VIA EMAIL

August 1, 2013

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

Re: Revenue Recognition — Constraints—Minimum Requirements (Recognition of Variable Consideration)

Dear Technical Director:

This letter is in response to the conclusions reached at the joint meeting between the U.S. Financial Accounting Standards Board (the “Board”) and the International Accounting Standards Board on July 24, 2013 with regard to constraints on recognition of variable consideration. While we appreciate the Board’s continued deliberation on the subject, we strenuously disagree with the conclusion that a minimum amount of variable consideration should be recognized as revenue in situations where the true economic minimum is zero (as it is with sales based royalties not subject to minimum royalty amounts).

We ask the Board to consider how any amount that is wholly contingent on a future event could be considered reasonably assured. Rather, we believe that the concept of reasonably assured, by definition, should exclude variable consideration in situations where the true economic minimum is zero. Sales based royalty arrangements and other at-risk contingent revenue arrangements exist to mitigate uncertainty related to future product sales. To recognize revenue in advance of the removal of those uncertainties or contingent events is inconsistent with the underlying economics of license transactions and implies a level of certainty regarding future events that does not exist. One should also consider how a downstream royalty revenue event can be recognized before the underlying sales transaction is recognizable by the selling party. It is like the well-known “cart before the horse” analogy.

If the Board objects to the “rules-based” nature of paragraph 85, we suggest that a principles-based statement on variable consideration should replace it. We believe that it is entirely appropriate on a conceptual level for the Board to expressly state in the revenue recognition standard that variable consideration is not reasonably assured when the following two conditions are present: 1) Revenues are contingent upon the occurrence of future transaction events and 2) The economic minimum revenue from the underlying contractual arrangement is zero. If the Board believes some type of reporting for potential future revenue events is
absolutely necessary, we suggest adding into the MD&A section disclosure about potential future revenues based on specified assumptions with information explaining the risks related to those assumptions, in a manner similar to the Contractual Obligations and Commitments table currently in the MD&A section of Form 10-K.

We urge the Board to reconsider its conclusion and consider the potential significant confusion to users that such a concept will create surrounding the usefulness and reliability of financial reports issued under U.S. GAAP. The reported revenue variability alone will create distrust by the users of financial statements to the point that these types of estimated revenues will simply be adjusted out of the reported GAAP analysis as non-GAAP adjustment, if only for the reason that they are currently unrealized.

Thank you for your consideration.

Sincerely,

James F. Barlow
Senior Vice President,
Corporate Controller (Principal Accounting Officer)
Allergan, Inc.

Marc Veale
Assistant Corporate Controller
Allergan, Inc.