

VIA EMAIL

October 16, 2009

Technical Director
File Reference No. EITF0902
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Exposure Draft—Proposed Accounting Standards Update, Research and Development (Topic 730), Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition.

Dear Technical Director:

Allergan, Inc., a Delaware corporation ("Allergan"), appreciates the opportunity to respond to the Financial Accounting Standards Board (the "Board") regarding the Exposure Draft, Proposed Accounting Standards Update, Research and Development (Topic 730), Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition (the "Proposed Update"). Allergan is a publicly traded, multi-specialty health care company listed on the New York Stock Exchange under the symbol "AGN."

Allergan supports the Board's efforts to clarify the accounting for research and development assets acquired and contingent consideration issued in an asset acquisition. In response to your invitation to comment, we have provided the following thoughts below.

Question 1: Do you agree that the cost of acquired tangible and intangible research and development assets acquired in an asset acquisition should be capitalized, regardless of whether they have a future alternative use? Why or why not?

Answer: Yes. We agree that the theory for capitalizing the cost of research and development assets acquired in an asset acquisition should be the same as the accounting principles specified for the acquisition of similar assets in Statement of Financial Accounting Standards No. 141 (revised), *Business Combinations*, now codified in the FASB Accounting Standards Codification™ ("ASC") Topic 805, *Business Combinations*. It just simply makes more sense to have the same accounting principles apply, regardless of the form of acquisition, whether it is a business combination or an asset acquisition.

Question 2: Do you agree that contingent payment arrangements in an asset acquisition should not be recognized at fair value unless those arrangements are derivatives?

Answer: No. We are proponents that the current accounting principles dealing with contingent consideration for the acquisition of research and development assets acquired in a business

combination should be exactly the same as those proposed for the acquisition of research and development assets acquired in an asset acquisition with one difference. The accounting for contingent consideration should be the same, regardless of the form of payment, either a liability (i.e., cash) or equity. The acquirer should recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired asset and include it in the cost of the acquired asset. Any subsequent changes in the estimated fair value of the contingent consideration initially classified as a liability or equity should be remeasured to fair value at each reporting date until the contingency is resolved, with the changes in fair value recognized in earnings. We recognize that our position regarding the equity form of an acquisition may be a departure from current accounting standards found in the FASB Accounting Standards Codification™ (“ASC”) Topic 805, *Business Combinations*, but it simply makes sense to us to align the accounting treatment for changes in fair value such that the form of consideration, i.e., cash or equity, does not affect the accounting treatment for the initial cost of the asset and subsequent changes in fair value of the contingent consideration. Changes in fair value of the contingent consideration are changes in fair value. Those changes in fair value faithfully represent the ultimate economics of the value of the transaction to the parties involved, and should be reflected in the financial statements in a consistent manner.

Alternatively, as our preference, we would advocate a revision to current accounting standards to conform those provisions relating to contingent consideration associated with the acquisition of a business that can be specifically identified to the value of acquired research and development assets to those accounting principles found in this Proposed Update that prescribe that subsequent changes in the fair value of contingent consideration, when the contingency is resolved and the consideration is paid, shall be included in the measurement of the cost of the acquired research and development asset. Prior to the time when the contingency is resolved, no changes in fair value should be recognized until the binary event that triggers the contingent consideration occurs. However, disclosures regarding the likelihood of the contingency’s resolution and related contingent payment amounts should be included in the notes to the financial statements at each reporting date. For example, contingent milestone payments for the specific achievement of research and development milestone events, such as initiating or completing a Phase III clinical drug trial in a specified regulatory jurisdiction or receiving regulatory approval in a specific territory for a particular pharmaceutical product whereby contingent consideration can be specifically ascribed to the value of acquired research and development assets, should be remeasured to fair value when the contingency is resolved and included in the cost of the acquired research and development asset, rather than recorded as a change in earnings, assuming the contingent payment does not relate to the fair value of future services provided to the buyer by the seller. Where there is no clear evidence of the fair value of contingent consideration specifically ascribed to the purchase of the acquired research and development assets, such as contingent consideration based on earnings growth targets for an acquired business, then all future remeasurements of fair value for such general contingent consideration should be recognized in earnings.

Question 3: This proposed Update does not provide guidance for determining whether a contingent payment relates to future services or consideration for the asset acquired. Paragraph 805-10-55-25 provides guidance for determining whether payments made to the seller in a business combination after the acquisition date relate to the acquisition of the business or the

performance of future services by the seller. Do you believe that additional guidance is necessary for assisting in making this determination in an asset acquisition? If you believe additional guidance is necessary, please provide any factors that you believe should be considered in making this determination.

Answer: No. The guidance in ASC Paragraph 805-10-55-25 seems sufficient to us. The underlying contractual terms of an agreement to acquire an asset should specify the economic requirements for achieving contingent payments. Those economics will vary, so general examples will probably not address the types of transactions or services where professional judgment is most crucial. Accordingly, we believe accounting literature should just specify that the buyer, seller and their auditors use their professional judgment to focus on the economics and sort out an appropriate interpretation based on the actual facts and circumstances, according to the accounting principles already prescribed, and use appropriate analogies to other accounting literature, if necessary.

One final note regarding the comment period for this Proposed Update is that we would appreciate it if in the future you would not designate the majority of the comment period (i.e., the date between the Issued date and Comments Due date) during a critical closing and financial reporting period, in this case September 30 to October 26, 2009 for calendar quarter reporting entities. The current timing is not conducive to receiving a high number of thoughtful responses.

Thank you for your consideration.

Sincerely,

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