

Perhaps it was always that way, but it does seem today that we are inundated with bright young men and women, and some not so young, who are delirious to get as rich as possible as fast as possible. And they are incorrigible – as soon as the balloon breaks, they blow up a bigger one – with new technology that transmits information at the speed of light, because they just can't wait longer than that.

Of course, there are many serious business people building and running companies, trying to make better products more efficiently, and to market them to customers who can use them. And, of course, there are investors and bankers who service and understand business operations and have the patience and vision to serve and commit to serious operating businesses.

But sometimes the impatience of the too eager to get rich right away group infects the atmosphere, so that serious companies too eager to please them compromise their serious purpose by, for example, making a massive acquisition that is presented as a promise of virtually imminent manna, which disappears if you use a sharp pencil in the back room while the boisterous celebration party is underway up front. It is fascinating to observe some of the highly visible massive transactions performed over recent years and observe how often there are inadequate rewards for the vast investment and management commitment they entail.

Of course there are smaller and better ways to shine a brighter light on a company's operations without a massive acquisition, but the big deal still seems to intoxicate some managements. Which is not to say that some big deals may not sometimes be salubrious. We, ourselves, have been looking eagerly and fruitlessly so far and will continue to do so, but for us it must be a very wise transaction indeed, particularly if it involves a too heavy risk for our company itself. But several transactions, each less than massive can achieve the same objective with diversified risk. The objective always is to increase our earnings, immediately, if possible, or in the near future, and to increase markets for our products, and to acquire products from innovative research that might not otherwise be accessible to us. We have even looked at acquiring a significant interest where the putative partner is too large and a smaller interest would accomplish our purpose. No one should doubt our vigorous activity and our confidence that our large working capital will be used to increase the value of our company. Buying our shares, of course, is another way of increasing our earnings per share, but that technique has both its virtues and limitations.

And of course, the cost of acquiring and developing new products has increased significantly because of increased competition and also because we have the desire, and now the skill, to acquire products earlier in their development and take greater risk where the potential reward justifies. Those projects require substantial commitment, but they could, perhaps, enable us to acquire novel and valuable products.

Certainly we are not the only company that tries to run a sound and profitable and increasingly successful business, and tries to tell our story through the haze.

But being in the pharmaceutical business, we also have to deal with the obfuscations that our industry especially faces, and that is the greed of plaintiffs' attorneys and the sometimes inadequately informed politicians. The pharmaceutical industry has achieved miraculous victories that benefit all of us in the battle against nature's billions of years of evolution that has created our defective bodies and placed us in a world that constantly imperils us while every other part of it also struggles for its own survival. But, nevertheless, despite our remarkable achievements and astonishing benefits, pharmaceutical companies seem especially vulnerable to extravagant claims based at best on grossly exaggerated and often on totally fabricated events articulated in a constant barrage of lawsuits and some irresponsible political and media assaults.

Most recently one of the mantras that has arisen in the healthcare debates that is often articulated is that the healthcare system is inefficient – as if every other part of human endeavor were not equally or more inefficient. When, in fact, everything is inefficient because our species is woefully flawed and we are ambitious beyond our capacity to be efficient. In fact, nothing is more inefficient than government itself which is inevitable in a functioning democracy. Waste is ubiquitous, and unless evolution takes a new turn, unavoidable heretofore, now, and forever. Which, of course, is not to say that we should relax and relish inefficiency; we should battle it and try to limit it whenever we can, but with realistic evaluation and expectations. Above all it is important that "efficiency" should not mean reducing the quality of medical care, which, in fact, is already happening.

Our job at Forest is to serve our company and our shareholders and so while we rail against plaintiffs and politicians, we do what we have to do, continuing to achieve patient benefits fighting the diseases and our own biological defects that plague us, which ultimately is what benefits our shareholders most.

As for our own operations, we are not at all unlike many other companies in our industry in facing patent expirations over the next several years. We will lose our

exclusivity for Lexapro in 2012 and for Namenda in 2015. However, we are unlike many other companies in that we have an impressive pipeline of products that we believe will replace and exceed the sales of those products.

On March 3rd, this year, together with our partner AstraZeneca, we closed the acquisition of Novexel, a French company. Until then our only relationship with Novexel was that we had licensed the worldwide rights, subject to a significant royalty, to their beta-lactamase inhibitor, identified as NXL104, to be used with ceftaroline, our antibiotic which we had purchased in 2007. Beta-lactamase is an enzyme secreted by some bacteria that destroys antibiotics, and therefore we anticipate that combining an effective beta-lactamase inhibitor with ceftaroline will broaden the range of the drug's effectiveness.

Ceftaroline was originally discovered by Takeda, a Japanese company. After completing clinical studies we filed a New Drug Application (NDA) in December 2009. Our studies demonstrate that ceftaroline is a cephalosporin active against Gram positive and some Gram negative pathogens, including MRSA, (methacillin resistant Staphylococcus aureas), and MDRSP (multidrug resistant Streptococcus pneumoniae) two of the most common pathogens that lead to hospitalization and mortality. Based on our clinical studies, it may also be active against the most common infections treated in hospitals – community acquired pneumonia and what are called "skin and skin structure infections".

This year we will be initiating Phase II studies of the combination of ceftaroline with NXL104 in order to further expand the range of pathogens it is effective against. Bacteria are very clever, and they keep developing mechanisms which immobilize or destroy our antibiotics. Not that they stop and think about it. It's just that they mutate and reproduce so rapidly, so that when they hit on a mutation that enables them to defeat antibiotics, the mutation flourishes while the vulnerable bacteria diminish. As of now, beta-lactamase is the most common defense Gram negative bacteria have which is why NXL104 is potentially so useful.

Acquiring Novexel also eliminates our obligation to pay any royalties on sales of ceftaroline NXL104 whether by us in the United States or on sales by AstraZeneca, our licensee, outside the United States.

As part of the acquisition of Novexel, we also acquired the rights in the United States, free of any royalty, to an additional antibiotic, ceftazidime NXL104. Based on microbiology studies, ceftazidime combined with NXL104 may be highly effective against several dangerous and difficult to treat Gram negative bacteria such as Klebsiella pneumonie and Pseudomonas aeruginosa. However, not all such Gram negative bacteria that cause those diseases produce beta-lactamase enzymes and therefore they can be killed by other available drugs. But the prevalence of the bacteria producing beta-lactamese enzymes is steadily increasing as the bacteria that do not have that defense are reduced by antibiotics and the bacteria with extended spectrum beta-lactamases proliferate. We therefore expect ceftazidime NXL104 to become a very significant antibiotic for serious hospital infections.

Ceftazidime NXL104 is presently being studied in two Phase II studies, one for complicated intra-abdominal infections and the other for complicated urinary tract infections, which are serious and potentially fatal hospital infections. We believe that our group of hospital anti-infectives, consisting of ceftaroline, ceftaroline 104 and ceftazidime 104, can become an important part of our growth and contribute substantially to replacing the loss of products facing patent expiration.

The third benefit we acquired in the acquisition of Novexel was the right to use NXL104 in combination with any drugs we determine for sale in the United States. AstraZeneca has the rights outside the United States. That is a program presently being explored by both companies.

In addition to our anti-infective group of drugs we have a number of other products, both recently approved and in later stage development. In 2008 we launched Bystolic, a cardio selective, vasodilating beta-blocker

which in its second year achieved sales of \$179 million dollars, and in the fourth quarter ended March 31, 2010, achieved sales of \$53 million. We expect it to continue its sales growth. And in 2009 we launched Savella for the treatment of fibromyalgia which in its first year achieved sales of \$52 million dollars. Based on existing trends we expect it to double its sales in the current fiscal year and continue to grow in subsequent years.

We have two products already submitted to the FDA for which we are awaiting approval, roflumilast and ceftaroline. The NDA for roflumilast, a novel anti-inflammatory for the treatment of COPD (chronic obstructive pulmonary disease) was filed with the FDA in July 2009. We licensed it last year from Nycomed, a Swiss company. The FDA, in its review, has asked for some additional data which we believe we can provide and we therefore anticipate the product will be approved.

COPD is a serious disease which is chronic, debilitating and can be a fatal condition. Roflumilast is unique in two ways. It is taken orally whereas other common COPD treatments usually require the use of an inhalation device. It also has a novel mode of action. It is a PDE4 inhibitor, a new and useful way to deal with the inflammatory component of COPD. We hope that roflumilast and ceftaroline, both of which were filed with the FDA last year, will be approved this year or early in 2011.

In 2011 we expect to file two additional NDAs. One will be for linaclotide, which is being developed for the treatment of chronic constipation and irritable bowel syndrome. We have completed two successful Phase III studies in chronic constipation, and we expect to have results of the irritable bowel syndrome studies later this year. A product for similar indications had reached approximately \$600,000,000 in sales before being withdrawn several years ago for safety reasons. There is no other product on the market with linaclotide's unique mechanism of action. We licensed it from Ironwood Pharmaceuticals, Inc., an American company located in Boston.

The other product we hope to file a NDA for in 2011 is aclidinium, an inhaled product for COPD with a different mode of action than roflumilast. Aclidinium is a long-acting muscarinic antagonist and bronchodilator, whereas roflumilast is an anti-inflammatory, so that their action is complementary and not at all competitive. The only other long acting product with a similar mode of action to aclidinium already has annual sales of over one and a half billion dollars. We believe aclidinium has certain unique features, including the Genuair device, a particularly patient friendly dry powder inhaler. Aclidinium is licensed from Almirall, the largest domestic pharmaceutical company in Spain.

In 2012, subject to the outcome of ongoing Phase III studies, we expect to file two additional NDAs, both in the CNS area, cariprazine and F2695.

With cariprazine we are currently enrolling patients in Phase III studies in schizophrenia and in acute mania, based on our successful Phase II studies for both indications. We are also conducting Phase II studies in bipolar depression and as adjunctive therapy in major depressive disorder.

Cariprazine is uniquely active at both the D2/D3 dopamine receptors. We licensed it from Gideon Richter, a Hungarian company, and one of the leading companies in Eastern Europe. Schizophrenia and acute mania are very large fields with several products already approved with sales in excess of a billion dollars. There are well-established drugs in this field, but all of them have their virtues and shortcomings. There is always an opportunity for another drug, based on a different molecule, that has different clinical characteristics which makes it the choice drug for many patients. For example, so far cariprazine appears to cause only minimal weight gain at doses which clearly reduce symptoms in bipolar mania and schizophrenia. Weight gain is one of the problems with drugs in this class. Cariprazine may have other patient benefits presently being explored. Therefore we expect cariprazine may achieve a significant share of this enormous market.

Not being first is unimportant, so long as a new product has its own personality and the market is a large one. For example, our product Celexa was the fifth SSRI when it was introduced in 1998, and it achieved annual sales of one and a half billion dollars.

F2695 is a drug for depression, a SNRI, not a SSRI like Lexapro. Thirty percent of the depression market now consists of SNRIs and we want to have a part of that market. A large, impressive Phase II study indicated that our product substantially reduced depressive symptoms and therefore may have a significant role in treating depression. We are now in Phase III. Of course we think we are especially qualified to develop and market an antidepressant. The product was developed by Pierre Fabre, a French pharmaceutical company. As with schizophrenia, there is always room for another product if it has enough benefits for enough patients. In depression no product - not even Lexapro - always works or works best for every patient. We believe F2695 may have certain unique features for many patients which are being investigated in our ongoing studies.

We have several additional products in Phase II and Phase I and also a number of other products that our Business Development group is negotiating and exploring. We look at several hundred products every year and usually find several, often in various stages of development, which we ultimately acquire. Sometimes it is when the NDA has already been filed (roflumilast) or even based on persuasive pharmacology (cariprazine).

Our existing pipeline consists of an impressive array of products which we believe over the next several years has the potential to more than compensate for patent expirations. Including products at the FDA or to be filed with the FDA within the next two years, plus Bystolic and Savella, this pipeline adds up to nine new products. Of course there is no guaranty that the desired outcome of clinical studies or that FDA approval will be obtained, despite our experience and optimism.

Letter to our Shareholders

There is of course competition in the product acquisition market, but we still find fascinating opportunities to explore and conclude. The remarkable fact is how many opportunities there are available. And for many companies, we are often the most desirable partner precisely because we are small enough so that we can focus on their product without a vast array of competitive products, and big enough to do whatever is necessary to develop and market it with the assurance it will not get lost in the plethora of products in the multi-management layers of much larger companies. And we have proved, over and over again, by our highly successful salesforce performance, why we are a choice partner for so many of those product opportunities.

Forest's impressive pipeline – two products approved and seven products submitted or to be submitted to the FDA in the next several years, and each product with the potential for hundreds of millions of dollars of sales or perhaps more are the result of intense, smart, dedicated effort by teams of people in business development, marketing and science to find, evaluate and conclude a few transactions out of the hundreds we carefully review each year. The efforts to achieve sound evaluations and the submission to the FDA of reliable and complete dossiers likewise represent prodigious effort. And then there is the exceptional group that markets and sells our products.

It was their extraordinary performance that achieved our cliff in the first place, and that skill will today rescue us from that cliff. I cannot adequately express our respect and gratitude for the tenacity, integrity and wholesome dedication of our employees throughout the company. I write this letter, but they achieve our success.



Howard SolomonChairman & Chief Executive Officer

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Name Solon