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Senior Vice President and Controller

October 26, 2009

Technical Director  
File Reference No. EITF0902  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
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Subject: Exposure Draft - Proposed Accounting Standards Update, Research and Development (Topic 730), Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition (A Consensus of the FASB Emerging Issues Task Force) (File Reference No. EITF0902)

To the Technical Director:

Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. We discover, develop, manufacture and market leading prescription medicines for humans and animals. The Company's 2008 total revenues were \$48 billion and its assets were \$111 billion. We appreciate the opportunity to respond to the Proposed Accounting Standards Update, Research and Development (Topic 730), Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition.

Our comments on the Proposed Accounting Standards Update are as follows:

**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?**

Response: No. We object to the proposed approach to capitalize the cost of acquired tangible or intangible research and development assets, regardless of whether they have future alternative use, based on conceptual and practical considerations. In the pharmaceutical industry, given the significant technological and regulatory risks associated with developing a drug and bringing it to market, most drug candidates acquired in an asset acquisition will have a very low probability of success and would not meet the definition of an asset under FASB Concept Statement No. 6: "*probable* future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Specifically, drug candidates typically would not have a

probability of success approaching “probable” until they reach late Phase III of clinical trials (60 – 70% likelihood of success). We do not believe that capitalizing an upfront payment as an asset with the expectation that it would likely be impaired and written off would represent an improvement in financial reporting. In fact, we are concerned about the effect that such capitalizing will have in misleading investors as to the quality of these types of supposed “assets”. We do not believe that all research efforts can be judged in a similar manner because of the varying technological risk, safety considerations and regulatory hurdles that different industries have inherent in their business models. For example, a software company may choose to put a product out with “bugs” and then fix it along the way while a pharmaceutical company must ensure safety and efficacy to the satisfaction of federal or international regulatory bodies. Further, when a potential drug candidate shows significant safety issues in clinical trials, it is not something that can be tweaked or fixed in some manner. Moreover, while we understand the thinking that a company is purchasing the property, so it must expect a return on that property and therefore capitalization should follow, we again believe that industries operate in different models which impact that line of thinking. In the pharmaceutical industry, most large companies have a combination of strategies to create a pipeline of future products across multiple therapeutic areas. Companies use funds to either perform in house research and development, purchase potentially viable candidates (in lieu of investing in their own development), purchasing other companies developed assets or invest in collaborations of potentially viable candidates. To fuel potential future growth (as it takes over 10 years to develop a product), companies essentially “trade-off” among the different strategies. Decisions around investment whether for internally developed candidate or purchased externally developed candidates utilize similar criteria and therefore internally or externally developed candidates are treated equally. The impact of capitalizing such candidates as “assets” intimates to investors that somehow the externally developed candidates have a higher viability than internally developed candidates when this is not true. The reality is that statistically it is more likely than not that these candidates will fail (and the earlier they are say pre-clinical, Phase I and Phase II, the more likely that they will fail) as proven out across the industry. Accordingly, we feel it is appropriate to account for research and development assets acquired in an asset acquisition under ASC 730 Research and Development (SFAS 2), i.e., expense the costs as incurred, unless there is alternative future use, and not capitalize as an asset.

In addition, the proposed Update would not fully address the inconsistency between accounting for research and development assets acquired in a business combination and research and development assets acquired in an asset acquisition. Business combination accounting under ASC 805 (formerly SFAS 141R, *Business Combinations*) requires that research and development assets acquired in a business combination be initially recognized and measured at fair value. However, the approach in the proposed Update is to be more of a cost accumulation model (versus fair value). For example, in a typical licensing arrangement the cost of the upfront payment for the asset would be capitalized and contingent milestone payments would be accounted for under current GAAP, e.g., ASC 450 (formerly SFAS 5, *Accounting for Contingencies*), recognized when it is probable a liability has been incurred and the amounts can be reasonably estimated.

More broadly, we object to a piecemeal approach to harmonize accounting for acquired research and development assets and believe that it should be addressed as part of an overall reconsideration of the accounting for research and development costs. We believe introducing piecemeal changes to accounting for acquired research and development assets will reduce decision usefulness of the financial statements and create confusion for investors and other users of financial statements as a result of increased income statement volatility.

**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?**

Response: Yes, we believe that contingent payment arrangements should continue to be recognized in accordance with existing GAAP. However, we do not agree that contingent payments should be capitalized and measured as part of the cost of the acquired asset unless that contingent payment occurs on or after probable future economic benefits are obtained by the entity, i.e., in the case of the pharmaceutical industry upon regulatory approval of the product. We note that contingent consideration is often negotiated as part of a deal as a contingent payment rather than an upfront payment due to a high probability that the acquired research and development will not result in a launched product. Therefore, it is inappropriate to capitalize an asset that is expected to be impaired in the future. For these reasons, we believe the most appropriate accounting treatment is that prior to regulatory approval of the product, the contingent payment should be expensed as research and development.

**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.**

Response: In addition to guidance in Paragraph 805-10-55-25, which we believe would be applied by analogy to asset acquisitions, the following factors should be considered in making the determination of whether contingent payment relates to future services or consideration for the asset received:

- ✦ The nature and extent of the continuing involvement of the seller in achieving the milestones;
- ✦ The stage in the research and development life cycle of the asset acquired.

Once again, we appreciate this opportunity to comment and encourage the EITF to continue to engage its constituents. If requested, we would be pleased to discuss our observations with you at any time.

Sincerely,

*Loretta Cangialosi*

Loretta V. Cangialosi  
Senior Vice President and Controller

cc: Frank D'Amelio  
Senior Vice President, Chief Financial Officer