

August 13, 2013

Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Re: Revenue Recognition Project -- July 24, 2013 Joint FASB / IASB Board Decision on Variable Consideration in a Transaction

Dear Sirs:

Over the past several years, Johnson & Johnson has been continually following the Revenue Recognition project with great interest. We have actively participated in the past invitations by the Boards for public commentary as well as providing verbal feedback in various public forums. We reaffirm our agreement with the Board's objective to establish a standard that an entity can apply to report useful information to users of its financial statements about the amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Consistent with this past support and interest, we want to provide commentary on a recent tentative decision that was reached during a Joint Board meeting held on July 24, 2013. Based on the Summary of Board Decisions, the Boards tentatively agreed:

1. To specify that for all contracts an entity should include a minimum amount of variable consideration in the estimate of the transaction price, when including that amount would not result in a significant revenue reversal; and
2. Not to specify the circumstances when that minimum amount would be zero, nor to specify an exception for sales-based royalties on licenses of intellectual property.

The most recent public version of the Revenue Recognition Standard Exposure Draft, dated January 4, 2012, included language that a company should exercise judgment and evaluate the facts and circumstances in estimating variable consideration. That Exposure Draft required that variable consideration should be constrained when it was not certain that "an entity is reasonably assured to be entitled." This Draft also specifically included an exception that sales-based royalties should not be recognized until third party's subsequent sales occur. Based on the recent tentative decision, it appears that this language may not be included in the Final Standard.

Johnson & Johnson believes that it is important that the language from the previous Exposure Drafts both describing the constraint on the ability to recognize revenue and the exception that sales-based royalties should not be recognized until the sale is complete should be included in the Final Standard.

Johnson & Johnson, like other companies in the life sciences industry, is subject to significant constraints from government regulators in the development and commercialization of our products. Johnson & Johnson engages in licensing transactions of intellectual property (IP) with third parties. At the time of these licensing transactions, there could be significant hurdles to estimating a minimum amount of variable consideration as revenue. These hurdles can exist even if the IP has been approved for commercialization. Johnson & Johnson, as a licensor, would be dependent on the third party licensee for key information to develop the minimums and to substantiate the amount of royalties recorded on the balance sheet related to future sales by the licensee. As a result, the licensor would be required to rely on assumptions that the licensee will meet future performance obligations to generate the future royalties. These performance obligations of the licensee may include meeting manufacturing regulatory requirements and the realization of revenue with their customers.

We believe that the language from the previous Exposure Drafts describing the constraints for recognizing revenue is valuable to the preparers and the users of the financial statements by minimizing the diversity of practice. By providing this descriptive language, the Boards would provide a framework for preparers to develop financial statements and a basis for discussion with our auditors, if the Company's conclusion is that the minimum valuation for variable consideration is zero.

As the Staffs work to complete the Final Standard, we encourage the Boards to consider retaining this language from the previous Exposure Drafts.

Sincerely,

Stephen J. Cosgrove
Vice President, Corporate Controller