FOREST LABORATORIES INC
Form 10-K
May 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

_____

FORM 10-K

(Mark one)

xANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended March 31, 2014

oTRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-5438

FOREST LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	11-1798614
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
909 Third Avenue New York, New York (Address of principal executive offices)	10022-4731 (Zip Code)

(212) 421-7850
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2013 was $11,403,997,603.

Number of shares outstanding of the registrant's Common Stock as of May 29, 2014: 272,594,304

The following documents are incorporated by reference herein:

Portions of the definitive proxy statement to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 in connection with the 2014 Annual Meeting of Stockholders of registrant (the Annual Meeting Proxy Statement) have been incorporated by reference into Part III of this Form 10-K. In the event we do not file the Annual Meeting Proxy Statement, this information will be provided instead by an amendment to this report not later than 120 days after the end of the registrant’s fiscal year.

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PART I

Item 1. Business

General

Forest Laboratories, Inc. (herein referred to as “the Company,” “we” or “our”) is a leading, fully integrated, specialty pharmaceutical company that develops, manufactures, and sells branded forms of ethical drug products, most of which require a physician's prescription. Our primary and most important products in the United States (U.S.) are marketed directly, or “detailed,” to physicians by our salesforces. We emphasize detailing to physicians those branded ethical drug products which we believe have the most benefit to patients and potential for growth. We also focus on the development and introduction of new products, including products developed in collaboration with our licensing partners. Our products include those developed by us, those developed in conjunction with our partners and those acquired from other pharmaceutical companies and integrated into our marketing and distribution systems.

We are a Delaware corporation organized in 1956, our principal executive offices are located at 909 Third Avenue, New York, New York 10022 (telephone number (212) 421-7850) and our corporate website address is http://www.frx.com. We make all electronic filings with the Securities and Exchange Commission (SEC), including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those Reports available on our corporate website free of charge as soon as practicable after filing with or furnishing to the SEC.

Cautionary Statement Regarding Forward-Looking Statements

Except for the historical information contained herein, this report contains forward looking statements that involve a number of risks and uncertainties, including the difficulty of predicting U.S. Food and Drug Administration (FDA) approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, challenges to our intellectual property, the impact of legislative and regulatory developments on the manufacture and marketing of pharmaceutical products, the uncertainty and timing of the development and launch of new pharmaceutical products and the ability to achieve the projected benefits of the planned acquisition of the Company by Actavis plc (Actavis), including future financial and operating results, the Company’s or Actavis’ plans, objectives, expectations and intentions and the expected timing of completion of the transaction. This report contains forward-looking statements that are based on Management’s current expectations, estimates, and projections. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “forecasts,” variations of these words and expressions are intended to identify these forward-looking statements. Certain factors, including but not limited to those identified under “Item 1A. Risk Factors” of this report, may cause actual results to differ materially from current expectations, estimates, projections, forecasts and past results. No assurance can be made that any expectation, estimate or projection contained in a forward-looking statement will be achieved or will not be affected by the factors cited above or other future events. The Company undertakes no obligation to publicly revise forward-looking statements in light of subsequent events or developments, and given the risks and uncertainties associated with them, readers are cautioned not to place undue reliance upon them.

Marketing

We sell our pharmaceutical products primarily to drug wholesalers and retailers, who distribute our products to hospitals, government agencies and other institutions. We market our products through our salesforces directly to

physicians, pharmacies, hospitals, managed care and other healthcare organizations. Our salesforces consist of approximately 3,300 personnel, 3,200 domestic and 100 international. Select products are sold elsewhere through independent distributors.

Competition

The pharmaceutical industry is highly competitive as to the sale of products, research for new or improved products and the development and application of competitive drug formulation and delivery technologies. There are numerous companies in the U.S. and abroad engaged in the manufacture and sale of both proprietary and generic drugs, both of which we sell. Many of our competitors in this industry have substantially greater financial resources than we do. We also face competition for the acquisition or licensing of new product opportunities from other companies. In addition, the marketing of pharmaceutical products is increasingly affected by the growing role of managed care organizations in the provision of health services. Such organizations negotiate with pharmaceutical manufacturers for highly competitive prices for pharmaceutical products in equivalent therapeutic categories, including certain of our principal promoted products. Failure to be included or to have a preferred position in a managed care organization's drug formulary could result in decreased prescriptions of a manufacturer's products.

Another competitive challenge we face is from generic pharmaceutical manufacturers. Upon the expiration or loss of patent protection for a product, we may lose a major portion of sales of such product in a very short period. Generic pharmaceutical manufacturers also challenge product patents before their expiry. Generic competitors operate without our large research and development expenses and our costs of conveying medical information about our novel products to the medical community. In addition, the FDA approval process generally exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy data of the innovator product. This means that generic competitors can market a competing version of our product after the expiration or loss of our patent protection and charge much less for their product. In addition, many governments also encourage the use of generics as alternatives to brand-name drugs in their healthcare programs, including Medicaid. Laws in the U.S. generally allow, and in some cases require, pharmacists to substitute generic drugs that have been rated under government procedures to be therapeutically equivalent to brand-name drugs unless the prescribing physician expressly forbids it.

Actavis Merger

On February 17, 2014, we and Actavis, a company incorporated under the laws of Ireland, entered into an Agreement and Plan of Merger (the Merger), dated as of February 17, 2014 (the Merger Agreement), pursuant to which Actavis has agreed, subject to the terms and conditions thereof, to acquire Forest. As a result of the Merger, we will become a wholly owned subsidiary of Actavis. The merger is expected to close during the second half of calendar 2014.

The Merger Agreement provides that, upon completion of the Merger, each share of our common stock issued and outstanding immediately prior to the Merger (other than dissenting shares) will be converted into the right to receive, at the election of the holder thereof: (1) a combination of $26.04 in cash plus 0.3306 Actavis ordinary shares (the Mixed Election Consideration); (2) $86.81 in cash (the Cash Election Consideration); or (3) 0.4723 Actavis ordinary shares (the Stock Election Consideration). Shares of our common stock with respect to which no election is made will receive the Mixed Election Consideration. Stockholders who make the Cash Election or the Stock Election will be subject to proration to ensure that the total amount of cash paid and the total number of Actavis shares issued to Forest shareholders as a whole are equal to the total amount of cash and number of Actavis shares that would have been paid and issued if all Forest shareholders received the Mixed Election consideration.

Business Combinations and Acquisitions of Product Rights

Aptalis: On January 31, 2014, we completed the acquisition of Aptalis Holdings, Inc. (Aptalis), a privately-held U.S.-based pharmaceutical company, for an aggregate purchase price of $2.9 billion, minus Aptalis' existing indebtedness and related fees and costs at the time of the acquisition, minus certain of Aptalis' expenses, plus the aggregate exercise price applicable to Aptalis' outstanding options immediately prior to the acquisition, and plus certain cash amounts.

Aptalis is an international, specialty pharmaceutical company that focuses on developing, manufacturing, licensing and marketing therapies for certain cystic fibrosis (CF) and gastro-intestinal (GI) related disorders. Aptalis has manufacturing and commercial operations in the U.S., the European Union (EU) and Canada.

The acquisition of Aptalis strengthens Forest's gastrointestinal franchise in the U.S. and Canada, complements our growing CF business in Europe, and creates a CF business in the U.S. market. Key Aptalis products include Canasa®, Carafate®, Pylera®, Salofalk® and Zenpep®.

Aptalis also formulates and clinically develops enhanced pharmaceutical and biopharmaceutical products for itself and others using its proprietary pharmaceutical technology platforms, including bioavailability enhancement of poorly soluble drugs, custom release profiles, and taste-masking/orally disintegrating tablet (ODT) formulations. The pharmaceutical technologies business offers oral drug delivery platforms that provide advantages over existing formulations.

Saphris®: On November 29, 2013, we entered into an Asset Purchase Agreement (APA) with Merck Sharp & Dohme B.V., a wholly owned subsidiary of Merck & Co., Inc. (Merck) pursuant to which we purchased exclusive rights in the U.S. for Saphris sublingual tablets, a treatment for adult patients with schizophrenia and as monotherapy or adjunctive therapy of manic or mixed episodes associated with bipolar I disorder and we entered into a supply agreement pursuant to which we will purchase the product from Merck at an agreed purchase price. Pursuant to the terms of the APA, we paid Merck $155 million upon the closing of the transaction on January 10, 2014, and an additional $76 million on March 6, 2014 for costs and expenses incurred by Merck in connection with post-marketing clinical trials conducted for Saphris during calendar 2013. The agreement also includes certain sales milestone payments to Merck upon the achievement of certain net sales thresholds.

Furiex: On April 28, 2014, we entered into a definitive agreement to acquire Furiex Pharmaceuticals, Inc. (Furiex) for $1.1 billion in cash and up to $30 per share in contingent value rights. Through the acquisition of Furiex, a drug development collaboration company based in the U.S., we will have access to Furiex's leading drug candidate, eluxadoline, a locally-acting mu opioid receptor agonist and a delta opioid receptor antagonist for treating symptoms of diarrhea-predominant irritable bowel syndrome (IBS-d). IBS-d affects approximately 28 million patients in the U.S. and Europe. Eluxadoline and other products acquired will compliment and build on our GI therapeutic business.

Key Commercial Products

The following is a summary of selected key products during the fiscal year ended March 31, 2014:

Fetzima™: In July 2013, we received FDA approval for Fetzima (levomilnacipran extended-release capsules), a once-daily serotonin and norepinephrine reuptake inhibitor (SNRI) for the treatment of Major Depressive Disorder (MDD) in adults. Fetzima was launched in December 2013 and achieved sales of $11.7 million in fiscal 2014.

We entered into an agreement with Pierre Fabre Médicament (Pierre Fabre) in 2008 for the development and commercialization of Fetzima in the U.S. and Canada. Pursuant to the agreement, we assumed responsibility for the clinical development and commercialization of Fetzima in the U.S. and Canada, while Pierre Fabre funded all pre-clinical development and will also fund all drug substance manufacturing activities. In accordance with the terms

of the agreement, we made a milestone payment of $30 million to Pierre Fabre upon FDA approval.

Fetzima has been granted five years of Hatch-Waxman exclusivity that extends to 2018. Fetzima is protected by two U.S. method-of-use patents that expire in 2023, without patent term extension (PTE), and 2031 with PTE.

MDD is a serious medical condition requiring treatment, which affects almost 16 million adults in the U.S. annually or approximately 7.3% of the adult U.S. population. MDD is a common debilitating disorder in which feelings of sadness and other symptoms occur nearly every day for at least two weeks and interfere with a person's ability to work, sleep, study, eat and enjoy once-pleasurable activities. Among all medical illnesses, MDD is a leading cause of disability in the U.S. The World Health Organization predicts depression will become the second leading cause of disability by the year 2020.

Linzess ®: Linzess (linaclotide) achieved sales of $175.1 million in fiscal 2014. Linzess was launched in December 2012. Linzess is an agonist of the guanylate cyclase type-C receptor found in the intestine and acts by a mechanism distinct from previously developed products for irritable bowel syndrome with constipation (IBS-C) and chronic idiopathic constipation (CIC). We and our partner Ironwood Pharmaceuticals, Inc. (Ironwood) received FDA approval for Linzess as a once-daily treatment for adult men and women suffering from IBS-C or CIC in August 2012. Pursuant to our collaboration agreement with Ironwood, we paid Ironwood $85 million upon FDA approval.

Under the terms of the agreement, we and Ironwood share equally all profits and losses from the development and commercialization of Linzess in the U.S. In addition, we obtained exclusive rights to the linaclotide license in Canada and Mexico, for which we will pay Ironwood royalties based on net sales.

In December 2013, we received regulatory approval for linaclotide in Canada under the trade name Constella®. We expect to launch the product in Canada in mid-calendar 2014.

In September 2012, we entered into an agreement with Almirall, S.A. (Almirall) whereby we sublicensed the rights to commercialize linaclotide in Mexico to Almirall. Almirall obtained regulatory approval for linaclotide in Mexico in February 2014 and we recorded income of $2.5 million for such approval. Almirall is expected to launch the product in Mexico in mid-calendar 2014. We will receive royalties based on sales of the product in Mexico, a portion of which will be due to Ironwood.

Linzess has been granted five years of Hatch-Waxman exclusivity that extends to 2017. Linzess is also protected by U.S. composition-of-matter and method-of-use patents that expire in 2024. A request for PTE has been submitted to extend a composition-of-matter patent to 2026.

IBS-C is a chronic functional gastrointestinal disorder that affects 13 million people in the U.S. IBS-C is characterized by recurring abdominal pain or discomfort, constipation and bowel symptoms including hard or lumpy stools in more than 25% of bowel movements, and soft or watery stools in less than 25% of bowel movements. IBS-C can have an impact on daily living. There are currently few available therapies to treat this disorder.

As many as 35 million Americans suffer from symptoms associated with CIC. Patients with CIC often experience infrequent bowel movements (less than three times per week) for at least three months, a sensation of incomplete evacuation and hard stools.

Tudorza ® Pressair ®: Tudorza, which was launched in December 2012, had total sales of $78.4 million in fiscal 2014. We and our partner Almirall, received FDA approval in July 2012 for Tudorza Pressair (aclidinium bromide inhalation powder), a long-acting antimuscarinic agent, for the long-term maintenance treatment of bronchospasm associated with chronic obstructive pulmonary disease (COPD).

Tudorza is administered to patients using Pressair, a novel state-of-the-art multi-dose dry powder inhaler. This inhaler was designed with a feedback system which, through a 'colored control window' and an audible click, helps confirm that the patient has inhaled correctly. It contains multiple doses of Tudorza, includes a visible dose-level indicator, and also incorporates safety features such as an anti-double dosing mechanism and an end-of-dose lock-out system to prevent use of an empty inhaler.

We licensed the exclusive U.S. marketing rights to Tudorza from Almirall, a pharmaceutical company headquartered in Barcelona, Spain. We will be responsible for sales and marketing of Tudorza in the U.S. and Almirall has retained an option to co-promote the product in the U.S. in the future, while retaining commercialization rights for the rest of the world. Under the terms of the agreement, we paid Almirall $40 million upon FDA approval and pay royalties to Almirall on Tudorza sales.

Tudorza has been granted five years of Hatch-Waxman exclusivity that extends to 2017. Tudorza is also protected by U.S. composition-of-matter patents that expire in 2020. A request for PTE has been submitted to extend a composition-of-matter patent to 2025. In addition, there are four issued U.S. patents directed to the inhaler device.

COPD is a common, progressive and debilitating lung disease which the World Health Organization (WHO) has described as a global epidemic. Over 12 million people in the U.S. have been diagnosed with COPD, and approximately 12 million more have the disease but are unaware.

Namenda IR®: Namenda (memantine HCl), our moderate-affinity, uncompetitive N-methyl-D-aspartate (NMDA) receptor agonist for the treatment of moderate to severe dementia of the Alzheimer's type achieved sales of $1.5 billion during fiscal 2014. In January 2014, we submitted to the FDA results from the clinical studies performed to evaluate the safety and effectiveness of Namenda in the treatment of autism pursuant to the requirements of the FDA's pediatric program. We anticipate receiving a response from the FDA in the third quarter of calendar year 2014. If the FDA's response is positive, we would be entitled to a six-month extension of marketing exclusivity for Namenda after the expiration of the patent on April 11, 2015. On February 14, 2014, we announced plans to discontinue the production and sale of Namenda IR effective August 15, 2014 in order to focus resources and sales efforts for Namenda XR®.

We licensed the exclusive rights to develop and market Namenda in the U.S. from Merz GmbH & Co. of Germany, the originator of the product. Namenda is protected by a U.S. method-of-use patent that expires in April 2015. Several generic manufacturers challenged our patent and per the terms of the settlement agreements, a number of generic manufacturers have licenses to launch generic versions of Namenda as of the date that is the later of (a) three calendar months prior to the expiration of the '703 patent, including any extensions and/or pediatric exclusivities or (b) the date each company receives final FDA approval of its Abbreviated New Drug Application (ANDA), or earlier in certain circumstances.

Namenda XR: Namenda XR was launched in June 2013 and achieved sales of $135.8 million in fiscal 2014. Namenda XR (memantine HCl extended release) is a 28mg once-daily, extended-release formulation of Namenda and was approved by the FDA for the treatment of moderate to severe dementia of the Alzheimer's type in June 2010.

Namenda XR is protected by a U.S. the method-of-use patent that covers Namenda. In addition, Namenda XR is protected by a U.S. method-of-use patent that relates to the extended release formulation that expires in 2029.

Viibryd®: Viibryd (vilazodone HCl), a selective serotonin reuptake inhibitor (SSRI) and a 5-HT1A receptor partial agonist for the treatment of adults with MDD, had sales of $199.0 million in fiscal 2014.

We obtained exclusive worldwide rights to Viibryd through our acquisition of Clinical Data, Inc. (Clinical Data) which was completed in April 2011. Viibryd was launched in the U.S. in August 2011. The exclusive worldwide rights to develop and market Viibryd are licensed from Merck KGaA. Viibryd has been granted five years of

Hatch-Waxman exclusivity that extends to 2016. Viibryd is also protected by a U.S. composition-of-matter patent that expires in 2014. A request for PTE has been submitted to extend the composition-of-matter patent to 2019. In addition, there are multiple issued U.S. patents directed to polymorphic forms of Viibryd that extend to 2022.

Daliresp®: Daliresp is a novel first-in-class, once-daily, orally administered, selective phosphodiesterase-4 (PDE4) enzyme inhibitor, developed by our partner Nycomed GmbH (Nycomed) as a treatment to reduce the risk of COPD exacerbations in patients with severe COPD. Daliresp achieved sales of $104.9 million in fiscal 2014. Daliresp was approved by the FDA in February 2011 and launched in August 2011.

While the specific mechanism by which Daliresp exerts its therapeutic action in COPD patients is not well defined, it is thought to be related to the effects of increased intracellular cyclic adenosine monophosphate in lung cells. Daliresp is the first oral treatment for COPD patients to reduce the risk of exacerbations. Other treatments for COPD patients include the use of bronchodilators alone and in combination with inhaled corticosteroids.

We licensed the exclusive U.S. rights to Daliresp from Nycomed, now part of Takeda. Pursuant to our agreement with Nycomed we are obligated to pay Nycomed royalties on Daliresp sales. In addition to five years of Hatch-Waxman exclusivity that expires in 2016, Daliresp is also protected by a U.S. composition-of-matter patent that expires in 2015. A request for PTE has been submitted to extend the composition-of-matter patent to 2020. In addition, Daliresp is protected by an issued formulation patent that expires in 2023 and multiple patents directed to methods-of-use and compositions that extend to 2024.

Teflaro®: Teflaro, a broad-spectrum, hospital-based injectable cephalosporin antibiotic with activity against Gram-positive bacteria and common Gram-negative bacteria, achieved sales of $70.3 million in fiscal 2014. We received marketing approval for Teflaro (ceftaroline fosamil) from the FDA in October 2010 for the treatment of adults with community-acquired bacterial pneumonia, including cases caused by Streptococcus pneumoniae and with acute bacterial skin and skin structure infections, including cases caused by methicillin-resistant Staphylococcus aureus (MRSA). Teflaro is a member of the cephalosporin class of antibiotics, the most frequently prescribed class of antibiotics in the world.

The worldwide rights (excluding Japan) to Teflaro are exclusively licensed from Takeda Pharmaceutical Company Limited (Takeda). In addition to five years of Hatch-Waxman exclusivity that extends to 2015, Teflaro is covered by U.S. composition-of-matter patents that expire in 2018 and 2021. A request for PTE has been submitted in the U.S. to extend one composition-of-matter patent to 2022. In addition, Teflaro is protected by a composition patent that expires in 2031.

In August 2009, we entered into a license agreement with AstraZeneca AB (AstraZeneca) pursuant to which AstraZeneca will co-develop and commercialize Teflaro worldwide, excluding the U.S., Canada and Japan. Under the terms of the agreement AstraZeneca is obligated to pay us royalties based on sales of Teflaro. AstraZeneca received regulatory approval in certain European countries, as well as Australia, Chile, and Singapore for Teflaro under the trade name Zinforo ® during fiscal 2013. We received $1.3 million in royalties on sales of the product in those territories in fiscal 2014.

Bystolic®: Bystolic (nebivolol), our beta-1 selective beta-blocker with vasodilating properties, achieved sales of $529.6 million in fiscal 2014. Like other beta-blockers, Bystolic decreases heart rate and myocardial contractility.

We licensed exclusive U.S. and Canadian rights to Bystolic from Mylan Inc. (Mylan). Mylan licensed the U.S. and Canadian rights to Bystolic from Janssen Pharmaceutica N.V. (Janssen) and obtained Janssen's consent to sub-license Bystolic to us in those territories. In March 2012, we entered into an agreement with Janssen, under which we acquired all U.S. patents and other U.S. and Canadian intellectual property for Bystolic, for $357 million, thereby eliminating all future royalties. Bystolic was launched in Canada in April 2013.

Bystolic is protected by a formulation patent that expires in 2015 and a pharmaceutical composition patent that expires in 2021, with PTE.

Per the terms of settlement agreements with several companies, subject to review of the settlement terms by the U.S. Federal Trade Commission, we will provide licenses to these companies which will permit these companies to launch their generic versions of Bystolic as of the date that is the later of (a) three calendar months prior to the expiration of the U.S. Patent including any extensions and/or pediatric exclusivities or (b) the date each company receives final FDA approval of its ANDA, or earlier in certain circumstances.

Savella®: Savella (milnacipran HCl) our SNRI for the management of fibromyalgia achieved sales of $98.7 million in fiscal 2014. Fibromyalgia is a chronic condition characterized by widespread pain and decreased physical function.

We licensed the U.S. and Canadian rights to develop and commercialize Savella from Cypress Bioscience, Inc. (Cypress). Pursuant to our agreement, we are obligated to pay Cypress royalties based on net sales of Savella. In addition to five years of Hatch-Waxman exclusivity that expires in 2014, Savella is protected by two method-of-use patents that expire in 2021 and a method-of-use patent that expires in 2023. In addition, Savella is protected by a U.S. method-of-use patent relating to the required dosing schedule that expires in 2029.

Saphris: In fiscal 2014, we recorded sales of Saphris of $27.9 million. Saphris is a treatment for adult patients with schizophrenia and is used as monotherapy or adjunctive therapy, of manic or mixed episodes associated with bipolar I disorder. Saphris is an atypical antipsychotic approved by the FDA and launched in 2009. We purchased commercial rights to Saphris in the U.S. and began recording sales of the product in January 2014 from Merck. Refer to the ‘Acquisitions’ section for further information.

Saphris has been granted five years of Hatch-Waxman exclusivity that expires in 2014. Saphris is protected by an issued U.S. patent directed to sublingual compositions that expires in 2020. Saphris is also protected by an issued U.S. patent directed to polymorphic forms that expires in 2026.

Canasa®: Canasa (mesalamine USP) is a mesalamine suppository approved by the FDA for the short-term treatment of mild to moderately active ulcerative proctitis, a distal form of inflammatory bowel disease. Canasa was launched in February 2005 and is the only FDA-approved mesalamine suppository available in the U.S. We obtained rights to Canasa through our acquisition of Aptalis and commenced sales of the product in February 2014. We recorded sales of Canasa of $23.5 million in fiscal 2014.

Canasa is protected by two U.S. patents that expire in 2028. Aptalis received letters from two parties indicating that they had each filed an ANDA seeking approval to market a generic version of Canasa. In July 2013, Aptalis filed patent infringement suits against each party. We believe that the ANDAs were filed before the patents covering Canasa were listed in the FDA’s Orange Book, which generally means that we are not entitled to the 30-month stay of the approval of these ANDAs provided for by the Hatch-Waxman Act.

Carafate®: Carafate (sucralfate) is indicated for the short-term (up to 8 weeks) treatment of active duodenal ulcers and has been on the market for approximately 20 years. Carafate is the only available sucralfate oral suspension product in the U.S. We obtained rights to Carafate through our acquisition of Aptalis and commenced sales of the product in February 2014. In fiscal 2014, we recorded sales of $21.5 million.

Zenpep®: Zenpep (pancrelipase) is a proprietary porcine-derived pancreatic enzyme product (PEP) developed under the 2004 FDA guidance on pancreatic enzyme replacement therapies. It has been approved for the treatment of Exocrine Pancreatic Insufficiency (EPI) due to CF and other conditions in infants, children and adults. Zenpep was approved by the FDA in August 2009 and launched in the U.S. in November 2009. We obtained rights to Zenpep through our acquisition of Aptalis and commenced sales of the product in February 2014. We recorded $19.9 million of sales in fiscal 2014.

Zenpep is covered by U.S. patents, none of which expire prior to 2028. Zenpep has been granted five years of Hatch-Waxman exclusivity until August 2014.

Consistent with other FDA-approved PEPs currently marketed in the U.S., Zenpep has post-marketing requirements and commitments. We believe we are on track to meet these commitments. In addition to Zenpep's on-going lifecycle management, Aptalis submitted a supplemental New Drug Application (NDA) to the FDA in November 2013 for an additional dosage strength of 40,000 unit dose for the treatment of EPI due to CF or other conditions.

Pylera®: Pylera (bismuth subcitrate potassium, metronidazole, tetracycline HCl) is a three-in-one combination of metronidazole, tetracycline, and bismuth subcitrate potassium contained in a patented capsule-within-capsule technology, indicated for the treatment of patients with H. pylori infection and duodenal ulcers disease (active or a history of within the past five years) to eradicate H. pylori. We obtained rights to Pylera through our acquisition of Aptalis and commenced sales of the product in February 2014.

Pylera was approved by the FDA and was launched in the U.S. in May 2007 and we recorded sales of Pylera in the U.S. of $2.4 million in fiscal 2014. Pylera is protected by a U.S. patent for its capsule-in-capsule formulation which expires in 2018.

Pylera is also approved in several countries in the EU, including the United Kingdom, Ireland, Germany, France, Belgium, Poland, France and Spain and applications for approval have been submitted in Italy and Portugal. Pylera was launched in Germany in January 2013 and France in April 2013. We recorded total EU sales of Pylera of $1.2 million in fiscal 2014.

Salofalk®: Salofalk (meslamine USP) is a mesalamine-based product line, including oral tablets, oral suspensions and suppositories, that are actively promoted to gastroenterologists in Canada for the treatment of certain inflammatory bowel diseases, such as ulcerative colitis, ulcerative proctitis and Crohn's disease. We obtained rights to Salofalk through our acquisition of Aptalis and commenced sales of the product in February 2014. In fiscal 2014 we recorded sales of Salofalk of $3.4 million.

European Cystic Fibrosis Franchise: In February 2012, we were granted European Medicines Agency approval to market Colobreathe®. Colobreathe is a novel dry powder inhaler developed by Forest containing colistin, indicated for the treatment of chronic lung infections caused by Pseudomonas aeruginosa in CF patients aged 6 years and older. We began marketing Colobreathe in April 2013 and recorded sales of $12.7 million in fiscal 2014.

In December 2010, we entered into an agreement with Grünenthal GmbH (Grünenthal) pursuant to which we acquired all rights held by Grünenthal for colistin and reacquired all rights previously licensed by us to Grünenthal for Colobreathe for $100 million. Colistin is an antibiotic used to treat the principal bacterial infections in CF patients and is currently marketed by Forest in a nebulized presentation in the United Kingdom and Ireland as Colomycin®. Total sales of Colistin and Colomycin were $44.4 million in fiscal 2014. This transaction and the approval to market Colobreathe in Europe enable us to expand our European CF franchise and become a major distributor of colistin in Europe.

Canada: We have established a wholly-owned Canadian subsidiary which is responsible for the registration and commercialization of our products in Canada. Health Canada granted approval for Bystolic in December 2012 and the product was launched in April 2013. In December 2013, we received Health Canada's approval for Constella® (linaclotide) as a once-daily, first-in-class treatment for both adult men and women suffering from IBS-C or CIC. This approval provides a new option for the up to 8.9 million adult Canadians suffering from these conditions. We plan to launch the product in Canada in June 2014.

Pharmaceutical Technologies: Through our acquisition of Aptalis completed in January 2014, we acquired a Pharmaceutical Technology (PT) business which consists of a portfolio of proprietary technology platforms that has produced over 35 approved products in over 35 countries, supported the specialty pharmaceutical business of Aptalis, and was a central component of Aptalis' lifecycle management programs. The PT business provides us with the opportunity to develop innovative products for our internal product pipeline and the flexibility to offer third-parties co-development programs, product out-licensing and manufacturing programs.

moksha8: On October 22, 2012, the Company announced an agreement with moksha8, a privately-held pharmaceutical company which markets products in Latin America. The agreement includes an exclusive license from Forest to moksha8 to commercialize Viibryd, and potentially other Forest products, in Latin America.

Under the arrangement, the Company has provided $101.9 million of debt financing to moksha8, of which $19.2 million was funded during the fiscal 2014. Such debt financing has a term of seven years from the date of initial funding and is collateralized by the assets of moksha8.

In January 2014, the Company and moksha8 agreed to amend the terms of the agreement, including to terminate (i) the agreements containing Forest's obligations to provide additional funding to moksha8 and (ii) Forest's option to acquire moksha8, as well as the shareholders of moksha8's option to put to Forest all interests of moksha8. moksha8 will, subject to certain conditions, retain the exclusive license to commercialize Viibryd.

Drug Development and Research

During the fiscal year ended March 31, 2014, we recorded $788.3 million in research and development (R&D) expense, as compared to $963.6 million and $796.9 million in the fiscal years ended March 31, 2013 and 2012, respectively. During December 2013, we commenced Project Rejuvenate, a cost savings initiative with a goal of streamlining operations and reducing operating expenses, and we recorded $26.3 million of R&D expenses for post-employment benefits for the fiscal year ended March 31, 2014. In addition to Project Rejuvenate, R&D expenses increased $12.5 million related to the Aptalis acquisition, which included $2.3 million for post-employment benefits. Included in R&D expense are payments made pursuant to licensing and acquisition agreements for new product opportunities where FDA approval has not yet been received. R&D expense for fiscal 2014 included milestone payments of $76.3 million but did not include upfront licensing agreement payments. R&D expense for fiscal 2013 included upfront licensing agreement payments of $71.0 million and milestone payments of $61.5 million. R&D expense for fiscal 2012 included upfront payments of $40 million and $59.6 million in development milestone expenses. Other R&D expenditures consist primarily of pre-clinical and clinical studies required to obtain approval of new products, as well as clinical studies designed to further differentiate our products from those of our competitors or to obtain additional labeling indications.

The following is a summary of selected key development programs as of March 31, 2014, including programs where an NDA has been submitted to the FDA:

Fixed Dose Combination (FDC) of Namenda XR and donepezil HCl: In November 2012, we entered into an agreement with Adamas Pharmaceuticals, Inc. (Adamas) for the development and commercialization of an FDC of Namenda XR and donepezil HCl which will be a daily therapy for the treatment of moderate to severe dementia of the Alzheimer's type. In March 2014, we submitted an NDA to the FDA and contingent upon FDA approval, the FDC is expected to launch in calendar year 2015. Namenda XR and donepezil HCl are each protected by multiple issued U.S. patents licensed from Adamas that expire in 2025 and 2029. In addition, the combination is protected by an issued method-of-use patent related to the extended release formulation that expires in 2029.

FDC of Bystolic (nebivolol) and valsartan: In June 2013, we reported positive topline results from an 8-week pivotal Phase III clinical trial evaluating the efficacy and safety of an FDC of Bystolic, our proprietary beta-blocker launched

in January 2008, and the market's leading angiotensin II receptor blocker valsartan, for the treatment of patients with hypertension. In February 2014, we submitted an NDA to the FDA for an FDC of nebivolol and valsartan for the treatment of hypertension. This FDC is protected by two issued U.S. patents that expire in 2026 and 2027.

Avibactam: In December 2009, we entered into an agreement with AstraZeneca AB (AstraZeneca) to acquire additional rights to avibactam including co-development and exclusive commercialization rights in the U.S. and Canada to products containing avibactam including the ceftazidime/avibactam and ceftaroline/avibactam combinations. Avibactam is a novel broad-spectrum beta-lactamase inhibitor designed to be co-administered intravenously with select antibiotics to enhance their spectrum of activity by overcoming beta-lactamase-related antibacterial resistance. Avibactam is currently being developed in combination with ceftazidime, a cephalosporin antibiotic. Data from two Phase II trials for ceftazidime/avibactam in patients with complicated intra-abdominal infections (cIAI) and complicated urinary tract infections (cUTI) demonstrated that ceftazidime/avibactam achieved high clinical cure rates and was well tolerated in patients with cIAI and cUTI. Based on the results of these studies, we and AstraZeneca initiated Phase III studies for ceftazidime/avibactam in patients with cIAI in December 2011 and in patients with cUTI in July 2012. We expect results from the Phase III cIAI studies during the middle of calendar 2014 and cUTI studies in early calendar 2015.
In September 2013, the FDA designated ceftazidime/avibactam as a qualified infectious disease product (QIDP). QIDP designation provides us certain incentives including priority review and eligibility with the FDA's fast track program, as well as a five-year extension of exclusivity under the Hatch-Waxman act. We anticipate filing an NDA based on the phase II studies in the middle of calendar 2014.

Under the terms of the agreement, we will be obligated to pay half of certain future milestones if development is successfully completed.

Avibactam inhibits several classes of bacterial enzymes called beta-lactamases that break down and inactivate beta-lactam antibiotics (in particular penicillins and cephalosporins) making the pathogens producing these enzymes resistant to these antibiotics. Beta-lactamase inhibition represents a mechanism for counteracting this resistance and enhancing the broad-spectrum activity of beta-lactam antibiotics. In addition, avibactam is protected by a U.S. composition-of-matter patent that expires in 2022, without PTE. Avibactam is also protected by an issued U.S. patent directed to combinations with an antibiotic that expires in 2026.

Cariprazine: In November 2012, we submitted to the FDA an NDA for cariprazine, an atypical antipsychotic for the treatment of schizophrenia and acute mania associated with bipolar depression. In November 2013, we received a Complete Response Letter in which the FDA acknowledged that cariprazine demonstrated effectiveness in the treatment of schizophrenia and mania associated with bipolar disorder and requested further information on the drug, including additional clinical trial data to better define the optimal dosing regimen to maintain the demonstrated efficacy, while minimizing the potential for the development of adverse events generally associated with this class of drug. The Company subsequently provided additional clinical trial data to the FDA and anticipates a resubmission by the end of calendar year 2014.

Cariprazine is also in Phase II development for bipolar depression and as an adjunct treatment for MDD. In March 2014, we announced positive topline results from a Phase IIb trial evaluating the efficacy and safety of cariprazine as adjunctive treatment in adult patients with MDD who have demonstrated an inadequate response to antidepressant therapy. Also in March 2014, we announced positive topline results from a Phase IIb trial evaluating the efficacy and safety of Cariprazine as an investigational antipsychotic in patients with bipolar depression.

Cariprazine is licensed through a collaboration and license agreement with Gedeon Richter Plc. (Richter), based in Budapest, Hungary. Our license grants us exclusive development and commercialization rights to Cariprazine and its related compounds in the U.S. and Canada. We collaborate with Richter in product development and jointly fund such development activities. Cariprazine is an oral D2/D3 partial agonist being developed as an atypical antipsychotic for the treatment of schizophrenia, acute mania associated with bipolar depression, bipolar depression and as an

adjunct treatment for MDD.

Under the terms of the agreement with Richter, we will be obligated to pay future milestone payments if development and commercialization are successfully completed. We will also be obligated to pay Richter a royalty based on net sales of the product.

In addition to five years of Hatch-Waxman exclusivity which we anticipate would be granted upon approval, cariprazine is protected by a U.S. composition-of-matter patent that expires in 2027, subject to possible PTE. Cariprazine is also protected by an issued U.S. patent directed to polymorphic forms that expires in 2028.

FDC of aclidinium and formoterol: Pursuant to our licensing agreement with Almirall for Tudorza (aclidinium), Almirall also granted us certain rights of first negotiation for other Almirall respiratory products involving combinations with aclidinium. Pursuant to such rights, we commenced the development of an FDC of aclidinium and the long acting beta-agonist formoterol for the treatment of COPD. In the second quarter of calendar year 2013, we announced positive top-line Phase III clinical trial results from two studies of two dosage forms of this FDC; a 400/6mcg FDC and 400/12mcg FDC. Both doses of the FDC were well tolerated in the studies. Based on comments provided by the FDA at a pre-NDA meeting, we delayed our planned submission of an NDA for the FDC. We completed our analysis and submitted responses to the FDA's comments and although no new issues have arisen, further discussion will take place to address questions related to the chemistry, manufacturing and control of this FDC. Additionally, we anticipate a Type C meeting with the FDA during the third quarter of calendar 2014.

Under the terms of the agreement, we will be obligated to pay Almirall future milestone payments if development and commercialization are successfully completed for the FDC. In addition, we obtained co-promotion rights for aclidinium in Canada, for which we will pay Almirall royalties based on net sales, subject to receiving regulatory approval. In February 2014, we and our partner Almirall filed a submission in Canada for the FDC of aclidinium and formoterol and anticipate feedback from Health Canada by the first quarter of calendar year 2015.

Cebranopadol: In December 2010, we entered into a license agreement with Grünenthal for the co-development and commercialization of cebranopadol (GRT 6005) and its follow-on compound GRT 6006, both being small molecule analgesic compounds in development for the treatment of moderate to severe chronic pain conditions.

Cebranopadol and GRT 6006 are novel first-in-class compounds with unique pharmacological and pharmacokinetic profiles that may enhance their effect in certain pain conditions. The unique mode of action of these compounds builds on the ORL-1 receptor and, supported by the established mu opioid receptor, is particularly suitable for the treatment of moderate to severe chronic pain. Cebranopadol has successfully completed initial proof-of-concept studies in nociceptive and neuropathic pain with further Phase II studies planned prior to initiation of Phase III studies. We anticipate five years of Hatch-Waxman exclusivity upon approval. Both compounds are protected by a U.S. composition-of-matter patent that expires in November 2023, subject to possible PTE.

Under the terms of the agreement, we made an upfront payment to Grünenthal of $66.1 million, and may be obligated to pay additional development and commercialization milestones as well as royalties on net sales of the product. Pursuant to the agreement, we have exclusive rights in the U.S. and Canada with an option to co-promote in Europe. Grünenthal has an option to co-promote in the U.S. and Canada.

APT-1008 (Zenpep EU): Through our acquisition of Aptalis, we acquired APT-1008, developed for the treatment of EPI in the EU based on the U.S. Zenpep franchise. Zenpep-EU is a proprietary porcine-derived PEP approved in the U.S. under the name Zenpep in August 2009 for the treatment of EPI due to CF or other conditions. Due to the increased stability of enzymes in this formulation and lack of overfill, we believe that Zenpep-EU provides a more predictable and precise dosage than other PEPs currently available in the EU and meets the EU guidance on development of CF products.

We are seeking a marketing authorization in the EU under the centralized procedure. We completed the Phase III program and we expect to file by the end of calendar year 2014. There is a pending European patent application with claims directed to the same subject matter as the U.S. patents that cover Zenpep.

Development Program Review: From time to time, we perform a review of all developmental projects and re-evaluate our development priorities based on the regulatory and commercial prospects of the products in development. We consider the commercial potential of the products as well as the development and commercialization costs necessary to achieve approval and successful launch. In certain situations we may discontinue a development program based on this review.

Nabriva: In June 2012, we entered into an agreement with Nabriva Therapeutics (Nabriva) for the development of Nabriva's novel antibacterial agent, BC-3781. Pursuant to this agreement, we conducted in collaboration with Nabriva, certain development activities related to BC-3781. During the first quarter of fiscal 2014, we discontinued our collaborative development with Nabriva after a review of this development program.

TransTech: During fiscal 2013, we performed a review of our partnership with TransTech Pharma Inc. for the development and commercialization of TTP399. As a result of this review, in light of development priorities, we made the decision to terminate the partnership with TransTech.

Senior Management

On September 9, 2013, Howard Solomon, the President and Chief Executive Officer of the Company, advised the Board of Directors of his decision to retire as President and Chief Executive Officer, effective September 30, 2013. Mr. Solomon continues as a Director and Chairman of the Company's Board of Directors and a Senior Advisor to the Company. On September 9, 2013, at the recommendation of the Succession Planning Committee of the Board, the Board appointed Brenton L. Saunders to succeed Mr. Solomon as President and Chief Executive Officer, effective October 1, 2013. Mr. Saunders was elected as a director of the Company at the Company's 2011 Annual Meeting of Stockholders, and served as the Chairman of the Board's Compensation Committee and as a member of the Board Compliance Committee. Immediately prior to his appointment as President and Chief Executive Officer, he resigned from both committees, effective as of September 9, 2013.

Debt Issuance

On December 10, 2013, we issued $1.2 billion of 5.00% Senior Notes (the 5.00% Senior Notes), which mature on December 15, 2021. The 5.00% Senior Notes accrue interest per annum, payable semi-annually in arrears on June 15 and December 15, commencing on June 15, 2014. We incurred $18.5 million in deferred financing costs associated with the 5.00% Senior Notes which will be amortized over the term of the notes.

On January 31, 2014 we issued $1.8 billion aggregate senior unsecured notes (the $1.8 billion Senior Notes), comprised of $1.05 billion aggregate principal amount of our 4.375% senior unsecured notes due 2019 and $750 million aggregate principal amount of our 4.875% senior unsecured notes due 2021. We will pay interest on the $1.05 billion of senior unsecured notes at 4.375% per annum, semi-annually in arrears on February 1 and August 1, commencing on August 1, 2014. We will pay interest on the $750 million of senior unsecured notes at 4.875% per annum, semi-annually in arrears on February 15 and August 15, commencing on August 15, 2014. We incurred $22.5 million in deferred financing costs associated with the $1.8 Senior Notes which will be amortized over the term of the notes.

Restructuring

During the third quarter of fiscal 2014, we announced Project Rejuvenate, a $500 million cost savings initiative with a goal of streamlining operations and reducing our operating cost base. Project Rejuvenate is focused on three areas: flattening and broadening the organization to reduce layers and increase spans of control, increase our productivity and profitability by decreasing costs and streamlining work to reduce low value activities.

We expect annualized savings of approximately $270 million associated with the streamlining and realigning the R&D organization, $150 million in savings associated with the reduction of marketing expenses and $80 million in cost savings from a reduction in general and administrative expenses. The Company expects to achieve 65%-75% of the cost savings from Project Rejuvenate by the end of fiscal 2015 and the remainder by the end of fiscal 2016. For the year ended March 31, 2014, the Company incurred $154.1 million of restructuring charges related to post-employment benefits, the write-down of certain held for sale facilities to fair market value, and consulting and other fees.

In addition to Project Rejuvenate, the Company recognized $16.5 million of post-employment benefits related to the Aptalis integration in fiscal 2014. The Company began the integration of Aptalis after completion of the acquisition in February 2014 and the integration is currently on-going.

Share Repurchase Program

On May 18, 2010, our Board of Directors authorized the 2010 Share Repurchase Program for up to 50 million shares of common stock of which 35.6 million shares were re-purchased. On November 26, 2013, the Board terminated the previously outstanding 50 million share repurchase authorization and authorized the repurchase of up to $1 billion of shares of common stock based on prevailing prices from time to time. The new authorization became effective immediately and has no set expiration date.

Sales Concentration

The following products accounted for 10% or more of consolidated net sales during one or more of the three most recent fiscal years:

Product	2014	2013	2012
Namenda IR	44 %	52 %	32 %
Bystolic	15 %	16 %	8 %
Lexapro	3 %	7 %	49 %

Namenda is marketed under agreements between Forest and Merz dated June 28, 2000 (collectively, the Merz License). A copy of the Merz License has been filed as Exhibit 10.16 to our Annual Report on Form 10-K for the period ended March 31, 2004 and the following description of the terms of this agreement is qualified in its entirety by reference to the copy of the agreement which has been filed with the SEC and such agreement is incorporated herein by reference.

Under the terms of the Merz License, we were granted exclusive U.S. marketing (and related manufacturing) rights with respect to products containing memantine for use in the treatment of vascular dementia and Alzheimer’s disease, and Merz has agreed to supply all of Forest’s requirements of the active pharmaceutical ingredient memantine. The Merz License requires that Forest pay to Merz a percentage of its net revenues from the sale of Namenda as a royalty. The agreement expires in 2028.

On February 14, 2014, we announced plans to discontinue the production and sale of Namenda IR effective August 15, 2014 in order to focus resources and sales efforts for Namenda XR.

The agreement may be terminated by either party in the event the other party breaches any of its obligations under the agreement and such breach continues beyond any applicable cure period (as determined by an arbitration proceeding). In the event of such a termination by Merz, Forest would lose all of its rights under the agreement. Upon expiration of the agreement (or upon earlier termination of the agreement by reason of a breach by Merz), Forest would continue to have a perpetual but non-exclusive license to market the product in the U.S. and exclusive rights to use the Namenda trademark subject to the payment of a trademark royalty.

Prior to March 30, 2012, Bystolic was marketed under a sublicense agreement between Forest and Mylan Inc. (Mylan), which in turn licensed rights to Bystolic from Janssen Pharmaceutical N.V. (Janssen). As described above under the heading Developments, we amended our license agreement with Mylan in February 2008 to terminate Mylan's further commercial rights for Bystolic in the U.S. and Canada, and on March 30, 2012, we entered into a sale and transfer agreement with Janssen under which we acquired all U.S. patents and other U.S. and Canadian intellectual property for Bystolic, thereby eliminating all future royalties to Janssen, in exchange for a one-time cash payment of $357 million. A copy of the Janssen sale and transfer agreement has been filed as Exhibit 10.51 to our Annual Report on Form 10-K for the period ended March 31, 2012.

Lexapro was developed and is marketed under agreements with H. Lundbeck A/S (Lundbeck) entered into in 1998 (collectively, the Lundbeck License), but ceased being one of our principal products following its loss of patent exclusivity in March 2012. The Lexapro license agreement and related license and supply agreement have been filed as Exhibits 10.17 and 10.18, respectively, to our Annual Report on Form 10-K for the period ended March 31, 2002.

Government Regulation

The pharmaceutical industry is subject to comprehensive government regulation which substantially increases the difficulty and cost incurred in obtaining the approval to market newly proposed drug products and maintaining the approval to market existing drugs. In the U.S., products which we develop, manufacture or sell are subject to regulation by the FDA, principally under the Federal Food, Drug and Cosmetic Act, as well as by other federal and state agencies. The FDA regulates all aspects of the testing, manufacture, safety, labeling, storage, record keeping, advertising and promotion of new and established drugs, including the monitoring of compliance with good manufacturing practice regulations. Non-compliance with applicable requirements can result in fines and other sanctions, including the initiation of product seizures, injunction actions and criminal prosecutions based on practices that violate statutory requirements. In addition, administrative remedies can involve voluntary recall of products as well as the withdrawal of approval of products in accordance with due process procedures. Failure of the Company or any of its vendors or suppliers to comply with Current Good Manufacturing Practices and other applicable regulations and quality assurance guidelines could lead to manufacturing shutdowns, product shortages and delays in product manufacturing. Similar regulations exist in most foreign countries in which our products are manufactured or sold. In many foreign countries, such as the United Kingdom, reimbursement under national health insurance programs frequently require that manufacturers and sellers of pharmaceutical products obtain government approval of initial prices and increases if the ultimate consumer is to be eligible for reimbursement for the cost of such products.

The Patient Protection and Affordable Care Act of 2010 (the PPACA), more commonly known as the Healthcare Reform Bill, was signed into law on March 23, 2010. The stated goals of this legislation include reducing the number of uninsured Americans, improving the quality of healthcare delivery and reducing projected healthcare costs. Many of the strategies included in this law have impacted manufacturers of branded pharmaceutical products. Based on the nature of the provisions of the PPACA, we cannot reliably calculate the full impact of all provisions of the PPACA.

During the past several years, the FDA, in accordance with its standard practice, has conducted a number of inspections of our manufacturing facilities, our development facilities, our contracted investigator sites and our contract research organizations. Following these inspections, the FDA called our attention to certain "Good Manufacturing, Laboratory and Clinical Practices" compliance and record keeping deficiencies. We have responded to the FDA's comments and modified our procedures to comply with the requests made by the FDA.

The cost of human healthcare products continues to be a subject of investigation and action by governmental agencies, legislative bodies and private organizations in the U.S. and other countries. In the U.S., most states have enacted generic substitution legislation permitting or requiring a dispensing pharmacist to substitute a different manufacturer's version of a drug for the one prescribed. Federal and state governments continue to press efforts to reduce costs of Medicare and Medicaid programs, including restrictions on amounts agencies will reimburse for the use of products. In addition, several states have adopted prescription drug benefit programs which supplement Medicaid programs and are seeking discounts or rebates from pharmaceutical manufacturers to subsidize such programs. Failure to provide such discounts or rebates may lead to restrictions upon the availability of a manufacturer's products in health programs, including Medicaid, run by such states. Under the Omnibus Budget Reconciliation Act of 1990 (OBRA), manufacturers must pay certain statutorily-prescribed rebates on Medicaid purchases for reimbursement of prescription drugs under state Medicaid plans. Federal Medicaid reimbursement for drug products of original NDA-holders is denied if less expensive generic versions are available from other manufacturers. In addition, the Federal government follows a diagnosis-related group (DRG) payment system for certain institutional services provided under Medicare or Medicaid. The DRG system entitles a healthcare facility to a fixed reimbursement based on discharge diagnoses rather than actual costs incurred in patient treatment, thereby increasing the incentive for the facility to limit or control expenditures for many healthcare products. Under the PDUFA, the FDA has imposed fees on various aspects of the approval, manufacture and sale of prescription drugs.

A prescription-drug benefit for Medicare beneficiaries was established pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Under the program, pharmaceutical benefit managers and health programs offer discounted prices on prescription drugs to qualified Medicare recipients reflecting discounts negotiated with manufacturers where applicable. The failure of a manufacturer to offer discounts to these programs could result in reduced use of the manufacturer's products.

In April 2003, the Federal Office of the Inspector General published guidance for pharmaceutical manufacturers with respect to compliance programs to assure manufacturer compliance with federal laws and programs relating to healthcare. In addition, several states have adopted laws and regulations requiring certain specific disclosures with respect to our compliance program and our practices relating to interactions with physicians and other healthcare providers. We maintain a company-wide compliance program to assure compliance with applicable laws and regulations, as well as the standards of professional bodies governing interactions between pharmaceutical manufacturers and physicians, and believe we are in compliance with all legal requirements and standards.

On February 8, 2013, the final rule known as the Physician Payment Sunshine Act (Sunshine Act) enacted as part of the Affordable Care Act was published. The Sunshine Act requires manufacturers of pharmaceutical products to report annually to the Secretary of the Department of Health and Human Services all payments or transfers of value made by an entity or party on behalf of the respective entity to physicians, teaching hospitals, and third-parties on behalf of physicians or teaching hospitals. This final rule which required data collection on all payments and transfers of value took effect on August 1, 2013. The Company is current on all required submissions of information related to the Sunshine Act.

In connection with the finalization of a previously reported settlement resolving all aspects of the investigations led by the U.S. Department of Justice (DOJ) and the U.S. Attorney's Office (USAO) for the District of Massachusetts that began in January 2004 relating to past marketing and sales activities in connection with Celexa®, Lexapro, and Levothroid®, we entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General of Health and Human Services (OIG-HHS) in September 2010. The CIA requires us to maintain our current compliance

program and to undertake a set of defined corporate integrity obligations for a period of five years. The CIA also provides for an independent third-party review organization to assess and report on our compliance program. Failure to comply with the terms of the CIA could result in substantial penalties and potential exclusion from government health care programs. Refer to "Item 3. Legal Proceedings" for the discussion of certain government regulations.

Principal Customers

The following sets forth information with respect to the percentage of net sales accounted for by our principal customers:

Customer	2014	2013	2012
McKesson Drug Company	37%	38%	36%
AmerisourceBergen Corporation	26%	20%	20%
Cardinal Health, Inc.	22%	29%	30%

No other customer accounted for 10% or more of our net sales for the fiscal years presented.

Financial Information about Segments and Geographic Area

The Company and its subsidiaries, which are primarily located in the U.S. and Europe, operate in only one segment. Data regarding revenues from principal customers, net sales and long-lived assets for each of the last three fiscal years, where applicable, and information concerning the geographic areas in which we operate is presented in "Note 3 – Business operations" in the accompanying "Notes to Consolidated Financial Statements" incorporated by reference herein.

Environmental Standards

We anticipate that the effects of compliance with federal, state and local laws and regulations relating to the discharge of materials into the environment will not have any material effect on our capital expenditures, earnings or competitive position.

Raw Materials

The active pharmaceutical ingredients in our principal promoted products, including Namenda IR, Namenda XR, Bystolic, Viibryd, Linzess, Daliresp, Savella Tudorza, Teflaro, and Fetzima, as well as our newly acquired Aptalis products and Saphris, are patented or otherwise generally available to us only pursuant to contractual arrangements with our licensing partners. Other raw materials used by us are purchased in the open market. We have not experienced any significant shortage in supplies of active pharmaceutical ingredients or other raw materials.

Product Liability Insurance

We currently maintain $140 million of product liability coverage per "occurrence" and in the aggregate. Although in the past there have been product liability claims asserted against us, none for which we have been found liable, there can

be no assurance that all potential claims which may be asserted against us in the future would be covered by our present insurance. See “Item 3. Legal Proceedings” and “Item 1A. Risk Factors”.

Employees

At March 31, 2014, we employed approximately 6,200 employees.

Patents and Trademarks

Forest seeks to obtain, where possible, patents and trademarks for our products in the U.S. and all countries of major marketing interest to Forest. We own or have licenses to a substantial number of patents and patent applications. Several of these patents, which expire during the period 2015 to 2031, are believed to be of material importance in the operation of Forest’s business. We believe that patents, licenses and trademarks (or related groups of patents, licenses, or trademarks) covering our marketed products are material in relation to our business as a whole.

Product Name	Approved Indication	Date of Last U.S. Patent Exclusivity (Assuming Grant of PTE)
Namenda	Treatment of moderate to severe dementia of the Alzheimer’s type	2015
Namenda	Treatment of moderate to severe dementia of the Alzheimer’s type	2015
Namenda XR	Treatment of moderate to severe dementia of the Alzheimer’s type	2029
Bystolic	Treatment of hypertension	2021
Viibryd	Treatment of adults with MDD	2022
Linzess	Treatment of IBS-C or CIC.	2026
Daliresp	Treatment to reduce the risk of COPD	2024
Savella	Treatment of fibromyalgia	2029
Tudorza	Treatment of bronchospasm	2025
Teflaro	Treatment of adults with community-acquired bacterial pneumonia	2031
Saphris	Treatment of schizophrenia	2026
Fetzima	Treatment of adults with MDD	2031
Canasa	Treatment of mild to moderately active ulcerative proctitis	2028
Zenpep	Treatment of EPI	2028
Pylera	Treatment of H. pylori infection and duodenal ulcers disease	2018

When a product patent expires, the patent holder often loses effective market exclusivity for the product. This can result in a severe and rapid decline in sales of the formerly patented product, particularly in the U.S. However, in some cases the innovator company may achieve exclusivity beyond the expiry of the product patent through manufacturing trade secrets, later-expiring patents on methods of use or formulations, or data-based exclusivity that may be available under pharmaceutical regulatory laws.

We own or exclusively license various trademarks and trade names which we believe are of significant benefit to our business.

Backlog - Seasonality

Backlog of orders is not considered material to our business prospects. Our business is not seasonal in nature.

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Item 1A. Risk Factors

We operate in an industry which involves a number of significant risks, some of which are beyond our control. The following discussion highlights some of these risks and others are discussed elsewhere in this Form 10-K. The risks discussed herein and other risks could have a material adverse effect on our business, prospects, results of operations, financial condition and cash flows. Additional risks not currently known to us or that we presently deem immaterial may also impair our business operations. You should carefully consider all of the information set forth in this Form 10-K, including the following risk factors, before making an investment decision with respect to our securities. This Form 10-K also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See "Item 1. Business" Cautionary Statement Regarding Forward-Looking Statements.

Risks Related to the Actavis Merger

As disclosed above under "Item 1. Business" Actavis Merger, we and Actavis, a company incorporated under the laws of Ireland, entered into an Agreement and Plan of Merger (the Actavis Merger), dated as of February 17, 2014 (the Merger Agreement), pursuant to which Actavis has agreed, subject to the terms and conditions thereof, to acquire the Company. As a result of the Actavis Merger, we will become a wholly owned subsidiary of Actavis. The merger is expected to close during the second half of calendar 2014.

The Merger Agreement provides that, upon completion of the Actavis Merger, each share of our common stock issued and outstanding immediately prior to the Actavis Merger (other than dissenting shares) will be converted into the right to receive, at the election of the holder thereof: (1) a combination of $26.04 in cash plus 0.3306 Actavis ordinary shares (the Mixed Election Consideration); (2) $86.81 in cash (the Cash Election Consideration); or (3) 0.4723 Actavis ordinary shares (the Stock Election Consideration). Shares of our common stock with respect to which no election is made will receive the Mixed Election Consideration. Stockholders who make the Cash Election or the Stock Election will be subject to proration to ensure that the total amount of cash paid and the total number of Actavis shares issued to Company stockholders as a whole are equal to the total amount of cash and number of Actavis shares that would have been paid and issued if all Company stockholders received the Mixed Election consideration.

The following discussion highlights some of the potential risks that may arise in connection with the Actavis Merger.

Because the market price of Actavis ordinary shares will fluctuate, Company stockholders cannot be sure of the market price of the Actavis ordinary shares they will receive.

As a result of the Actavis Merger, each issued and outstanding share of Company common stock, other than excluded shares and dissenting shares, will be converted into the right to receive the Standard Election Consideration. Alternatively, Company stockholders will have the right to make either a cash election to receive the Cash Election Consideration, or a stock election to receive the Stock Election Consideration, for each of their Company shares. Both the cash election and the stock election are subject to the proration and adjustment procedures, described under "The Merger Agreement—Election and Proration Procedures; Procedures for Converting Shares of Forest Common Stock into Merger Consideration; Dissenter's Rights" beginning on page 111 of the definitive Proxy Statement on Schedule 14A filed by Company with the SEC on May 6, 2014 (the Proxy Statement), to cause the total amount of cash paid, and the total number of Actavis ordinary shares issued, in the Actavis Merger to the holders of shares of Company common stock (other than excluded shares), as a whole, to equal as nearly as practicable the total amount of cash and number of shares that would have been paid and issued if all of such shares of Company common stock were converted into

the Standard Election Consideration.

The market price of Actavis ordinary shares, which Company stockholders may receive in the Actavis Merger, will continue to fluctuate from the date of this Form 10-K through the date of the closing of the Actavis Merger. Accordingly, at the time of the Company special meeting that will be conducted to consider the Actavis Merger, Company stockholders will not know or be able to determine the market price of the Actavis ordinary shares they may receive upon completion of the Actavis Merger. It is possible that, at the time of the closing of the Actavis Merger, the shares of Company common stock held by Company stockholders may have a greater market value than the cash and the Actavis ordinary shares for which they are exchanged. The market price of Actavis ordinary shares on the date of the Company special meeting may not be indicative of the market price of Actavis ordinary shares that Company stockholders will receive upon completion of the Actavis Merger. The market prices of Actavis ordinary shares and Company common stock are subject to general price fluctuations in the market for publicly traded equity securities and have experienced volatility in the past. Stock price changes may result from a variety of factors, including general market and economic conditions and changes in the respective businesses, operations and prospects, and regulatory considerations of Actavis and the Company. Market assessments of the benefits of the Actavis Merger and the likelihood that the Actavis Merger will be completed, as well as general and industry specific market and economic conditions, may also impact market prices of Actavis ordinary shares and Company common stock. Many of these factors are beyond Actavis' and the Company's control. You should obtain current market quotations for shares of Company common stock and for Actavis ordinary shares.

Company stockholders may receive a form of consideration different from what they elect.

Although each Company stockholder may elect to receive all cash or all Actavis ordinary shares in the Actavis Merger, the pool of cash and the Actavis ordinary shares available for all Company stockholders will be a fixed percentage of the aggregate Merger Consideration at closing, and will not exceed the aggregate number of Actavis ordinary shares that would have been issued, and the aggregate amount of cash that would have been paid, to all of the holders of shares of Company common stock had the election to receive 0.3306 of an Actavis ordinary share and $26.04 in cash been made with respect to each share of Company common stock (other than excluded shares and dissenting shares). As a result, if the aggregate amount of shares with respect to which either cash elections or stock elections have been made would otherwise result in payments of cash or stock in excess of the maximum amount of cash or stock available, and a Company stockholder has chosen the consideration election that exceeds the maximum available, such Company stockholder will receive consideration in part in a form that such stockholder did not choose. This could result in, among other things, tax consequences that differ from those that would have resulted if such Company stockholder had received the form of consideration that the stockholder elected (including the potential recognition of gain for federal income tax purposes if the stockholder receives cash). For illustrative examples of how the proration procedures would work in the event there is an oversubscription of the cash election or stock election in the Actavis Merger, see "The Merger Agreement—Election and Proration Procedures; Procedures for Converting Shares of Forest Common Stock into Merger Consideration; Dissenter's Rights" beginning on page 111 of the Proxy Statement.

The market price for Actavis ordinary shares following the closing may be affected by factors different from those that historically have affected Company common stock and Actavis ordinary shares.

Upon completion of the Actavis Merger, holders of shares of Company common stock (other than those who elect to receive all cash, and who do receive all cash, in the Actavis Merger, and the holders of excluded shares and dissenting shares) will become holders of Actavis ordinary shares. Actavis' businesses differ from those of the Company, and accordingly the results of operations of Actavis will be affected by some factors that are different from those currently affecting the results of operations of the Company. In addition, upon completion of the Actavis Merger, holders of Actavis ordinary shares will become holders of shares in the combined company. The results of operation of the combined company may also be affected by factors different from those currently affecting Actavis. For a discussion of the businesses of Actavis and the Company and of some important factors to consider in connection with those

businesses, see the documents incorporated by reference in the Proxy Statement and referred to under "Where You Can Find More Information" beginning on page 228 of the Proxy Statement.

Actavis and the Company must obtain required approvals and governmental and regulatory consents to consummate the Actavis Merger, which if delayed, not granted or granted with unacceptable conditions, may prevent (for example, if the approval of Company stockholders or Actavis shareholders is not obtained), delay or jeopardize the consummation of the Actavis Merger, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the Actavis Merger.

The Actavis Merger is subject to customary closing conditions. These closing conditions include, among others, the receipt of required approvals by the Company stockholders and the Actavis shareholders, the clearances of the Actavis Merger by certain governmental and regulatory authorities and the expiration or termination of applicable waiting periods under the HSR Act, and the antitrust and competition laws of certain foreign countries under which filings or approvals are or may be required. To the extent required, foreign investment filings will be made, though these are not closing conditions. The governmental agencies from which the parties will make these filings and seek certain of these approvals and consents have broad discretion in administering the governing regulations. Actavis and the Company can provide no assurance that all required approvals and consents will be obtained. Moreover, as a condition to their approval of the transaction, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of the business of the combined company after the closing. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the effective time or reduce the anticipated benefits of the transaction. Further, no assurance can be given that the required shareholder and stockholder approvals will be obtained or that the required closing conditions will be satisfied, and, if all required consents and approvals are obtained and the closing conditions are satisfied, no assurance can be given as to the terms, conditions and timing of the approvals or clearances. If Actavis and the Company agree to any material requirements, limitations, costs, divestitures or restrictions in order to obtain any approvals or clearances required to consummate the transaction, these requirements, limitations, costs, divestitures or restrictions could adversely affect the combined company's ability to integrate Actavis' operations with the Company's operations and/or reduce the anticipated benefits of the transaction. This could result in a failure to consummate the transactions or have a material adverse effect on the business and results of operations of the combined company. For additional information, see "The Actavis Merger—Regulatory Approvals Required for the Transaction" beginning on page 106 of the Proxy Statement.

The Merger Agreement may be terminated in accordance with its terms and the Actavis Merger may not be completed.

The Merger Agreement contains a number of conditions that must be fulfilled to complete the Actavis Merger. Those conditions include: the approval of the Actavis Merger by Company stockholders, approval of the Actavis Share Issuance Proposal by Actavis shareholders, receipt of requisite regulatory and antitrust approvals, absence of orders prohibiting completion of the Actavis Merger, effectiveness of the registration statement of which this document is a part, approval of the Actavis ordinary shares to be issued to Company stockholders for listing on the New York Stock Exchange, the continued accuracy of the representations and warranties of both parties subject to specified materiality standards, and the performance by both parties of their covenants and agreements. These conditions to the closing of the Actavis Merger may not be fulfilled and, accordingly, the Actavis Merger may not be completed. In addition, if the Actavis Merger is not completed by August 17, 2014 (subject to extension to November 17, 2014, and subsequently to December 17, 2014, if the only conditions not satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing, which conditions shall be capable of being satisfied) are conditions relating to HSR clearance, other required filings and clearances under foreign antitrust laws, the absence of certain proceedings under antitrust laws and the absence of any orders or injunctions under antitrust laws), either Actavis or the Company may choose not to proceed with the Actavis Merger. In addition, Actavis or the Company may elect to terminate the Merger Agreement in certain other circumstances, and the parties can mutually decide to terminate the Merger Agreement at any time prior to the consummation of the Actavis Merger, before or after stockholder approval. See "The Merger Agreement—Termination of the Merger Agreement; Termination Fees" beginning on page 133 of the

Proxy Statement for a fuller description of these circumstances.

The Merger Agreement contains provisions that restrict the Company's ability to pursue alternatives to the Actavis Merger and, in specified circumstances, could require the Company to pay Actavis a termination fee of up to $875 million.

Under the Merger Agreement, the Company is restricted, subject to certain exceptions, from soliciting, initiating, knowingly encouraging, discussing or negotiating, or furnishing information with regard to, any inquiry, proposal or offer for a competing acquisition proposal from any person or entity. The Company may not terminate the Merger Agreement in order to enter into an agreement with respect to a superior proposal. If the Company's board of directors (after consultation with the Company's financial advisors and legal counsel) determines that such proposal is more favorable to the Company stockholders than the Actavis Merger and the Company's board of directors recommends such proposal to the Company stockholders, Actavis would be entitled to terminate the Merger Agreement. Under such circumstances, the Company would be required to pay Actavis a termination fee equal to $875 million. These provisions could discourage a third party that may have an interest in acquiring all or a significant part of the Company from considering or proposing that acquisition, even if such third party were prepared to enter into a transaction that would be more favorable to the Company and its stockholders than the Actavis Merger. Additionally, in the event the Merger Agreement is terminated due to the failure of the Company stockholders to approve the Actavis Merger at the Company special meeting, the Company would be required to pay Actavis a fee of $250 million, increasing to $875 million in certain circumstances. See "The Merger Agreement—Termination of the Merger Agreement; Termination Fees" beginning on page 133 of the Proxy Statement.

While the Actavis Merger is pending, Actavis and the Company will be subject to business uncertainties that could adversely affect their business.

Uncertainty about the effect of the Actavis Merger on employees, customers and suppliers may have an adverse effect on the Company and Actavis. These uncertainties may impair Actavis' and the Company's ability to attract, retain and motivate key personnel until the Actavis Merger is consummated and for a period of time thereafter, and could cause customers, suppliers and others who deal with Actavis and the Company to seek to change existing business relationships with Actavis and the Company. Employee retention may be challenging during the pendency of the Actavis Merger, as certain employees may experience uncertainty about their future roles. If key employees depart because of issues related to the uncertainty and difficulty of integration or a desire not to remain with the businesses, the business of the combined company following the Actavis Merger could be seriously harmed. In addition, the Merger Agreement restricts the Company and, to a lesser extent, Actavis, from taking specified actions until the Actavis Merger occurs without the consent of the other party. These restrictions may prevent Actavis or the Company from pursuing attractive business opportunities that may arise prior to the completion of the Actavis Merger. See "The Merger Agreement—Covenants and Agreements" beginning on page 120 of the Proxy Statement for a description of the restrictive covenants applicable to Actavis and the Company.

Company directors and officers may have interests in the Actavis Merger different from the interests of Company stockholders and Actavis shareholders.

Certain of the directors and executive officers of the Company negotiated the terms of the Merger Agreement, and the Company's board of directors recommended that the stockholders of the Company vote in favor of the merger-related proposals. These directors and executive officers may have interests in the Actavis Merger that are different from, or in addition to, those of Company stockholders and Actavis shareholders. These interests include, but are not limited to, the continued employment of certain executive officers of the Company by Actavis, the continued service of certain directors of the Company as directors of Actavis, the treatment in the Actavis Merger of stock options, restricted stock, restricted stock units, bonus awards, change of control employment agreements and other rights held by Company directors and executive officers, and the indemnification of former Company directors and officers by Actavis. Company stockholders and Actavis shareholders should be aware of these interests when they consider their

respective board of directors' recommendation that they vote in favor of the merger-related proposals.

The Company's board of directors was aware of these interests when it declared the advisability of the Merger Agreement, determined that it was fair to the Company stockholders and recommended that the Company stockholders adopt the Merger Agreement. The interests of the Company's directors and executive officers are described in more detail in the section of the Proxy Statement entitled "The Actavis Merger—Interests of Forest's Directors and Executive Officers in the Transaction" beginning on page 101 of the Proxy Statement.

Company stockholders will have a reduced ownership and voting interest after the Actavis Merger and will exercise less influence over management.

Company stockholders currently have the right to vote in the election of the board of directors of the Company and on other matters affecting the Company. Upon the completion of the Actavis Merger, each Company stockholder who receives Actavis ordinary shares will become a shareholder of Actavis with a percentage ownership of Actavis that is smaller than the stockholder's percentage ownership of the Company. It is currently expected that the former stockholders of the Company as a group will receive shares in the Actavis Merger constituting approximately 35% of the outstanding Actavis ordinary shares immediately after the Actavis Merger. Because of this, Company stockholders will have less influence on the management and policies of Actavis than they now have on the management and policies of the Company.

Actavis ordinary shares to be received by Company stockholders as a result of the Actavis Merger will have rights different from the shares of Company common stock.

Upon completion of the Actavis Merger, the rights of former Company stockholders who become Actavis shareholders will be governed by the memorandum of association and articles of association of Actavis and by Irish law. The rights associated with shares of Company common stock are different from the rights associated with Actavis ordinary shares. Material differences between the rights of stockholders of the Company and the rights of shareholders of Actavis include differences with respect to, among other things, distributions, dividends, repurchases and redemptions, dividends in shares / bonus issues, the election of directors, the removal of directors, the fiduciary and statutory duties of directors, conflicts of interests of directors, the indemnification of directors and officers, limitations on director liability, the convening of annual meetings of shareholders and special shareholder meetings, notice provisions for meetings, the quorum for shareholder meetings, the adjournment of shareholder meetings, the exercise of voting rights, shareholder action by written consent, shareholder suits, shareholder approval of certain transactions, rights of dissenting shareholders, anti-takeover measures and provisions relating to the ability to amend the articles of association. See "Comparison of the Rights of Holders of Actavis Ordinary Shares and Forest Common Stock" beginning on page 172 of the Proxy Statement for a discussion of the different rights associated with Actavis ordinary shares and Company common stock.

The opinions of Actavis' and the Company's financial advisors will not reflect changes in circumstances between the original signing of the Merger Agreement and the completion of the Actavis Merger.

Actavis and the Company have not obtained updated opinions from their respective financial advisors as of the date of this document and do not expect to receive updated opinions prior to the completion of the Actavis Merger. Changes in the operations and prospects of Actavis or the Company, general market and economic conditions and other factors that may be beyond the control of Actavis or the Company, and on which Actavis' and the Company's financial advisors' opinions were based, may significantly alter the value of the Company or the prices of Actavis ordinary shares or Company common stock by the time the Actavis Merger is completed. The opinions do not speak as of the time the Actavis Merger will be completed or as of any date other than the date of such opinions. Because Actavis' and the Company's financial advisors will not be updating their opinions, the opinions will not address the fairness of the Merger Consideration from a financial point of view at the time the Actavis Merger is completed. Actavis' board of directors' recommendation that Actavis shareholders vote "FOR" the Actavis Share Issuance Proposal and the Company's

board of directors' recommendation that Company stockholders vote "FOR" the Actavis Merger, however, are made as of the date of the Proxy Statement. For a description of the opinions that Actavis and the Company received from their respective financial advisors, please refer to "The Actavis Merger—Opinion of Actavis' Financial Advisor" and "The Actavis Merger—Opinion of Forest's Financial Advisor" beginning on pages 80 and 89, respectively, of the Proxy Statement.

Irish resident or ordinarily resident holders of Company common stock may be subject to Irish tax on chargeable gains on the cancellation of their shares of Company common stock.

Company stockholders that are resident or ordinarily resident in Ireland for Irish tax purposes, or Company stockholders that hold their shares of Company common stock in connection with a trade carried on by such persons through an Irish branch or agency, will, subject to the availability of any exemptions and reliefs, generally be subject to Irish tax on chargeable gains arising on the cancellation of their shares of Company common stock pursuant to the Actavis Merger. The receipt by such a Company stockholder of cash only pursuant to a cash election will be treated as a disposal of his or her shares of Company common stock for the purposes of Irish capital gains tax or corporation tax on chargeable gains (as applicable) (Irish CGT) and such holder may, subject to the availability of any exemptions and reliefs, realize a chargeable gain (or allowable loss). On the basis that the Actavis Merger is treated as a 'scheme of reconstruction or amalgamation' for Irish CGT purposes and subject to certain conditions the following treatment should apply:

- The receipt by such a Company stockholder of Actavis ordinary shares and cash (including any cash received in lieu of a fractional Actavis ordinary share) will be treated as a part disposal of his or her shares of Company common stock for Irish CGT purposes in respect of the cash consideration received. This may, subject to the availability of any exemptions and reliefs, give rise to a chargeable gain (or allowable loss) for the purposes of Irish CGT in respect of the cash received.

- The Actavis ordinary shares received should be treated as the same asset as the cancelled shares of Company common stock and as acquired at the same time and for the same consideration as those cancelled shares of Company common stock as adjusted for the part of the consideration attributable to the part disposal in respect of the receipt of cash.

- If such a Company stockholder makes a stock election and receives only Actavis ordinary shares on the cancellation of his or her shares of Company common stock, the cancellation and receipt should not be treated as a disposal of shares of Company common stock for Irish CGT purposes but instead the Actavis ordinary shares received should be treated as the same asset as those cancelled shares of Company common stock and as acquired at the same time and for the same consideration as those cancelled shares of Company common stock.

See "Certain Tax Consequences of the Actavis Merger—Irish Tax Considerations—Irish Tax on Chargeable Gains" beginning on page 148 of the Proxy Statement for more information.

Legal proceedings in connection with the Actavis Merger, the outcomes of which are uncertain, could delay or prevent the completion of the Actavis Merger.

Since the announcement of the Merger Agreement on February 18, 2014, a number of putative stockholder class action complaints have been filed in New York and Delaware courts against the Company, the members of its board of directors, Actavis, US Holdings, Merger Sub 1 and Merger Sub 2 challenging the proposed Actavis Merger. The actions allege that members of the Company's board of directors breached their fiduciary duties by agreeing to sell the Company for inadequate consideration and pursuant to an inadequate process, and that Actavis, US Holdings, Merger Sub 1 and Merger Sub 2 aided and abetted these alleged breaches. Among other remedies, the plaintiffs seek to enjoin

the Actavis Merger. Such legal proceedings could delay or prevent the Actavis Merger from becoming effective within the agreed upon timeframe. See “Litigation Relating to the Transaction” beginning on page 137 of the Proxy Statement.

Risks Related to the Business of the Combined Company

Actavis and the Company may fail to realize all of the anticipated benefits of the Actavis Merger or those benefits may take longer to realize than expected. The combined company may also encounter significant difficulties in integrating the two businesses. The Actavis Merger may result in adverse tax consequences to Actavis.

The ability of Actavis and the Company to realize the anticipated benefits of the transaction will depend, to a large extent, on the combined company’s ability to integrate the two businesses. The combination of two independent businesses is a complex, costly and time-consuming process. As a result, Actavis and the Company will be required to devote significant management attention and resources to integrating their business practices and operations. The integration process may disrupt the businesses and, if implemented ineffectively, would restrict the realization of the full expected benefits. The failure to meet the challenges involved in integrating the two businesses and to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, the activities of the combined company and could adversely affect the results of operations of the combined company.

In addition, the overall integration of the businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and diversion of management’s attention. The difficulties of combining the operations of the companies include, among others:

- the diversion of management’s attention to integration matters;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from the combination;
- difficulties in the integration of operations and systems;
- conforming standards, controls, procedures and accounting and other policies, business cultures and compensation structures between the two companies;
- difficulties in the assimilation of employees;
- difficulties in managing the expanded operations of a significantly larger and more complex company;
- challenges in keeping existing customers and obtaining new customers;
- potential unknown liabilities, adverse consequences and unforeseen increased expenses associated with the Actavis Merger, including possible adverse tax consequences to the Actavis group pursuant to the anti-inversion rules under section 7874 (Section 7874) of the Internal Revenue Code of 1986, as amended (the Code), as a result of the Actavis Merger;

- challenges in attracting and retaining key personnel; and

- coordinating a geographically dispersed organization.

Many of these factors will be outside of the control of Actavis or the Company and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact the business, financial condition and results of operations of the combined company. In addition, even if the operations of the businesses of Actavis and the Company are integrated successfully, the full benefits of the transaction may not be realized, including the synergies, cost savings or sales or growth opportunities that are expected. These benefits may not be achieved within the anticipated time frame, or at all. Or, additional unanticipated costs may be incurred in the integration of the businesses of Actavis and the Company. All of these factors could cause dilution to the earnings per share of Actavis, decrease or delay the expected accretive effect of the transaction, and negatively impact the price of Actavis ordinary shares. As a result, we cannot assure you that the combination of Actavis and the Company will result in the realization of the full benefits anticipated from the transaction.

Combining the businesses of Actavis and the Company may be more difficult, costly or time-consuming than expected, which may adversely affect Actavis' results and negatively affect the value of Actavis' ordinary shares following the Actavis Merger.

Actavis and the Company have entered into the Merger Agreement because each believes that the Actavis Merger will be beneficial to it and its respective shareholders and stockholders and that combining the businesses of Actavis and the Company will produce benefits and cost savings. If Actavis is not able to successfully combine the businesses of Actavis and the Company in an efficient and effective manner, the anticipated benefits and cost savings of the Actavis Merger may not be realized fully, or at all, or may take longer to realize than expected, and the value of Actavis ordinary shares may be affected adversely.

In addition, the actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual synergies, if achieved, may be lower than and may take longer to achieve than anticipated. If Actavis is not able to adequately address integration challenges, Actavis may be unable to successfully integrate Actavis' and the Company's operations or to realize the anticipated benefits of the integration of the two companies.

Actavis and the Company will incur direct and indirect costs as a result of the Actavis Merger.

Actavis and the Company will incur substantial expenses in connection with completing the Actavis Merger, and over a period of time following the completion of the Actavis Merger, Actavis further expects to incur substantial expenses in connection with coordinating the businesses, operations, policies and procedures of Actavis and the Company. While Actavis has assumed that a certain level of transaction and coordination expenses will be incurred, there are a number of factors beyond Actavis' control that could affect the total amount or the timing of these transaction and coordination expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. These expenses may exceed the costs historically borne by Actavis and the Company.

Actavis expects that, following the Actavis Merger, Actavis will have significantly less cash on hand than the sum of cash on hand of Actavis and the Company prior to the Actavis Merger. This reduced amount of cash could adversely affect Actavis' ability to grow.

Actavis is expected to have significantly less cash and cash equivalents on hand than the approximately $1,362.1 million of combined cash and cash equivalents of the two companies, after giving effect to the Aptalis Acquisition (as

defined in "Unaudited Pro Forma Combined Financial Information" beginning on page 154 of the Proxy Statement), as of December 31, 2013, and would have on a pro forma basis, giving effect to the Actavis Merger as if they had been consummated on December 31, 2013, no cash and cash equivalents. See "Unaudited Pro Forma Combined Financial Information" beginning on page 154 of the Proxy Statement. Although the management of Actavis believes that it will have access to cash sufficient to meet Actavis' business objectives and capital needs, the lessened availability of cash and cash equivalents following the consummation of the Actavis Merger could constrain Actavis' ability to grow its business. Actavis' financial position following the Actavis Merger could also make it vulnerable to general economic downturns and industry conditions, and place it at a competitive disadvantage relative to its competitors that have more cash at their disposal. In the event that Actavis does not have adequate capital to maintain or develop its business, additional capital may not be available to Actavis on a timely basis, on favorable terms, or at all.

If the Merger is consummated, Actavis will incur a substantial amount of debt to finance the cash portion of the Merger Consideration, which could restrict its ability to engage in additional transactions or incur additional indebtedness.

In connection with the Actavis Merger, Actavis expects that one or more of its subsidiaries will (i) borrow up to $2.0 billion under the senior credit facilities, (ii) issue and sell up to $2.0 billion in aggregate principal amount of senior unsecured notes and (iii) under certain circumstances, borrow up to $4.0 billion in loans under the bridge facility. Following the completion of the Actavis Merger, the combined company will have a significant amount of indebtedness outstanding. On a pro forma basis, giving effect to the incurrence of indebtedness as described in "The Actavis Merger—Financing Relating to the Transaction" beginning on page 107 of the Proxy Statement, the consolidated indebtedness of Actavis would be approximately $17,877.6 million as of December 31, 2013. See "Unaudited Pro Forma Combined Financial Information" beginning on page 154 of the Proxy Statement. This substantial level of indebtedness could have important consequences to Actavis' business, including making it more difficult to satisfy its obligations, increasing its vulnerability to general adverse economic and industry conditions, limiting its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates and restricting Actavis from pursuing certain business opportunities. These limitations could reduce the benefits Actavis expects to achieve from the Merger or impede its ability to engage in future business opportunities or strategic acquisitions.

In addition, under certain circumstances, Actavis could be required to make an offer to repurchase the Company's senior notes shortly after the completion of the Actavis Merger at a price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest thereon to the date of repurchase. If any such offer is accepted, Actavis intends to fund the required repurchase from a combination of available cash on hand of Actavis and additional financing. Actavis cannot assure you that any such financing will be available in an amount sufficient to fund prepayment of the Company's senior notes or at all or that the terms of any such financing will be favorable. In addition, any such financing may include restrictive covenants that, among other things, limit Actavis' ability to engage in certain business transactions or incur additional indebtedness.

Actavis' and the Company's actual financial positions and results of operations may differ materially from the unaudited pro forma financial data included in the Proxy Statement.

The pro forma financial information contained in the Proxy Statement is presented for illustrative purposes only and may not be an indication of what Actavis' financial position or results of operations would have been had the transaction been completed on the dates indicated. The pro forma financial information has been derived from the audited and unaudited historical financial statements of Actavis and the Company and certain adjustments and assumptions have been made regarding the combined company after giving effect to the transaction. The assets and liabilities of the Company have been measured at fair value based on various preliminary estimates using assumptions that Actavis management believes are reasonable utilizing information currently available. The process for estimating the fair value of acquired assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. These estimates may be revised as additional information becomes available and as additional analyses are performed. Differences between preliminary estimates in the pro forma financial information

and the final acquisition accounting will occur and could have a material impact on the pro forma financial information and the combined company's financial position and future results of operations.

In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect Actavis' financial condition or results of operations following the closing. Any potential decline in Actavis' financial condition or results of operations may cause significant variations in the share price of Actavis. See "Unaudited Pro Forma Combined Financial Information" beginning on page 154 of the Proxy Statement.

The Actavis Merger may not be accretive and may cause dilution to Actavis' earnings per share, which may negatively affect the market price of Actavis ordinary shares.

Although Actavis currently anticipates that the Actavis Merger will be accretive to earnings per share (on an adjusted earnings basis) from and after the Actavis Merger, this expectation is based on preliminary estimates, which may change materially.

As described and based on the assumptions in the section of the Proxy Statement entitled "The Actavis Merger—Consideration to Forest Stockholders" beginning on page 65, Actavis expects to issue or reserve for issuance approximately 99 million Actavis ordinary shares in connection with completion of the Actavis Merger. The issuance of these new Actavis ordinary shares could have the effect of depressing the market price of Actavis ordinary shares.

In addition, Actavis could also encounter additional transaction-related costs or other factors such as the failure to realize all of the benefits anticipated in the Actavis Merger. All of these factors could cause dilution to Actavis' earnings per share or decrease or delay the expected accretive effect of the Actavis Merger and cause a decrease in the market price of Actavis ordinary shares.