3D ADVISORS

This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
✓ **Accounting**: Quality of Earnings Issues
Governance: Corporate Governance Issues

Insider Sales and IRS "Examination" Continues Allergan, Inc. (NYSE:AGN) Update

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Allergan, Inc. is a technology-driven, global healthcare company that develops and commercializes specialty pharmaceutical products for the ophthalmic, neurological, dermatological and other specialty markets. The Company is engaged in specialty pharmaceutical research, targeting products and technologies related to specific disease areas, such as glaucoma, retinal disease, dry eye, psoriasis, acne, photodamage, movement disorders, metabolic disease and various types of cancer. Within these areas, Allergan provides therapeutic and other prescription products, and, to a limited degree, over-the-counter (OTC) products that are sold in more than 100 countries worldwide.

Summary of 3DAdvisors Findings for AGN

- **Insider Trading:** Sales by three insiders come at an interesting time
- **Accounting:** IRS "examination" continues

Discussion of 3DAdvisors Findings

Insider Trading: Sales by three insiders come at an interesting time

An interesting cluster of three insider sales at Allergan (AGN) two days after the April 28th Q1 earnings release caused us to take a closer look at the sales and update our findings on the Company. The biggest seller was **Lester Kaplan (52)**, who is President of R&D and Global Botox. Kaplan dropped his largest-ever chunk (72,409 shares) at prices between $70 and $71 each. Another seller was **David Fellows (46)** President of the Europe, Africa and Asia Pacific regions. Fellows dropped 14,739 shares in the $70 range. It was his first sale since back in May of 2000. **Jacqueline Schiavo (54)** V.P. Worldwide Operations rounded out the group with a 24,351-share sale at $70.50. This followed up her February '03 sale of just over 21,100 shares (at $59.50 each). Prior to these, she had not been seen selling since August of 2001.

It is Kaplan's sale that has forced our renewed focus on the Company. Not only is he in charge of Botox R&D but also the sits on the board of Bardeen Sciences Company, an R&D company owned by a third party investor entity Farallon Pharma Investors which was discussed at length in our report of July 4, 2002. The first quarter release, issued two days before the insider sales, disclosed that Allergan was exercising its acquisition option for Bardeen (Subject to FTC approval) for between $250 and $260 million. More interesting was the disclosure that "Allergan anticipates that it will write-off substantially all of the purchase price as in-process research and development in the second quarter of '03." A 100% write-off? This looks like a throwback to the days before the SEC started clamping down on the use of excessive R&D write-off allocations in acquisitions. From levels over 80% and approaching 100%, these write-offs have since dropped to the 20% to 30% range. Allergan offered only that its auditors (KPMG) had "reviewed" the accounting treatment but stopped short of saying that it had approved of the planned write-off.

Accounting: IRS “examination” continues

As we discussed on our report of July 4, 2002, Allergan's '00 10K revealed, for the first time, that the federal income tax returns filed by Company and its domestic subsidiaries had been either audited and/or settled through statute expiration through the year 1995. The '00 10K goes on to say that: "The Company and its consolidated subsidiaries are not currently under examination".

Things changed during the course of '01, however, as the company subsequently indicated, in its '01 10K, that the returns filed by the Company and its domestic subsidiaries are under continued scrutiny: "The Company and its consolidated subsidiaries are currently under examination for years 1996 through 1999. The Company believes the additional tax liability, if any, for such years and subsequent years, will not have a material effect on the financial position of the Company."

The disclosure of the expanded IRS examinations has not changed and is being used, word for word, through the Q1 '03 "Q". Again, Allergan chooses to state that the financial position of the company should not be materially affected but offers no assurance that earnings effects, related to the "examinations" do not lurk.

The company still offers no explanation as to what this investigation centers on. We still speculate that their exposure lies in two potential areas. At first, we suspected that the examination may be concentrated on the large balance of $674 million of expatriated income (explained below) that the Company had not provided withholding and U.S. taxes for: "Withholding and U.S. taxes have not been provided on approximately $611.3 million of unremitted earnings of certain non-U.S. subsidiaries because such earnings are or will be reinvested in operations or will be offset by appropriate credits for foreign income taxes paid.

Upon further investigation, it would seem that the IRS could also be looking into the above-mentioned R&D vehicles as well (for full details, see our report dated July 4, 2002), especially in light of the increasingly inter-twining interests of Allergan and Farallon, and possible indications of insider information passing between the two entities. The persistence of the IRS efforts, which have continued for over a year could indicate that there is a risk that these IRS "examinations" evolve into full-blown investigations that could have spillover effects with other agencies such as the SEC.