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Date: March 13, 2009

Mr. Russell G. Golden
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: EITF Issue No. 09-2, *Research and Development Assets Acquired in an Asset Acquisition*

Dear Chairman Golden:

Eli Lilly and Company reviewed Issue Summary No. 1 related to EITF Issue No. 09-2, *Research and Development Assets Acquired in an Asset Acquisition* that will be discussed by the Task Force in the March 2009 meeting. We are writing this letter to provide comments on the views discussed in the Issue Summary for the Task Force to consider when discussing this Issue as we have several conceptual concerns with this project.

Issue 1: Accounting treatment for research and development assets acquired in an asset acquisition that do not have a future alternative use:
We believe that accounting for in-process research and development programs acquired in an asset acquisition is covered by SFAS 2, *Accounting for Research and Development Costs*. We acknowledge that there currently are inconsistencies in accounting for research and development assets acquired in an asset acquisition and acquired in a business combination with the implementation of SFAS 141R, *Business Combinations*. However, we have significant concerns with accounting governing bodies reviewing the accounting for research and development activities on a piecemeal basis. We believe that the appropriate accounting authoritative body should reconsider all research and development accounting in conjunction with a full review of SFAS 2. We believe that the determination of the appropriate accounting for in-process research and development programs acquired in an asset acquisition cannot be made without a complete reconsideration of SFAS 2 and perhaps the conceptual definition of an asset as well.

As such, we disagree with View A requiring capitalization of in-process research and development programs acquired in an acquisition. We do not believe that it is appropriate to capitalize the cost of in-process research and development programs acquired until the technology is proven and has been approved by regulatory agencies, if required. Statement of Financial Concepts 6 states, "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Probable in this instance "refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved." Many research and development activities that are being investigated have a low likelihood of future success. In short, we believe that consideration spent directly on in-process research and development programs should be viewed as costs and not assets.

While we understand that the FASB considered Concept 6 in the finalization of SFAS 141R, we still believe that it should be given significant consideration for accounting for in-process research and development programs acquired in an asset acquisition.

While we agree that compounds in development have some value and that a purchaser of the asset may consider that value when negotiating the purchase, we do not believe that all acquired compounds under development meet the definition of an asset as defined by Concepts Statement 6. It may not be precisely clear what percentage is implied in the definition of "probable" in Concepts Statement 6, but it is hard to imagine that anything with a less than 50% chance of ever being marketed could meet the definition of having "probable future economic benefits." Paragraph 175 of Concepts Statement 6 further states that, "Uncertainty about business and economic outcomes often clouds whether or not particular items that might be assets have the capacity to provide future economic benefits to the entity..., sometimes precluding their recognition as assets."

Specifically, it is generally recognized within the pharmaceutical industry that compounds entering the following testing phases in their research and development life cycle have the corresponding approximate probability of achieving commercialization based upon current industry averages:

Testing Phase	Probability of being approved for sale
Pre-clinical - lead molecule identification	5-10%
Phase I	10-15%
Phase II	20-25%
Phase III	60-70%

Therefore, based upon the average probability of being approved for sale for any in-process research and development program in the pre-clinical, Phase I or Phase II testing phases, we have difficulty believing that these programs would meet the definition of an asset. We note that in FIN 48, *Accounting for Uncertainty in Income Taxes,* the Board chose to set a recognition threshold of more likely than not for the recognition of certain tax assets, but that they have not set a similar threshold for recognition of acquired in-process research and development projects. This approach seems inconsistent as many of these in-process research and development projects that would be capitalized if View A is adopted would not meet the recognition threshold for an asset in FIN 48.

In addition, the AICPA Practice Aid, *Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries*, provided a bright line for the pharmaceutical industry that **only** compounds that have achieved regulatory approval represent an asset that requires capitalization in an acquisition. The SEC, an observer of this Task Force, was very clear at that time that they did not believe pharmaceutical assets should be capitalized prior to regulatory approval because of their high risk. The AICPA Practice Aid also required that early stage pre-clinical compounds would not be included in the valuation of in-process research and development programs, as it was presumed that the fair value could not be computed with reasonable reliability. Instead, these early-stage compounds would be included in the determination of goodwill.

Further, we are concerned about the investor confusion that would likely result from a requirement to capitalize research and development projects acquired in an asset acquisition. We believe that we will be required to discuss in our Management's Discussion and Analysis section the low likelihood that any of these in-process research and development programs will provide the company "future economic benefit." We believe investors will not understand why we are capitalizing assets that we state are likely

to be written off in the near future. We are also concerned about the potential exposure that may occur given the litigious nature of our society.

We agree with View B that only in-process research and development programs acquired in an asset acquisition that have an "alternative future use" shall be capitalized and those with "no alternative future use" shall be expensed. We strongly urge the Task Force to implement this option when considering this issue. We understand that this will leave in place the inconsistency with SFAS 141R, but inconsistencies will continue to exist in the accounting for research and development projects until the accounting for all research and development costs are addressed as part of a comprehensive review of SFAS 2. We do not believe that there is any significant benefit in continuing to implement one-off changes to accounting for research and development costs without a comprehensive review of SFAS 2.

While we believe in-process research and development programs acquired in an asset acquisition should be expensed and this issue should wait until all research and development related issues can be considered at once, if the Task Force concludes that in-process research and development programs should be capitalized in a asset acquisition, we would urge the Task Force to consider the immediate expensing of any pharmaceutical compounds under development for pre-Phase III compounds, and require capitalization **only** if the potential product has completed Phase II testing and has entered Phase III.

Issue 2: How such assets will be subsequently accounted for if the research and development assets are initially capitalized:
If the Task Force concludes that capitalization is the appropriate accounting treatment for in-process research and development programs acquired in an asset acquisition, than we believe the accounting for intangible assets going forward should be indefinite lived until the completion or abandonment of the associated research and development activities as described in View A. We believe this is consistent with the accounting treatment required by SFAS 141R related to in-process research and development programs acquired in a business combination. We agree that this methodology will reduce complexity and confusion by investors. In addition, we agree that it is important that any intangible assets acquired that have been temporarily idled shall not be accounted for as if abandoned.

Transition and effective date for implementation:
If the Task Force moves forward with this Issue, we recommend either View B or View C that this Issue should be effective for transactions occurring in fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009 with either early adoption being permitted or no early adoption being permitted. We believe that this date allows for consistency and comparability for all future transactions.

We appreciate your consideration of our views and concerns regarding the EITF Issue No. 09-2, *Research and Development Assets Acquired in an Asset Acquisition.* If you have any questions, or would like to discuss our comments further, please call me at (317) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

S/Arnold C. Hanish
Vice President and
Chief Accounting Officer