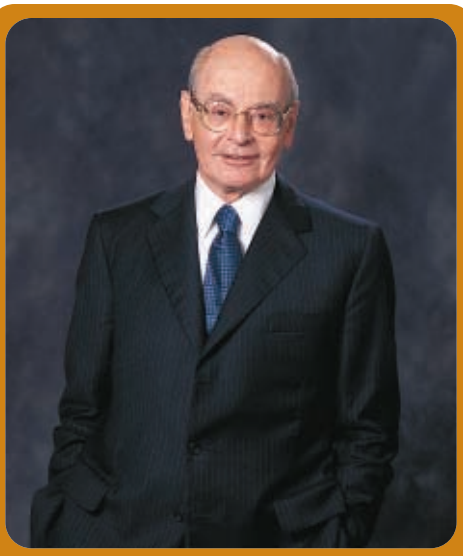
It was ironic to reread last year's report to Shareholders which described the stock market then as "manic", and one in which "remote possibilities were treated as if they were imminent certainties." As of this writing, the stock market, for the moment, is no longer manic. The down phase of its mood swings inevitably involves undervaluing real value just like the manic phase involved overvaluing speculations. The manic market blithely ignores expense-obscuring devices, like one-time write-offs that are not one-time, or non-recurring income that pretends to be recurring. The value market looks for good old-fashioned earnings.

At Forest, we believe our job as managers is to continue to create real and increasing value by achieving real and sustainable earnings growth, despite stock market gyrations. And we have to keep communicating our results and our strategies to investors so that we will be adequately appreciated when the market is in the mood to fully appreciate value. It is the sale of products at a profit, and the prospect of more products and more sales and more profits that determines real value. And that is where we excel, more this year than ever before.



Our 2001 fiscal year reflected four singular achievements: (1) highly increased sales and profits over the prior year;

# *Letter*
## *to our Shareholders*

(2) progress in the development of our existing pipeline products; (3) the continued expansion of our product pipeline; and (4) the maturing and validation of our basic corporate strategy for growth in the real value of Forest Laboratories.

In fiscal 2001 our sales were $1,175,000,000, an increase of 35% over the previous year as a result of increased sales of our two most heavily promoted products, Celexa™ and Tiazac®. Profits for the year were $215,000,000, an increase of 91% over the prior year. This year's expenses included payments in April in connection with the terminated co-marketing arrangement with Warner-Lambert in the amount of $23,500,000, which included a $14,000,000 termination payment. These results confirm that Forest, without assistance from anyone, can promote and sell its products on a scale comparable to the most successful companies in our industry. We cannot market as many products as the industry giants. But those that we market can reach their full potential in our hands.

Although Celexa is a product with a highly favorable profile for the treatment of depression, product

virtues do not produce sales unless prescribers are informed and reminded of them. And in markets with powerful competitors with immense budgets, it requires competitive budgets and super competitive skills and highly motivated representatives to convey product information. Celexa continues to gain market share every month, a trend that we expect may increase when generic Prozac becomes available this August and Lilly reduces or eliminates its competitive promotion. On the other hand, we had been expecting Tiazac to become available generically in our last quarter and were prepared to launch our own generic version. However the expected generic has not been approved. When and if generic Tiazac is available, our generic product will also be available.

With regard to new products, there is a great deal to report. The exciting pipeline products we reported on last year, with one exception, continue to progress. LU25-109, which we were developing along with Lundbeck, our Danish licensor and the drug's innovator, was not effective for incontinence in a Phase II study and has been dropped. On the other hand, the registration studies for escitalopram, the S-enantiomer of Celexa, have been completed and the NDA was filed with the FDA in March of this year. We therefore hope to launch that product by the middle of next year. In fact, Lundbeck is expecting approvals in some European countries over the next several months. We believe escitalopram is a major step forward in the development of products for the treatment of depression.

The role of the various neurotransmitters in mood and mental well being are infinitely complex and not well understood. What we do know is that the early tricyclic antidepressants, which affected several of the neurotransmitters, alleviated depression but caused significant undesirable side effects for many patients. That stimulated the search for drugs that were more selective in the neurotransmitters they affected in an attempt to identify and affect a neurotransmitter more related to depression and least likely to cause undesirable side effects. The search resulted in identifying serotonin as the best prospect, leading to the several selective serotonin reuptake inhibitors (SSRI's) that have benefited millions of patients since the original introduction of fluoxetine in 1988. But all of those products still affected some of the other neurotransmitters, albeit to a lesser degree than the tricyclics. Escitalopram appears to be the most selective of all the SSRI's, including Celexa itself, even though Celexa is already highly selective. Clinical studies indicate that a daily dose of 10 mg of escitalopram may be as effective or possibly even more effective than 40 mg of Celexa. Perhaps even more impressive, 10 mg is effective sooner, most often as early as one week. And those results are achieved with a low rate of side effects. No other SSRI is approved at a daily dose as low as 10 mg. These several benefits, clinically so very important, may be due to its extraordinary and unique selectivity, which allows for great potency and clinical benefit at such an unusually low dose, which is well tolerated. Quite simply, escitalopram is a unique product.

Escitalopram is one of the two isomers of Celexa, which means one of two molecules that are mirror images of each other and are present together in the racemate Celexa (citalopram HBr). Racemates are not easy to separate into their isomers, but when they are separated they can have very different personalities. It is as if the yellow and blue which make green, could be divided back into yellow and blue. Within each molecule, its shape and the position of the atoms are as crucial as the atoms themselves in defining the characteristics of the compound. Molecules interact with their environment and the interaction of each isomer with its biological environment, for example, where and how each binds to various cell receptors, can vary significantly. The precise differences in their biochemical effects at the cellular level may be obscure, but their differing biological effect, based on careful clinical studies, is very clear. Isolating the S-enantiomer of Celexa has resulted in a product that has several important patient advantages as compared to its parent racemate and represents therefore a significant advance in the treatment of depression.

Flunisolide HFA was filed with the FDA in April last year. It has been the subject of an approvable

letter from the FDA and we expect to launch the product when various regulatory issues are resolved, which we believe will take some months. What is unusual about the product is not the compound itself, which is the active ingredient in our product Aerobid®, but the formulation and delivery system which, remarkably, can achieve the desired level of symptom relief with one third the dose of Aerobid. This is because its new small particle size is distributed more efficiently throughout the lung, and particularly can reach the crucial small airways which have heretofore been inaccessible to other drugs, and because of the attached spacer device which directs the fine particles directly into the lung rather than the mouth and larynx. Aerobid, over the last several years, has lost market share to new entrants, and we hope this new product will enable us to increase our share of the growing inhaled steroid market.

This fiscal year we expect to file three additional NDA's, for which clinical programs have already been completed, a remarkable achievement for a company our size and a tribute to our Scientific Affairs Department and its regulatory group. These include our oxycodone/ibuprofen combination for moderately severe to severe pain, which we have been developing for several years. In addition, we expect to file NDA's for two other late-stage products licensed during our last fiscal year – lercanidipine, for hypertension and memantine, for Alzheimer's Disease.

Lercanidipine is a dihydropyridine calcium channel blocker (CCB) for hypertension licensed last year from Recordati S.p.A., in Milan, Italy. Forest, of course, has extensive experience and success in the cardiovascular field, having launched Tiazac, a diltiazem CCB, and building it up to almost $200,000,000

> *This year we expect to file three NDA's –*
> *a remarkable achievement for a company our size.*

in annual sales. There are several classes of CCB's. The dihydropyridines are the largest category of CCB's, with certain different characteristics from the diltiazem products. It is a category which is still growing, and based on the size and growth of the market, lercanidipine's particularly favorable product characteristics and Forest's experience in the field, we are optimistic about the potential for achieving sales in the hundreds of millions of dollars several years after the product's launch.

Memantine has the potential to become a very large product for us with its novel mode of action for the treatment of Alzheimer's Disease and neuropathic pain. Alzheimer's, like most diseases of the central nervous system (CNS), is still largely inscrutable. Memantine is an NMDA antagonist which may inhibit the death of neurons which results from the various biochemical changes that occur in the brain of patients with Alzheimer's. It apparently works by normalizing the flow of calcium into the neurons and thereby helping to preserve their viability. It does not cure that intractable disease, but it appears to substantially improve its symptoms even in patients with advanced dementia. Since it has a different mode of action from the drugs presently used to ameliorate the symptoms of Alzheimer's, we expect that it can be used separately or in addition to those drugs. Memantine has been used in Germany for Alzheimer's for over a decade where it is the leading prescribed product for that indication, and with minimal reports of side effects. We expect to file the NDA this fiscal year seeking approval for at least moderate to severe dementia based on two well controlled clinical studies. Given the novel indications we are seeking and

the unique design of one of the two pivotal clinical studies, we expect the FDA may seek guidance from its Advisory Committee in its review of memantine. In the meantime, we have begun three additional studies, which should be completed late next year. It is possible, therefore, that memantine could be approved early in 2003. We also will be commencing this year, a second study for memantine for neuropathic pain, another large and difficult to treat neurological disease. One successful study for that indication has already been completed and we might be able to file an NDA for that indication by 2003.

In addition to filing three NDA's for products with completed clinical studies, we will also be commencing Phase III studies this year for two other products that we licensed last year, representing an unusual abundance of promising late-stage products – more opportunities than many much larger companies have, even those with their own extensive discovery programs. ML3000 is our COX/lipoxygenase inhibitor for arthritis, and dexloxiglumide is for constipation predominant irritable bowel syndrome. Both involve novel modes of action for ameliorating serious and widespread diseases. We sometimes forget how complicated the body's functioning is because most of the time we seem to

*"Business strategy is like scientific discovery – a combination of eureka and plodding hard work."*

be able to use it the way we want. But it does what it does through intricate biochemical mechanisms, most of which are still quite mysterious to us, and so it continues to be possible to discover different ways of affecting its activity and, in fact, there are far more yet to be discovered than we already have discovered. ML3000 is a traditional COX-1 and COX-2 inhibitor, but it also inhibits the pro-inflammatory enzyme 5-lipoxygenase. In clinical studies completed to date, the combined effect was to relieve arthritis pain, without causing stomach ulcers like traditional nonsteroidal anti-inflammatories can sometimes do, and yet to maintain the advantage of inhibiting platelet aggregation which has shown protective benefits against heart attack and stroke and which the selective COX-2 inhibitors do not do. Dexloxiglumide treats constipation predominant irritable bowel syndrome in a totally novel way and it also has had successful Phase II results. If all these results are confirmed in Phase III studies, each of these products could become important therapeutic advances for patients and very large commercial successes for Forest.

In total, we completed four new product licenses during our last fiscal year, which represents a significant achievement, particularly in light of the quality and promise of these products. It also represents the perceived desirability of Forest as a licensing partner in the United States.

A company has to have a strategy for growth if it is to succeed as a publicly held company and benefit its investors and employees. Strategies, of course, do not emerge full-grown in one fell swoop, like Eve from Adam or Athena from Zeus. A successful strategy develops from collective experience, from the particular talent available within the company, and from accurate perceptions of what is happening and going to happen outside. And therefore it constantly mutates; it has to be both planned and opportunistic. And, of course, it has to be executed with skill and tenacity. Business strategy is really very much like scientific discovery, a combination of eureka and plodding hard work.

Our strategy, for the time being – because it is working so well – is based on the following principles: (1) So far, we have licensed our products and not been active in discovery research because of the plethora

of desirable licensing opportunities that are available, often from smaller specialized companies or foreign companies, in either case who lack the capacity to fully develop or market their products themselves in the United States, which is still the largest, but also the most expensive and most difficult market in which to operate. We evaluate literally hundreds of opportunities for the few we conclude. Some we have considered we would have liked to obtain but could not, and some we declined and now regret. Where we have concluded licenses, we have established successful partnerships and so we have a continuing array of products available from our existing partners who most often are highly skilled in specialized areas.

In our last quarter we concluded a co-development agreement with Merz + Co., our licensor for memantine, for neramexane, an early stage NMDA antagonist that is being explored for several indications. Memantine, itself, is also an NMDA antagonist, and Merz is a pre-eminent researcher in that highly important and difficult CNS area. And we continue to review opportunities resulting from the productive research at Lundbeck. All pharmaceutical companies, including the largest, depend on licensing as well as on their own discovery research. Some of the largest depend most heavily on licensing. Although we do not do original discovery research, we are partnering earlier and earlier in the development process, as we are more able to afford larger research budgets and somewhat greater risk. And at some point it is possible that we will cross the line into our own discovery research, which is still the riskiest and takes the longest time to be productive. It is of absolutely crucial importance that we maintain a large and expanding pipeline of products at various stages of development. We all recognize that not every product will be as successful as it promises. Some may exceed our expectations and others may fail altogether. We must not permit ourselves at any time to be dependent only on one prospect. If all the products in our pipeline were to achieve all the success they promise, we would explode with riches. If only some achieve some of their promise, we and our investors will still be enjoying significant growth.

(2) We have to be equal or better than the very best in the scientific development of those product opportunities – meaning taking the product out of the test tube or at any later stage through to approval and beyond, and having the scientific and regulatory skill to formulate, clinically study and accurately and efficiently determine and present the product's virtues and its limitations to the regulatory authorities and to practicing physicians in the United States. This facility is often more demanding and more important than the original discovery research, and it is our excellence in this area that also attracts licensors.

(3) We have also to excel in the ability to communicate with physicians about those products. That is certainly not becoming easier, because physicians are working harder and have less time to listen, and because there are so many new developments in drug therapy that it is increasingly difficult for physicians to keep informed, and finally because there is so much more competition for the physician's limited listening time. As a result, there are more and more pharmaceutical representatives eager to see physicians and promotional efforts have even overflowed into promotion directly to patients – an area that raises questions of effectiveness, and sometimes I believe, of propriety. Nevertheless, we have to, and demonstrably do, market our products at least as successfully as anyone in our industry, and we must maintain and grow that capacity.

(4) We believe smaller is better if it is big enough to achieve those first three objectives, because it offers greater percentage growth to our investors – something that our history has validated – and because it motivates and rewards our employees on whom our success depends in the first place. And therefore we are not disposed to mergers and acquisitions in one direction or the other. We certainly intend to remain independent and any acquisitions we have seen in recent years have not matched strategic benefits or earnings benefits with cost or dilution. We prize our shares and cash and future very highly, and are not likely to compromise them with the boom predictions that often accompany acquisition opportunities.

All of these objectives have to be balanced against a budget that meets and exceeds investor's growth expectations so that we can maintain the glory of higher earnings and a high price earnings ratio when the market is inclined to confer its ratios based on actual and reliably predicted earnings growth. We revere budgets, and we spend perhaps an inordinate amount of time developing them and monitoring performance against them. Of course, growth does not come without expense. The launch of a new product requires pre-launch and launch expense and it is usually at least a year before sales generate enough gross margin for a new product to contribute to earnings. And the same is true for salesforce expansion, where experience shows that it can also take at least a year before a representative generates and maintains enough sales to cover his cost. Those expenses have to be melded into the profits from other products for the period, even if it is brief, until each new product, in turn becomes profitable.

Our industry is sometimes celebrated for its scientific achievements and the wonder that new drugs achieve in improving human health and longevity. Government, universities and private research laboratories contribute the smaller part to those remarkable advances. But more often these days we hear complaints by the media, by politicians, by advocacy groups, about pharmaceutical prices, complaints that are often unfair and misdirected. The pharmaceutical industry contributes more to human well being – to health and longevity, to the relief of pain and misery and ultimately to human

*"We believe smaller is better if it is big enough – it offers greater percentage growth to our investors."*

happiness than any other industry. It is also true that the pharmaceutical industry has relatively high profit margins. The connection is not accidental, nor is it a divine reward. It is because pharmaceuticals can be so beneficial that they are not so easily dispensable. No one has to buy a Rolls Royce. Everyone wants to be relieved from the pain of arthritis or heart disease or depression. And it is because for the brief period the law allows exclusivity – which it has to, or there would be no products in the first place – market conditions permit higher pricing, as they do for any other industry. When that exclusivity expires the same market conditions price pharmaceuticals at commodity prices. And so in order to obtain higher profit margins, the pharmaceutical companies have to keep producing new and better products – at great cost and risk. And if they are successful, that benefits patients and the manufacturer. Sometimes the new products are great strides forward, with wonderful patient benefits. Sometimes they are minor and not worth the price, and more and more the customers, like HMO's, are wise to the difference. It is absurd to suggest that there is some villainy in pharmaceutical companies developing and marketing new products. Of course there are some marketing excesses and abuses as there is in the periphery of most of what we do, because we are all imperfect and not entirely altruistic. On the other hand, the physicians who prescribe and managed care which pays are more knowledgeable and sophisticated than the customers for many other products promoted and sold to the public, and the claims that pharmaceutical companies can make for their products are closely regulated by the government. The fact is that if the overall cost of pharmaceuticals is increasing, it is due more to the increased benefits they confer and the increased longevity of their beneficiaries, which in turn is offset by the reduced and deferred cost of more expensive care in hospitals and nursing homes. And, frankly, if after all the accounting is done, if there is nothing left on the bottom line except increased costs and longer and healthier lives, what is wrong with that?

Of course, pharmaceuticals should be available to anyone who needs them and cannot afford them, just like housing and food. But it is all of us, the entire community, that has the responsibility to provide those necessities to those who need them, not alone the companies that produce them.

The benefits to patients of pharmaceutical products are sometimes obscured when viewed on an overall basis. They can be immensely moving in individual cases, as in the following letter which we recently received, and which all of us at Forest found deeply gratifying.

***"To the makers of Celexa:***
***I'm a 16-year old student from Nashville, Tennessee. I just wanted to personally thank you for what I now refer to as the miracle drug, Celexa, you have so kindly concocted. A few months ago my mother was in horrible shape. She cried herself to sleep every night, and could never seem to make her mind stop worrying about every little thing that happened in her life. She was getting an average of two hours of sleep a night for almost two years because of the stress she had to endure, oh the stories we could tell. She has been taking Celexa for about a month now, and I can see such a drastic improvement. I have my mother back, and there's no way I could ever thank you enough for what you've brought me. She's happy now. She's laughing again, and just to see her smile means the world to me. Taking this pill is helping her learn to cope with everything that's going on around her, and I could never thank you enough. You probably find it odd that I'm writing a letter to thank you for this, but I had to do something. You deserve all the thanks the world could ever give. Thank you again."***

I always end these reports by referring to our employees – not because they are the least important part of our success and message, but because they are the most important part. Those of us who communicate with investors well know that visibility does not necessarily equal achievement. We have employees at all levels, most of them invisible to investors, and often to most of their coworkers in other functional areas, whose intellectual gifts and the quantity and quality of their performance are really the reason for our success. How else could we have achieved the sales, the regulatory filings and the product opportunities that are ultimately reflected in our financial statements? This report is one opportunity to acknowledge their importance and to express our appreciation to them. Their talent, loyalty and enthusiasm are our most precious assets.

Sincerely,

Howard Solomon
Chairman and Chief Executive Officer

***Howard Solomon***
Chairman and
Chief Executive Officer

***Kenneth E. Goodman***
President and
Chief Operating Officer