I am sometimes asked why Forest has been so successful over the years, so that twenty year or ten year or five year or even more recent investors have enjoyed unusually large share price appreciation, superior to the several indexes that monitor the markets in general or various specialized market segments including pharmaceutical companies. And several times I have been told that one or another company has decided to follow the Forest "model" as if there were a formula we followed that made it all happen.

Of course, like everybody else, we spend most of our time thinking and doing and worrying, and hardly any at all just looking at ourselves. But there are a few generalizations that while they are not startlingly original, do at least describe in overview how we came to where we are and therefore where we may be as we proceed forward. The overriding insight, of course, is that strategy is one thing; execution is what makes any strategy a success or a failure. There are multiple strategies that can work in almost any enterprise if they are wise to begin with and are skillfully adjusted and executed as they proceed. And, of course, no strategy will work without hard work. Recent chemical analysis confirms that the stains that are rampant throughout the famous Beethoven workbooks are simply his own sweat.

There are however two identifiable major strategic paths we have followed. The first is that our growth has essentially been generated internally although our products are generally licensed at one stage or another from other companies. We have made only two acquisitions early in our history: O'Neal, Jones & Feldman in 1984, and UAD in 1989. Both transactions were primarily to acquire highly skilled salesforces. Between them we acquired 200 representatives and managers, the beginning of our salesforces which now total over 2,800 representatives and managers. We did not acquire those companies for the products they were selling, which were essentially branded generics and in most cases are no longer sold by us. But, fortunately, we still have most of the superb sales people we acquired, some in very senior positions at Forest.

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All the rest of our growth, including the growth of our salesforces, has been internal. We have never acquired companies just to be bigger. We believe that beyond a certain point size is no advantage. Indeed, size can be a disadvantage, aside from swelling management egos. It is always possible to articulate a rationale for an acquisition or merger and even obtain a favorable share price reaction in the short term; the long-term benefits have proved in so many cases to be evanescent while the damage is often quite tangible. To say that we have grown internally means that we have grown incrementally – no step too large to be adjusted or reversed. Giant steps, like major mergers or acquisitions involve large uncertainties and irreversible commitments. They often have the appearance of a quick solution which turns out not to be a solution at all. Too often the siren song that tempts such projects is oversized ambition or desperation.

Nevertheless we actively and eagerly look at any way we can achieve real growth – real, not paper or public relations growth, and acquisitions are certainly one possible source. However we are very sensitive to shareholder value and are cautious about share dilution and its effect on share earnings and value. Becoming gigantic or exhilarating in a short lived spurt in our share price are not the objectives we think serve shareholders, or our employees, the best.

That does not mean we are risk adverse. Risk is part of our business, much more so than many people outside our industry realize, and it is reflected in the millions lost in research and development projects that are unsuccessful and in the acquisition cost of rights to products that fail. We have to and do cheerfully take the biggest risks we can responsibly afford.

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Secondly, products are of course the source of growth in our industry and our approach has steadily evolved over the years, out of necessity as well as wisdom. All our products were acquired from someone else. We still do not create new molecules, although by now we can take new molecules all the way from the test tube to FDA approval. Originally, we only acquired products already approved in the United States because that was all we could afford or knew how to do. Then we acquired products approved in Europe that had dossiers that were a starting point for a filing with the FDA. And then we acquired products already in Phase III, then Phase II, and then products in the preclinical stage that had not yet even been tested in man. And in our transaction with ChemoCentryx we acquired rights to a program to develop molecules for a wide range of indications related to inflammation and autoimmune diseases.

To enable us to go further and further back in drug development we have built up a scientific group of over 700 highly skilled scientists and research staff, having started virtually from scratch. The further back we go in developing products, the greater the risk, and the longer the time to completion. That is the cost of a wider span of opportunities which we must have and which we now can afford and will do more of in the future. At the same time we continue to pursue product acquisitions in the latest stages of development, like milnacipran which we acquired rights to this year and which is already in Phase III. The only thing holding us back from building our own basic discovery capacity is the availability of so many companies doing brilliant creative chemistry that are eager for partners like us because of our proven development, regulatory, marketing and selling skills.

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And so, all our growth, in products and in science, marketing and sales, has been internal, which has been rewarding to shareholders and to employees, and which provides us with a solid employee and financial foundation and layers of skill and management to assure continued growth.

Turning to our last fiscal year, one of our singular achievements of the year was the approval and launch of Namenda, for Alzheimer's disease. It is unfortunately not a cure for this scourge, but it provides a respite, perhaps a modest slowing down of the cognitive deterioration and functional loss of Alzheimer's patients.

For some patients the relief is tangible and apparent in a short time. For others it is less immediately apparent. But well controlled placebo studies prove that it actually slows the symptomatic decline of the disease. Namenda may become a major product for Forest. Perhaps as the mystery of the brain is unraveled - if the brain can unravel itself - better solutions may be found, but for the moment Namenda may be the best there is for many patients.

When dealing with the brain, it is fair to say that although there are a plethora of theories to explain its functioning, its chemistry is infinitely complicated, experimental data is hard to generate, and no really reliable animal models exist for many neuropsychiatric conditions. The brain is probably the most complex system we know of except for the universe itself. We do know that Namenda is a NMDA receptor antagonist, among other things, and that the NMDA receptor regulates much of the neurons' chemistry including glutamate activity and calcium levels within the neuron which affect neuronal viability and function. Alzheimer's ultimately is the death of certain neurons through disruption of the cells' essential chemistry. It is also theorized that one of the additional benefits of NMDA receptor antagonists such as Namenda is that they may enable neurons in Alzheimer's patients to produce or maintain a more natural balance for some period of time of the neurotransmitter, acetylcholine, which is believed to contribute to the transmission of signals from one cell to another. If that is so, then the cholinesterase inhibitors, which act by inhibiting the breakdown of acetylcholine, may augment the benefits of memantine. That might be one of the reasons a recent clinical study shows that memantine taken together with a cholinesterase inhibitor has significantly increased clinical benefits over the cholinesterase inhibitor when taken alone.

Regarding our antidepressant franchise, there are now more new prescriptions written for Lexapro than for any other antidepressant, except for one, and based on existing trends, we expect that during this fiscal year, Lexapro may become the leader in new prescriptions. And that means within some months thereafter Lexapro may become the leader in total prescriptions. The success of Lexapro is due to its inherent virtues. We have comparative clinical studies which demonstrate its advantages, either in efficacy or better tolerability, or speed of onset against the other marketed antidepressants.

There have been discussions recently about the possibility that SSRIs may increase suicidality in pediatric or adolescent patients. The suicide of a child is of course the most terrible tragedy. And the possibility of a child's suicide is a frightening terror for the family. Too many of us are familiar with those events. It is well known that suicide is the second largest cause of death among people of college age. We believe that the studies and experience with our products, Lexapro and Celexa, do not indicate any increase in suicidality in those age groups. Even though our products are not currently approved or marketed for adolescent or pediatric use, we gladly worked with the FDA on labeling that encourages physicians and parents to observe depressed children carefully to assure that they do not act on a suicidal impulse. On the other hand, the benefits of the SSRIs for depression are so well established for so very many people, that it would be unfortunate if those who could benefit were discouraged from availing themselves of that benefit.

Another of our premium products is Benicar which we co-market with its innovator, Sankyo Pharma. It, like Lexapro, is clinically the best in its class, meaning it achieves greater blood pressure reduction and minimal side effects. It continues to gain market share and will become an important source of profit for us. We have been increasing the amount of effort behind it as its virtues in controlling blood pressure become more and more accepted by physicians and patients. The class to which it belongs, angiotensin receptor blockers, is the fastest growing class of antihypertensives and Benicar is the fastest growing product in the category. Market data indicates that almost as many new patients are being prescribed Benicar as the leading product in the category. We are deeply committed to our partnership with Sankyo which is operating so smoothly and successfully and is a model for the kind of collaborations we welcome.

We have three products currently under review at the FDA, Combunox (for pain), Aerospan (for asthma) and Acamprosate (for alcoholism) which may be approved in our current or next fiscal year. Each of them, if approved, can add significantly to our profits, and contribute to our continued growth.

...during this fiscal year, Lexapro may become the leader in new prescriptions, and eventually in total prescriptions.

And then we have a promising range of products in development from milnacipran in Phase III to the anti-inflammatory program with ChemoCentryx which is still in preclinical studies, and a number of projects in between. We continue to develop lercanidipine for hypertension, dexloxiglumide for gastrointestinal disorders,

memantine for neuropathic pain, and neramexane for a wide range of CNS indications. We are very busy with existing projects, and, of course, identifying and negotiating for new product opportunities. We have not witnessed any diminution of licensing opportunities for us, although we are aware that some of the major pharmaceutical companies are more actively engaged in attempting to license products than they may have been heretofore. We have a skilled department and process that develops and reviews up to 200 opportunities every year. Many are premature, have limited chance of success or market potential, or may be too expensive for the anticipated return. A few get away from us which is the way it has always been. But we are regarded as a choice development and marketing partner because of our record of success and the high quality of our partnership relationships, and in that connection, our size has usually been a significant advantage. Milnacipran, licensed from Cypress Bioscience, Inc., is for the treatment of fibromyalgia, a disease in which patients experience inexplicable pain, apparently caused by malfunctioning neurons sending pain signals to the brain, although there are no discernible objective causes for the pain. It is estimated that 5.2 million people suffer from fibromyalgia in the United States. No drug is approved for its treatment, although several drugs are used off-label to ameliorate its symptoms. Milnacipran has successfully completed a Phase II study and is currently being tested in a Phase III program.

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If that program is successful, milnacipran could be the first drug approved for this serious illness. The drug candidates being developed by ChemoCentryx are designed to interrupt the cascade of biological events that cause inflammation which, in turn, is the basis for a whole range of symptoms and diseases, including auto-immune diseases such as arthritis and multiple sclerosis. It is possible that inflammation may even have a role in Alzheimer's disease. The body's inflammatory response is designed to protect the body from infections and to accelerate healing, but can be destructive to the body itself when it is inappropriately or excessively signaled. Although the program is early, it represents the cutting edge of an approach to dealing with a whole range of serious illnesses.

I want to comment on the media and politicians' barrage against the pharmaceutical industry which continues unabated, even augmented, during this election year. It is apparently easier to harangue pharmaceutical companies than to achieve the more difficult task of designing and effectuating and funding a really effective healthcare system. We all agree that everyone in this country should have access to the best medical care possible, and that if anyone cannot afford it, it should be provided by the community, i.e. the government. But reality begins with recognizing that good healthcare is very, very expensive, requiring skilled and highly trained physicians and scientists and hospitals equipped with awesomely expensive equipment. It requires increased use and discovery of diagnostic technology and innovative surgical interventions. And it requires creative researchers to discover the techniques for understanding and treating the ills we are all subject to, including discovering the drugs that can favorably affect our body's chemistry, since we are all no more or less than infinitely elaborate chemical mechanisms.

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And so, healthcare is inevitably becoming more and more expensive as research and diagnosis and treatment and knowledge increases, and people are able to live so much longer with more fulfilling lives and require more and more healthcare. Unless we decide to eliminate the sick, the handicapped, the elderly and accept some maximum survival duration, or unless we stop looking for ways to delay or avoid or treat more illnesses – all, of course, unthinkable – the trend of increased healthcare cost is going to accelerate. Every breakthrough in treating diseases increases longevity and exposes more and more people to other systemic failures and to the frailties of old age caused by the deterioration of a species not designed to live so long. Alzheimer's was hardly a disease at all when the average life expectancy was 45 years. It is possibly the case that Louis Pasteur and Arthur Fleming are more responsible for the higher cost of healthcare than any other duo in history. The truth is we are not really trying to improve healthcare, because while science is progressing, we begrudge the resources to make that progress widely available.

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Pharmaceutical profits do not curtail healthcare benefits. Limiting or even eliminating pharmaceutical profits altogether would make a barely perceptible dent in the cost of healthcare. The media and the politicians, through ignorance or craft, divert us from the real cause, which is our insufficient allocation of national resources. And so HMOs are being sued and criticized because they are not paying for some medical costs when they hardly make any profit or make no profit at all, as if greed or indifference were the problem when lack of resources is really the problem. Likewise many physicians are overwhelmed and underpaid and many hospitals are financially strained.

Of course there are inefficiencies and of course we should try to eliminate them as much as possible. But everything we do has some inefficiencies and we will doubtless be fighting inefficiency forever. But in the meantime we have to function, and while we are trying to be more efficient we have to provide adequate healthcare, knowing and accepting that there is going to be some waste no matter how hard we try.

Of course everything that every pharmaceutical company does is not above reproach. Flaws are ubiquitous and we make progress by caviling at each other's flaws. But considering the risk and cost of pharmaceutical research, the inestimable value of what results, the wide and increasing availability of generics, the short period of exclusivity for new or patented products, the cost of informing physicians about new products, pharmaceutical profits are not outside an acceptable business range. Viable pharmaceutical companies are a major part of the solution to the prevention and care for human diseases. Without patents and profits, there would be fewer solutions.

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It is true that American pharmaceutical pricing is supporting research worldwide, that Canada, for example, reaps the rewards of American research and does not pay its share of the cost. It is a free ride for Canada and if Canadian pricing were extended to the United States, American research would adjust to Canadian levels, which is to say, there would be hardly any research at all. Canadian pricing is similar to generic pricing. Generic companies serve a valuable function, but they do not produce new solutions.

Elderly people, all people, should be able to stay at home and obtain the medications they need and not have to travel to Canada or any place else for drug bargains, and pharmaceutical companies in the United States should receive the pricing for their drugs that enables them to do research which Canadian pricing would obliterate.

When I interview candidates for employment with us I tell them that we have an environment that tries to be civil, respectful and appreciative, that values families and integrity and personal fulfillment, but also that requires people to work very hard and very skillfully. It is our employees who ultimately, make and test our strategies and insights and inventive thinking. They over the years have made us a successful company. I say it all the time and it continues to be true that our employees above all are the ones to whom shareholders and management are most indebted. It is truly humbling to see the scope and skill of their individual and combined achievements.

Howard Solomon
Chairman and
Chief Executive Officer

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President and
Chief Operating Officer