's product and some are common to products of many customers. As such, we believe the most important determination for us is identifying the point at which the customer obtains control of the asset – i.e., does this occur as the asset is manufactured (we are a service provider) or at a point in time (we are a provider of a good)? We believe more comprehensive and more specific guidance is required so we can ascertain whether we sell a service or a product. The Proposed Standard does include a set of indicators to assist companies in determining when a customer obtains control of an asset; however, without additional clarification, a significant amount of judgment will be required and therefore we believe it is highly likely that different conclusions will be drawn from the same set of facts and circumstances.

We also believe additional guidance and clarity is needed regarding how to recognize revenue under the continuous transfer model. For instance, if we conclude that we are a service provider and are transferring an asset to our customer on a continuous basis, we believe recognizing revenue using an output method such as units delivered would best depict the transfer of the good/service to the customer since delivery of the product is directly observable, can be measured reliably and is the point at which the customer takes title to and has physical possession of the product. However, use of this method, under which revenue would be recognized upon delivery of the product to the customer, seems to contradict the notion that the customer obtains control of the asset as it is being manufactured (and that revenue should therefore be recognized as the asset is being manufactured).

We strongly believe that revenue related to our manufacturing services should be recognized when we deliver a finished product to our customer. This is the point at which we have fulfilled our obligation under the contract and at which our customer takes title to the product, assumes all risks and rewards of ownership of the product, and incurs an unconditional obligation to pay for the product. Additionally, we believe recognition of revenue upon delivery to our customer is consistent with the underlying economics and substance of our business. Revenue recognition at the time of delivery is not only objective and verifiable, but is also easily understood by users of our financial statements. We believe that recognition of revenue throughout the manufacturing process (prior to delivery to the customer) would be premature, would involve too much subjectivity, would result in a misalignment between our financial results and the true underlying performance of our business, and would be difficult for users of our financial statements to understand. Additionally, if companies in our industry are required to recognize

revenue throughout the manufacturing process, significant systems modifications will be required and, even with such modifications, a significant amount of manual effort would still be required in order to accurately recognize revenue throughout the manufacturing process.

In summary, we fully support the objective of clarifying and simplifying the accounting guidance for revenue recognition. However, we are concerned that the Proposed Standard may have some unintended consequences for companies in the contract manufacturing business, may lead to inconsistencies in application within our industry, may result in financial statements that do not reflect the underlying economics of our business and are difficult for investors to understand, and may require significant modifications to systems and additional resources in order to comply with guidance we do not believe is appropriate for our industry. We encourage the Board to consider the requirements unique to our industry and provide additional guidance and clarification in the final standard.

Sincerely,

Todd Schull

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Corporate Controller and Chief Accounting Officer