



October 21, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Dear Mr. Golden:

Thank you for allowing us to provide our comments on the FASB/IASB exposure draft Revenue Recognition from Contracts with Customers (FASB file No. 1820-100, IASB ED/2010/6, the “proposed standard”).

The following are our responses to certain of the Board’s posed questions:

Question 5: Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?

While we understand what the Boards are trying to accomplish with this provision, we disagree with the concept of reflecting the impact of the customer’s credit risk on the transaction price for several reasons.

First, the requirement to “reduce the amount of promised consideration to reflect the customer’s credit risk” on a probability-weighted basis is overly vague. Additionally, it would be difficult to determine and justify such an amount due to its nature. Would a company need to reduce the contractual/invoice price by some factor based on the customer’s credit rating? Under this scenario, two identical transactions with two different customers could have very different accounting results, which is inconsistent with the Boards’ overall goal of having transactions with similar economic characteristics

being accounted for in a similar manner. Also, the nature of an individual “customer’s credit risk” is such that there will potentially be thousands of assessments to be made during the book close for a number of companies. If the Boards retain this provision they should provide numerous practical examples of how this guidance will be implemented on a broad-based scale.

Second, we believe this provision will lead to unnecessary volatility in revenues. While there is always an inherent amount of estimates used in preparing financial statements, this provision appears to add an unnecessarily subjective layer of complexity while not appearing to add much value to the users of the financial statements. As the contracts with customers get settled, there will be a perpetual truing-up of the amount recognized - which will be recorded through income or expense, rather than revenue - which could be on such a scale that users of financial statements will not be able to adequately compare revenues from period to period. In addition, due to the subjective nature of such an estimate, and various potential interpretations for “credit risk”, it has the potential risk of added opportunities for earnings management.

Third, unless the various taxing authorities adopt a similar interpretation of revenue recognition, this will add another layer of complexity to the tax accounting and tax compliance functions as they attempt to track the various reserves and settlements.

Finally, due to the subjective nature of the requirement it will be difficult for management to appropriately determine the amount to record. In turn, management will then spend additional time with their external auditors to substantiate management’s estimates and assertions. Therefore, this will undoubtedly result in additional internal compliance costs as well as external professional fees.

Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

While we understand the Boards’ desire for comparability of financial data for all periods, in the near term that is an unrealistic goal. Many companies will struggle with the implementation of the standard and asking them to do a retrospective look-back at all of their “contracts with customers” - for 3 years in the case of a U.S. public filer - is not reasonable. This is especially true when one considers how far reaching the proposal is and that virtually all companies that issue financial statements will be affected. Based on the inherent difficulty involved, we believe that the final standard should include broad language that would allow companies to apply the impracticability exception to retrospectively applying the new standard. At a minimum, the effective date should be

deferred to allow time for companies to put policies, procedures and controls in place as a response to the new rules. Ideally, this deferred effective date would allow for at least 3 years of relevant data collection, i.e., the effective date would be for fiscal years ending no earlier than December 31, 2014. Companies would continue to record revenues consistent with what they have done under the legacy revenue recognition guidance until the transition window expires. Once the transition window is over, the companies can then retroactively apply the guidance to their historical financial results without having to incur significant additional costs.

Question 15: The Boards propose that an entity should distinguish between the following types of product warranties:

- a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.**
- b) a warranty that provides a customer with the coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.**

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

We agree that there should be a distinction between the two types of warranties; however, the proposed concept surrounding “latent defects” will result in significant judgment by management to determine whether a defect is latent or has arisen subsequent to the sale date. It would also be difficult to apply the guidance for quality assurance warranties when entities are required to repair or replace only a component of an asset that has been sold. For example, the contract may have only one performance obligation (i.e., the sale of a piece of equipment) but the company would be required to determine the amount of consideration associated with the individual components of the equipment that are “expected” to be defective and subsequently repaired. This exercise would be extremely tedious, costly, and time consuming, and we question the value that it adds for users of the financial statements. Additionally, if companies are expected to implement a system of tracking the resolution of a myriad of performance obligations under each warranty, that endeavor would be impracticable and we would question the cost/benefit of such an undertaking. Furthermore, based on the proposed guidance, it is unclear how a warranty liability that is never realized gets removed from the books – is that charged as increase in revenue (i.e., the revenue that was not recorded initially), or does it impact a different income/expense line item. Accordingly, we believe the current US GAAP practice of

establishing a warranty liability for the expected costs to repair defective products is adequate.

Below are other comments we have on aspects of the exposure draft which were not specifically solicited by the Boards.

Variable consideration – The guidance surrounding variable consideration is unclear and should include numerous practical examples in order to be properly implemented on a uniform basis. For instance, assume a company out-licenses a piece of intellectual property for the 10 year remainder of its useful life in return for royalties based solely on sales made by the licensee. Under the proposed guidance this transaction would be treated as a sale of the underlying asset; however questions arise as to when and how much revenue (i.e., proceeds on the sale) should be recorded. The guidance implies that a probability-weighted average of the revenues expected to be received over the term of the contract should be recorded on day one as the proceeds with a related “contract asset”. However, we can envision situations where two companies that enter into very similar transactions record wildly different results based on managements’ estimates of probability-weighted outcomes of the contract for the remaining 10 years. Additionally, in the proposed guidance it is not clear how true-ups of estimates would be treated by the licensor on a go-forward basis. Would such an item be treated as an additional gain in the year that it is received even though there is no corresponding “sale”? Such treatment going on over a 10 year period would likely make comparing financial data from period to period and from company to company difficult.

Separately, assume that a company out-licenses an intangible asset for a three year period on an exclusive basis and included in the contract are provisions for an up-front payment and royalties to be paid based on certain sales levels achieved by the licensee in each of the three years. Under the proposed guidance, the up front fees received would be recognized ratably over the three year license period; however, it is unclear what the appropriate treatment for the variable license component would be. A company might conclude that the probability-weighted amount of the royalties expected over the next three years should be estimated on day one if they are reasonably estimable and that amount would be recorded over the license period on a pro-rata basis. If that is the case, it will undoubtedly drive a significant amount of variability into the financial results of the company going forward as estimates are modified for actual results in each period. Additionally, the amount of inherent subjectivity in the estimates will make comparability of the revenue amounts between two companies and over multiple periods more difficult. The US GAAP model of recording revenue when it is fixed and determinable would be more appropriate in this case as it would provide greater comparability across entities.

Implementation guide – The guidance should provide numerous examples for each issue – perhaps on an industry basis. Based on the nature of the guidance in its current form, we can envision numerous situations where similar companies treat similar transactions in different ways based on different interpretations of similar facts – such as the examples given in the previous two paragraphs, or sales of products that can eventually be traded-in for a discount / exchanged for a future model. More robust guidance will help alleviate these types of ambiguities. Additionally, we noticed that many of the examples presented in the implementation guide have journal entries included while others do not. It would be helpful if illustrative journal entries were included with each example to clearly demonstrate the impact on the books and records of a company. It would also be helpful if the examples show the final resolution of the flow-through of the transactions (e.g., how do we treat a warranty liability that expires, etc.).

Finally, as an overall observation, it appears that the Boards are trying to implement a “one size fits all” approach to revenue recognition. In the Basis for Conclusion Ph. 4, the Boards state that this guidance would improve comparability of “revenue recognition across....industries.” We question the value and relevance of being able to compare revenues across industries as a meaningful objective. The nature of many industries is unique (e.g., pharmaceuticals, airlines, petroleum, real estate, etc.) and the inherent differences between them make comparability of revenues limited. Furthermore, the vast majority of users of the financial statements would not be comparing revenues across industries as that metric would have limited relevance. The U.S. accounting bodies have developed a number of rules and industry guides over the past 30+ years to improve comparability – especially *within* industries. The users of financial statements (i.e. banks, investors, analysts, shareholders, etc...) have an understanding of the basic principles involved, have the ability to integrate the concepts into their financial models, and have become accustomed to the financial statement presentation. Additionally, the Boards should consider that the FASB has recently finalized its “Codification” project to condense the myriad of accounting literature that has evolved in order to simplify research by preparers of financial statements and other finance professionals. Bearing this in mind, it appears that the cost for implementation and ongoing compliance with the Boards’ proposed standard will *far* outweigh any benefit obtained by management and the investing public.

Thank you again for the opportunity to express our views on the exposure draft.

Very truly yours,

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