

FOREST LABORATORIES INC  
Form DEF 14A  
June 29, 2006

**SCHEDULE 14A**  
**(Rule 14a-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**  
**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934 (Amendment No. )**

- Filed by registrant  [X]  
Filed by a party other than the registrant  [ ]  
Check the appropriate box:  
 [ ] Preliminary proxy statement  
 [X] Definitive proxy statement  
 [ ] Definitive additional materials  
 [ ] Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

Forest Laboratories, Inc.  
(Name of Registrant as Specified in its Charter)

Forest Laboratories, Inc.  
(Name of Person(s) Filing Proxy Statement)

Payment of filing fee (Check the appropriate box):

- [X] No fee required.  
 [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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1) Amount previously paid:

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4) Date filed:

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**FOREST LABORATORIES, INC.  
NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS**

The Annual Meeting of the Stockholders of Forest Laboratories, Inc. will be held on August 7, 2006 at 10:00 a.m., at JP Morgan Chase & Co. Corporate Headquarters, 277 Park Avenue, New York, New York. We are holding this meeting to:

1. Elect seven directors to serve until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified (Proposal 1);
2. Ratify the appointment of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007 (Proposal 2); and
3. Transact such other business as may properly be brought before the meeting.

The record date for the Annual Meeting is June 20, 2006. Only Forest stockholders of record at the close of business on that date may vote at the meeting, or any adjournment of the meeting. A copy of the Annual Report for the fiscal year ended March 31, 2006 is being mailed with this Proxy Statement.

**You are invited to attend the meeting. Whether or not you plan to attend the meeting, please vote by mail, by telephone or on the Internet in order to be certain your shares are represented at the meeting.**

By Order of the Board of Directors

**WILLIAM J. CANDEE, III,**  
**Secretary**

June 29, 2006  
New York, New York

**FOREST LABORATORIES, INC.**  
**909 THIRD AVENUE**  
**NEW YORK, NEW YORK 10022**

**PROXY STATEMENT**

This Proxy Statement contains information related to our Annual Meeting of Stockholders to be held on Monday, August 7, 2006, beginning at 10:00 a.m. at JP Morgan Chase & Co. Corporate Headquarters, 277 Park Avenue, New York, New York, and at any adjournments thereof. This Proxy Statement is being sent to stockholders on or about June 29, 2006. You should review this information together with our 2006 Annual Report to Stockholders, which accompanies this Proxy Statement.

**Information about the Meeting**

**Q: Why did you send me this Proxy Statement?**

A: We sent you this Proxy Statement and the enclosed proxy card because the Board of Directors (or the Board) of Forest Laboratories, Inc. (or we or Forest) is soliciting your proxy to vote at our 2006 Annual Meeting of Stockholders to be held on Monday, August 7, 2006, or any adjournments of the meeting. This Proxy Statement summarizes information that is intended to assist you in making an informed vote on the proposals described in the Proxy Statement.

**Q: Who can vote at the Annual Meeting?**

A: Only stockholders of record as of the close of business on June 20, 2006 are entitled to vote at the meeting. On that date, there were 320,566,802 shares of our Common Stock outstanding and entitled to vote.

**Q: How many shares must be present to conduct the Annual Meeting?**

A: We must have a "quorum" present in person or by proxy to hold the Annual Meeting. A quorum is a majority of the outstanding common shares entitled to vote. Abstentions and broker non-votes (defined below) will be counted for the purpose of determining the existence of a quorum.

**Q: What matters are to be voted upon at the Annual Meeting?**

A: Two (2) proposals are scheduled for a vote:

Election of seven directors to serve until the next Annual Meeting of Stockholders in 2007;

Ratification of the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007.

As of the date of this Proxy Statement, these two (2) proposals are the only matters which our Board of Directors intends to present at the meeting. Our Board does not know of any other business to be presented at the meeting. If other business is properly brought before the meeting, the persons named on the enclosed proxy card will vote on these other matters in their discretion.

**Q: How does the Board recommend that I vote?**

A: The Board recommends that you vote FOR the election of each of the nominees and FOR the proposal to ratify the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007.

**Q: How do I vote before the meeting?**

A: You may vote your shares by mail by filling in, signing and returning the enclosed proxy card. Most of our stockholders may also vote their shares by telephone or the Internet. The instructions for voting by telephone or the Internet can be found with your proxy card. If you vote by telephone or the Internet, you do not need to return your proxy card. You may either vote "For" all the nominees to the Board of Directors of Forest or you may withhold authority to vote for any nominee(s) you specify. For the ratification of the selection of BDO Seidman, LLP as Forest's independent registered public accounting firm for the fiscal year ending March 31, 2007, you may vote "For" or "Against" or abstain from voting.

**Q: May I vote at the meeting?**

A: Yes, you may vote your shares at the meeting if you attend in person. **Even if you plan to attend the meeting, we recommend that you also submit your proxy or voting instructions as described above so that your vote will be counted if you later decide not to attend the meeting.**

**Q: How many votes do I have?**

A: Each share of common stock that you own as of June 20, 2006, entitles you to one vote on each matter voted upon at the Annual Meeting. On June 20, 2006, there were 320,566,802 shares of our Common Stock outstanding.

**Q: May I change my vote?**

A: Yes, you may change your vote or revoke your proxy at any time before the vote at the meeting. You may change your vote prior to the meeting by executing a valid proxy bearing a later date and delivering it to us prior to the meeting at Forest Laboratories, Inc., Attention: Corporate Secretary, 909 Third Avenue, New York, New York 10022. You may withdraw your vote at the meeting and vote in person by giving written notice to our Corporate Secretary. You may also revoke your vote without voting by sending written notice of revocation to our Corporate Secretary at the above address.

**Q: How are my shares voted if I submit a proxy but do not specify how I want to vote?**

A: If you submit a properly executed proxy card but do not specify how you want to vote, your shares will be voted FOR the election of each of the nominees for director and FOR the ratification of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007, and in the discretion of the persons named as proxies on all other matters that are properly brought before the meeting.

**Q: How do I vote if my broker holds my shares in "street name"?**

A: Shares held in "street name" are held in the name of your bank or broker. If your shares are held in a brokerage account in street name, they are not included in the total number of shares listed as owned by you on the enclosed proxy card. Your bank or broker will send you instructions on how to vote those shares.

**Q: What vote is required to elect Directors?**

A: The seven nominees for election as directors who receive the highest number of "FOR" votes will be elected as directors. This number is a plurality. Abstentions and broker non-votes (defined below) will have no effect on the outcome of the voting to elect directors.

**Q: What vote is required to ratify the selection of BDO Seidman, LLP as Forest's independent registered public accounting firm for the fiscal year ending March 31, 2007?**

A: For approval of this proposal, the proposal must receive the "FOR" vote of a majority of the votes cast. Abstentions will have the same effect as a vote against the proposal and broker non-votes will have no effect on the outcome of the vote.

**Q: What is a broker non-vote?**

A: When shares are held in street name, a broker non-vote may occur when a bank or brokerage firm does not vote on a proposal because it does not have discretionary voting power and has not received instructions from the beneficial owner of the shares. A broker non-vote is counted for the purpose of determining whether a quorum is present. Under the current rules of the New York Stock Exchange (or NYSE), your broker is permitted to vote your shares on certain routine matters, such as the election of directors and the ratification of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2007, even if you do not instruct the broker how to vote.

**Q: Who will count the votes?**

A: Votes will be counted by the two independent inspectors of election appointed for the meeting.

**Q: Who pays for the solicitation of proxies?**

A: We will pay for the entire cost of soliciting proxies. We will also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. In addition, our directors and employees may solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies.

**Q: How can I find out the results of the voting at the Annual Meeting?**

A: Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in our Quarterly Report on Form 10-Q for the period ending September 30, 2006.

**SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT**

The following table sets forth, as of June 20, 2006, the number of common shares owned beneficially by each of our directors, each of our executive officers named in the Summary Compensation Table below, all of our directors and named executive officers as a group, and any persons we know to be beneficial owners of more than five percent of our outstanding common shares.

<b><u>Name and Address of Beneficial Owner</u></b>	<b><u>Amount and Nature of Beneficial Ownership</u></b>	<b><u>Percent of Class</u></b>
<b><i><u>5% Stockholders</u></i></b>		
Wellington Management Company, LLP 75 State Street Boston, MA 02109	35,542,857 (1)	11.09%
Capital Group International, Inc. 11100 Santa Monica Blvd. Los Angeles, CA 90025	59,101,700 (1)	18.44%
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	32,000,200 (1)	9.98%
CAM North America, LLC Salomon Brothers Asset Management Inc. Smith Barney Fund Management LLC TIMCO Asset Management Inc. 399 Park Avenue New York, NY 10022	23,265,032 (1)	7.26%
Vanguard Specialized Funds – Vanguard Health Care Fund 23-2439151 100 Vanguard Blvd. Malvern, PA 19355	20,221,500 (1)	6.31%
<b><i><u>Named Executive Officers and Directors</u></i></b>		
Howard Solomon	10,522,479 (2)	3.28%
Nesli Basgoz, M.D.	3,500 (3)	*
William J. Candee, III	52,683 (4)	*
George S. Cohan	78,000 (5)	*
Dan L. Goldwasser	62,405 (6)	*

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Kenneth E. Goodman	4,357,235 (7)	1.36%
Lester B. Salans, M.D.	56,000 (8)	*
Ivan Gergel, M.D.	40,500 (9)	*
Elaine Hochberg	541,038 (10)	*
Francis I. Perier, Jr.	15,000 (11)	*
All directors and executive officers as a group	15,728,840 (12)	4.91%

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\* Less than 1%

(1) Based upon information set forth in an Information Statement on Schedule 13G filed by the beneficial owner with the SEC.

(2) Includes 6,200,000 shares issuable pursuant to options that are exercisable within 60 days.

(3) Includes 3,500 shares issuable pursuant to options that are exercisable within 60 days.

(4) Includes 48,000 shares issuable pursuant to options that are exercisable within 60 days.

(5) Includes 58,000 shares issuable pursuant to options that are exercisable within 60 days.

(6) Includes 58,000 shares issuable pursuant to options that are exercisable within 60 days. Does not include 21,680 shares owned by Mr. Goldwasser's wife. Mr. Goldwasser disclaims beneficial ownership of the shares owned by his wife.

(7) Includes 3,400,000 shares issuable pursuant to options that are exercisable within 60 days.

(8) Includes 56,000 shares issuable pursuant to options that are exercisable within 60 days. Does not include 3,200 shares owned by Dr. Salans' wife of which Dr. Salans disclaims beneficial ownership.

(9) Includes 40,500 shares issuable pursuant to options that are exercisable within 60 days.

(10) Includes 454,896 shares issuable pursuant to options that are exercisable within 60 days.

(11) Includes 15,000 shares issuable pursuant to options that are exercisable within 60 days.

(12) Includes 10,333,896 shares issuable pursuant to options that are exercisable within 60 days.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Federal Securities laws require our executive officers and directors and persons owning more than 10% of our Common Stock to file certain reports on ownership and changes in ownership with the Securities and Exchange Commission (or SEC). Based on a review of our records and other information, we believe that during fiscal 2006, our executive officers, directors and persons holding more than 10% of our Common Stock timely filed all required Section 16(a) reports except the following: a report on Form 4 covering options granted by us on August 8, 2005 to Ivan Gergel, M.D. which was subsequently reported on a Form 5, and reports on Form 4s covering options granted by us on December 9, 2005 to the following officers which reports were filed on or about December 15, 2005: Howard Solomon, Kenneth E. Goodman, Elaine Hochberg, Francis I. Perier, Jr., Mary Prehn, Raymond Stafford and Charles E. Triano.

**PROPOSAL 1****ELECTION OF DIRECTORS**

Our entire Board of Directors is elected each year at the Annual Meeting of Stockholders. The Board is currently comprised of seven members. Each of the nominees listed below is an incumbent director whose nomination to serve for a one-year term was recommended by our Nominating and Governance Committee and approved by the Board. The seven nominees include five independent directors as defined in the NYSE rules and regulations.

Each nominee elected as a director will continue in office until his or her successor has been elected and qualified or until his or her earlier death, resignation or retirement. Each person nominated has agreed to serve if elected.

The persons named as proxies intend to vote the proxies **FOR** the election of each of the nominees unless you indicate on the proxy card that your vote should be withheld from any or all of the nominees. If for some reason one or more of the nominees is unable to serve, proxies will be voted in favor of the remaining nominees and may be voted for substitute nominees recommended by the Board.

The following persons have been nominated as directors:

<b><u>Name and Principal Occupation or Position</u></b>	<b><u>Age</u></b>	<b><u>Has Been a Director Since</u></b>
Howard Solomon Chairman of the Board and Chief Executive Officer. Mr. Solomon has served as our Chief Executive Officer since 1977.	78	1964
Nesli Basgoz, M.D. Associate Chief for Clinical Affairs, Division of Infectious Diseases, Massachusetts General Hospital (MGH). Dr. Basgoz previously served as Clinical Director,	48	2006



Infectious Diseases Division of MGH and serves as Associate Professor of Medicine, Harvard Medical School.

<p>William J. Candee, III Co-Chairman of the Board of Directors and a principal of TXX Services, LLC, a transportation company with operations in New York, New Jersey and Connecticut. For more than 5 years prior to June 2004, Mr. Candee was a member of or of counsel to the law firm of Rivkin Radler, LLP.</p>	<p>79</p>	<p>1959</p>
<p>George S. Cohan President, The George Cohan Company, Inc. consultants, since June 1989.</p>	<p>82</p>	<p>1977</p>
<p>Dan L. Goldwasser Shareholder, Vedder, Price, Kaufman &amp; Kammholz, P.C. Attorneys at Law, since May 1992.</p>	<p>66</p>	<p>1977</p>
<p>Kenneth E. Goodman President and Chief Operating Officer. Mr. Goodman served as our Chief Operating Officer since December 1998. For eighteen years prior thereto, Mr. Goodman served as our Vice President -Finance and Chief Financial Officer and in addition served as our Executive Vice President-Operations since February 1998.</p>	<p>58</p>	<p>1998</p>
<p>Lester B. Salans, M.D. Clinical Professor of Medicine, Mt. Sinai School of Medicine and Adjunct Professor of Medicine, Columbia University College of Physicians and Surgeons. Dr. Salans was formerly Vice President - Academic and Scientific Affairs and Vice President - Preclinical Research at Sandoz Pharmaceutical Corporation.</p>	<p>70</p>	<p>1998</p>

## CORPORATE GOVERNANCE

We seek to follow best practices in corporate governance in a manner that is in the best interests of our business and our stockholders. We are in compliance with the corporate governance requirements imposed by the Sarbanes-Oxley Act, the SEC and the NYSE and will continue to review our policies and practices to meet ongoing developments in this area.

## **Code of Business Conduct, Compliance and Ethics**

All of our employees, including our CEO, CFO, all other senior financial officers and all other executive officers, are required to comply with our Code of Business Conduct, Compliance and Ethics. You can access our Code of Business Conduct and Ethics by clicking on the "Corporate Governance" link in the "Investors" section of our website at [www.frx.com](http://www.frx.com). We will post any amendments to or waivers of our Code of Business Conduct on our website.

## **Corporate Governance Guidelines**

Our Corporate Governance Guidelines reflect the principles by which we operate. From time to time, the Nominating and Governance Committee and the Board reviews and revises our Corporate Governance Guidelines in response to regulatory requirements and evolving best practices. You can access our Corporate Governance Guidelines by clicking on the "Corporate Governance" link in the "Investors" section of our website at [www.frx.com](http://www.frx.com).

## **Disclosure, Legal Compliance and Risk Management Committee**

The Disclosure, Legal Compliance and Risk Management Committee (or the Disclosure Committee) is made up of the following members of senior management: COO, CFO, Senior Vice President – Scientific Affairs, Senior Vice President – Marketing and Vice President – General Counsel. The primary purpose of the Disclosure Committee is to review and evaluate our disclosure documents, to develop and monitor a program of risk assessment and management and to evaluate legal compliance and compliance with our Code of Ethics. The Disclosure Committee met four times during the fiscal year ended March 31, 2006. The Disclosure Committee does not have oversight responsibility for financial matters, including financial statements and systems of internal control over financial reporting, which are monitored by the Company's Audit Committee.

## **Compliance Committee**

We have established a Compliance Committee chaired by our President and COO. Our Compliance Committee is responsible for overseeing our program for compliance with applicable laws and regulations specific to the pharmaceutical industry. The Compliance Committee includes senior management and senior departmental personnel from various corporate divisions (marketing, contract-customer operations, medical and scientific affairs, sample policy compliance, operations, internal audit and legal counsel). Other personnel are invited to participate from time to time as specific issues warrant. The Committee meets approximately every six weeks to review issues related to our Comprehensive Compliance Program, establish and approve compliance policies and provide support, guidance and advice to our Director of Compliance regarding the compliance program.

## **BOARD MEETINGS; COMMITTEES**

### **Board Meetings and Attendance of Directors**

The Board held four meetings during the fiscal year ended March 31, 2006. During fiscal 2006, each of the incumbent directors attended 75% or more of the total meetings of the Board and the respective committees on which he served. Directors are required to make every reasonable effort to attend the Annual Meeting of Stockholders. All members of the Board who were then in office attended our 2005 Annual Meeting of Stockholders.

### **Director Independence**

The Board has affirmatively determined that the following directors have no material relationship with us and are independent within the meaning of Securities Exchange Act Rule 10A-3 and within the NYSE definition of "independence": William J. Candee, III, George S. Cohan, Dan L. Goldwasser, Lester B. Salans, M.D. and Nesli Basgoz, M.D. Dr. Basgoz was appointed to the Board of Directors effective May 18, 2006. To assist in making the independence determination, the Board has adopted Director Qualification Standards as part of our Corporate Governance Guidelines. The Director Qualification Standards satisfy the NYSE independence requirements. A copy of these standards is attached to this Proxy Statement at Appendix A. Independent directors receive no compensation from us other than directors' fees and non-discretionary grants under our stock option plans for service on the Board or the Committees.

### **Executive Sessions; Presiding Director**

As required by the NYSE listing standards, our non-management directors meet in executive sessions at which only non-management directors are present on a regularly scheduled basis. Our non-management directors choose the presiding director for each meeting by majority vote on a meeting by meeting basis.

### **Communications with Directors**

You may contact the entire Board of Directors, any Committee, the non-management directors as a group or any individual director by calling our Audit Committee Hotline at 1-800-461-0825. An outside vendor collects all reports or complaints and delivers them to the Committee. The Audit Committee will forward all correspondence to the appropriate director or group of directors. You are also welcome to communicate directly with the Board at the Annual Meeting of Stockholders.

### **Committees**

The Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. All of the members of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee are independent directors within the meaning of the NYSE Listing Standards and SEC Rule 10A-3. Each of the Committees has the authority to retain independent advisors and consultants, with all fees and expenses to be paid by us. The Board-approved charters of each of the Committees are available on our website under the "Investors" link at [www.frx.com](http://www.frx.com).

Audit Committee. For the fiscal year ended March 31, 2006, the Audit Committee consisted of William J. Candee, III (or the Chairman), Dan L. Goldwasser and Lester B. Salans, M.D. The Board has determined that Dan L. Goldwasser qualifies as an "audit committee financial expert" for purposes of the SEC rules.

The Audit Committee's primary responsibilities are to: (i) oversee our financial reporting principles and policies and internal control systems, including review of our quarterly and annual financial statements; (ii) review and monitor the performance and independence of our independent registered public accounting firm and the performance of the internal auditing department; (iii) provide an open avenue of communication among the independent registered public accounting firm, financial and senior management, the internal audit department and the Board; and (iv) appoint (subject to stockholder ratification), evaluate, compensate and where appropriate, terminate and replace our independent registered public accounting firm. The Audit Committee held seven meetings during fiscal 2006.

Compensation Committee. The Compensation Committee is composed of Messrs. Candee, Cohan, Goldwasser and Dr. Salans. Pursuant to the Compensation Committee Charter, the Committee is responsible for (i) discharging the Board's responsibilities relating to compensation of Forest's executives and (ii) producing an annual report on executive compensation for inclusion in Forest's Proxy Statement in accordance with applicable rules and regulations. During the fiscal year ended March 31, 2006, the Compensation Committee held one meeting at which the Committee

made recommendations concerning salary and bonus for our executive officers for the 2006 calendar year and made recommendations as to the grant of stock options to these executive officers.

Nominating and Governance Committee. The Nominating and Governance Committee is composed of Messrs. Candee, Cohan, Goldwasser and Dr. Salans. The Committee's responsibilities include (i) identifying individuals qualified to become Board members, consistent with criteria approved by the Board and recommending that the Board select the director nominees for the next Annual Meeting of Stockholders; (ii) developing and recommending to the Board the Corporate Governance Guidelines; and (iii) overseeing evaluation of the Board and management. The Nominating Committee held one meeting during fiscal 2006.

The Nominating Committee has established a process for identifying and evaluating nominees for director. Although the Nominating Committee will consider nominees recommended by stockholders, the Nominating Committee believes that its process for identifying and evaluating nominees is designed to produce nominees that possess the educational, professional, business and personal attributes that are best suited to further our purposes. Any interested person may recommend a nominee by submitting the nomination, together with appropriate biographical information, to the Nominating and Governance Committee, c/o the Corporate Secretary, Forest Laboratories, Inc., 909 Third Avenue, New York, New York 10022. All recommended candidates will be considered using the criteria set forth in our Corporate Governance Guidelines.

The Nominating Committee will consider, among other factors, the following to evaluate recommended nominees:

The Board's current composition, including expertise, diversity, balance of management and non-management directors;

Independence and other qualifications required or recommended by applicable laws, rules and regulations (including NYSE requirements) and our policies or procedures; and

The general qualifications of potential nominees, including, but not limited to: personal integrity, loyalty to Forest and concern for its success and welfare; experience at strategy/policy setting level; high-level leadership experience in business or administrative activity; breadth of knowledge about issues affecting Forest; an ability to work effectively with others; sufficient time to devote to Forest; and freedom from conflicts of interest.

#### **Executive Officers of Forest**

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Position with Forest</u></b>
Howard Solomon	78	Chairman of the Board and Chief Executive Officer
Kenneth E. Goodman	58	President and Chief Operating Officer
Ivan Gergel, M.D.	46	Senior Vice President-Scientific Affairs
Elaine Hochberg	49	Senior Vice President-Marketing
Francis I. Perier, Jr.	46	Senior Vice President-Finance and Chief Financial Officer

Set forth below is certain biographical information concerning our executive officers who are not also directors:

Dr. Ivan Gergel was promoted to Senior Vice President – Scientific Affairs on May 19, 2005. Dr. Gergel joined us in June 1998 as Executive Director, Clinical Research. In January 2000, he was promoted to Vice President – Clinical Development and Medical Affairs. In 2002 Dr. Gergel assumed the additional title of Senior Vice President of our newly formed subsidiary, Forest Research Institute and was promoted to Executive Vice President of the Forest Research Institute and Chief Medical Officer in January 2005. Prior to joining us in 1998, Dr. Gergel was Group Director – Clinical Research and Medical Affairs at SmithKline Beecham.

Elaine Hochberg is our Senior Vice President – Marketing since December 1999. Ms. Hochberg joined us in June 1997 as Vice President – Marketing of our wholly-owned subsidiary Forest Pharmaceuticals, Inc. In February 1998, she was promoted to Vice President – Marketing. Prior to joining us in 1997, Ms. Hochberg was Assistant Vice President – Marketing at Wyeth-Lederle Laboratories.

Francis I. Perier, Jr. is our Senior Vice President – Finance and Chief Financial Officer since September 2004. From March 2004 until joining us in September 2004, Mr. Perier was Vice President – Finance – Operations Planning – Americas Medicines at Bristol-Myers Squibb. For eight years prior to March 2004, Mr. Perier served in senior financial positions at Bristol-Myers Squibb including four years as Vice President – Finance, Planning, Business Development and Information Technology at its ConvaTec Division. Prior to that, Mr. Perier had been a partner at Deloitte & Touche, LLP.

## EXECUTIVE COMPENSATION

The following table sets forth compensation for our Chief Executive Officer and each of our other four most highly compensated executive officers during fiscal year 2006 (our named executive officers) as well as compensation for each named executive officer for the two previous fiscal years.

### SUMMARY COMPENSATION TABLE

<b><u>Name and Principal Position</u></b>	<b><u>Year</u></b>	<b><u>Annual Compensation (1)</u></b>		<b><u>Long-Term Compensation (2)</u></b>	
		<b><u>Salary (\$)</u></b>	<b><u>Bonus (\$)</u></b>	<b><u>Options (#)</u></b>	<b><u>All Other Compensation (\$)(3)</u></b>
Howard Solomon, Chairman and Chief Executive Officer	2006	1,067,500	525,000	200,000	28,841
	2005	1,045,000	580,000	200,000	28,459
	2004	991,250	550,000	200,000	28,425
Kenneth E. Goodman, President and Chief Operating Officer	2006	725,500	330,000	100,000	26,086
	2005	707,250	365,000	100,000	25,817
	2004	669,250	350,000	100,000	25,993
Ivan Gergel, M.D., Senior Vice President- Scientific Affairs (4)	2006	506,830	200,000	75,000	24,424

Elaine Hochberg,	2006	515,000	200,000	50,000	24,535
Senior Vice President-	2005	483,750	237,500	50,000	24,747
Marketing	2004	448,750	235,000	50,000	24,362
Francis I. Perier, Jr.,	2006	480,000	190,000	50,000	4,400
Senior Vice	2005	239,299	50,000	100,000	1,438
President-Finance and Chief Financial Officer (5)					

(1) We have a non-qualified Deferred Compensation Plan. Under this plan, full time salaried employees who have a base salary of at least \$150,000, including the executive officers listed above, may defer up to 50% of their base salary and up to 100% of their annual bonuses. Deferred amounts may be invested among several investment programs at the participant's option. Deferred amounts are not subject to federal or state income tax until a participant withdraws amounts from the plan. We do not match any of these funds.

(2) We have no long-term incentive compensation plan other than our several employee stock option plans described in this Proxy Statement. We do not award stock appreciation rights, restricted stock awards or long-term incentive plan pay-outs.

(3) This amount consists of group term life insurance and compensation credited to the named executive officers pursuant to our Savings and Profit Sharing Plan. This plan covers our employees and the employees of certain of our subsidiaries. These employees become participants in the plan if they are employed for at least six months prior to the plan year-end. The Board makes contributions to the plan at its discretion, however contributions may not exceed 25 percent of the individual plan participant's gross salary (up to a maximum salary of \$220,000), including allocated forfeitures for the plan year. Plan participants vest over a period of 1 to 5 years of credited service. We have not paid or provided other forms of annual compensation (such as perquisites) to any of the named executive officers having a value exceeding the lesser of \$50,000 or 10% of the total annual salary and bonus reported for the named officers.

(4) Dr. Gergel was promoted to Senior Vice President – Scientific Affairs as of May 19, 2005.

(5) Mr. Perier's employment commenced with us in September 2004.

### Options Granted in Fiscal 2006

The following table provides certain information concerning the grant of stock options to our named executive officers for the fiscal year ended March 31, 2006. Stock options were granted without tandem stock appreciation rights.

<u>Name</u>	<u>Options Granted (#)</u>	<u>% of Total Options Granted to Employees during Fiscal Year</u>	<u>Exercise Price Per Share (\$/s)</u>	<u>Expiration Date</u>	<u>Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(\$)(1)</u>	
					<u>5%</u>	<u>10%</u>

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Howard Solomon	200,000	8.91	40.29	12/09/15	5,067,633	12,842,377
Kenneth E. Goodman	100,000	4.46	40.29	12/09/15	2,533,816	6,421,188
Ivan Gergel, M.D.	75,000	3.34	40.32	08/08/15	1,900,362	4,815,891
Elaine Hochberg	50,000	2.23	40.29	12/09/15	1,266,908	3,210,594
Francis I. Perier, Jr.	50,000	2.23	40.29	12/09/15	1,266,908	3,210,594

(1) Amounts represent hypothetical gains that could be achieved for the respective options at the end of the ten year option term. The assumed 5% and 10% rates of stock price appreciation are mandated by the rules of the SEC and may not accurately reflect the appreciation of the price of our Common Stock from the date of grant until the end of the option term. The values disclosed are not intended to be and should not be interpreted as representations or projections of future value of our stock or of the stock price. The increase in stockholders' equity to all stockholders of Forest measured over the same period at the same assumed rates of appreciation and based upon the market price for the Common Stock on the date such options were granted would be \$8,257,456,815 and \$20,926,016,821, respectively.

**Aggregated Option Exercises in Fiscal 2006 and Fiscal Year End Option Values**

The following table summarizes options exercised by our named executive officers during fiscal 2006 and presents the value of unexercised options held as of the fiscal year end.

<u>Name</u>	<u>Shares Acquired on Exercise(#)</u>	<u>Value Realized(\$)</u>	<u>Number of Unexercised Options at 3/31/06 (#)</u>		<u>Value of Unexercised in the Money Options at 3/31/06 (\$)</u>	
			<u>Exercisable</u>	<u>Non-Exercisable</u>	<u>Exercisable</u>	<u>Non-Exercisable</u>
Howard Solomon	800,000	24,041,200	6,000,000	200,000	115,084,760	862,000
Kenneth E. Goodman	400,000	12,020,600	3,300,000	100,000	64,478,180	431,000
Ivan Gergel, M.D.	16,000	309,024	29,250	126,750	62,741	424,789
Elaine Hochberg	76,332	2,352,688	454,896	242,500	7,107,330	690,563
Francis I. Perier, Jr.	-	-	15,000	135,000	-	215,500

**Benefits Agreements**

On December 1, 1989 the Board adopted a policy of granting certain medical insurance benefits to senior corporate executive officers and their spouses upon the completion of 10 years of service by the senior officers. The benefit is provided to these executives and their spouses for their lifetimes following termination of the executive's employment with us. The benefit is equivalent to the medical insurance benefits provided to the executives as of the

date of their termination or as of December 1, 1989, if more favorable. The benefit need not be provided to the extent and for any time that the executive obtains comparable insurance from a subsequent employer. We have entered into formal written benefits agreements with each of Messrs. Solomon and Goodman granting the 10 year service benefit.

We have entered into employment agreements with several key employees, including each of Messrs. Solomon, Goodman, Perier, Dr. Gergel and Ms. Hochberg. Each agreement becomes effective only upon the occurrence of a "change in control." Each agreement provides that the executive is entitled to salary, bonus and benefits for a three year period following a "change in control" if the executive's employment terminates during such period without cause or for good reason. Subject to certain exceptions, a "change in control" is (i) an acquisition of 20% or more of our Common Stock or voting securities by a person or group not acquiring their shares directly from us, (ii) a change in the majority of the current Board or their designated successors not consented to by such current Board or designated successors, and (iii) a liquidation or dissolution of Forest or merger, consolidation or sale of all or substantially all of our assets which involves a greater than 50% change in our stockholders or the replacement of a majority of the current Board or their designated successors.

### **Stock Options**

Our 1998, 2000 and 2004 Stock Option Plans (or the Plans) provide that options may be granted to employees, including executive officers, to purchase shares of Common Stock at a price per share fixed by the Board. In the case of Incentive Stock Options (or ISOs) as defined by Section 422 of the Internal Revenue Code of 1986 (or the Code) the exercise price may not be less than fair market value on the date of the grant. All of our employees and our subsidiaries' employees are eligible to receive options under the Plans. The Plans provide that the Board may determine which employees are granted options and the number of shares subject to each option. The purchase price for shares must be paid in cash or by the tender of shares of Common Stock having a fair market value, as determined by the Board, equal to the option exercise price.

Our non-employee directors participate in the 2004 Stock Option Plan (or the 2004 Plan). Under the 2004 Plan, an initial grant of options covering 14,000 shares of Common Stock is automatically granted to persons who become non-employee directors of Forest. Twenty-five percent of the 14,000 options become exercisable on the date of grant and on each anniversary of such date until all such options are exercisable.

The 2004 Plan further provides for the automatic annual grant to each of our non-employee directors of options to purchase 4,000 shares of Common Stock on the date of their annual election or re-election by our stockholders. Each such option grant is at an exercise price equal to the average price of the Common Stock on the NYSE on the date of grant and become exercisable six months after the date of option grant. All options granted under the 2004 Plan to non-employee directors have a term of 10 years from the date of grant (but in no event more than three months following the optionee's ceasing to serve as a member of our Board).

### **Director Compensation**

In addition to automatic annual option grants under the 2004 Plan, during the fiscal year ended March 31, 2006, we paid each of our non-employee directors \$30,000 for his services as director plus a fee of \$2,000 for each Board of Directors meeting attended. Each Committee member received a fee of \$1,500 and each Committee Chairman received a fee of \$2,500 for each Committee meeting attended provided the Committee meeting was not held on the same day as a Board of Directors meeting. In addition, an additional fee of \$1,000 was paid to any out-of-town director who was required to come to New York City for a meeting. Mr. Candee received \$5,000 in addition to other director fees in consideration of his services as secretary of meetings of the Board of Directors and of Committees of which he is a member.



**AUDIT COMMITTEE REPORT (1)**

For the fiscal year ended March 31, 2006, the Audit Committee consisted of William J. Candee, III (or the Chairman), Dan L. Goldwasser and Lester B. Salans, M.D. The Board has affirmatively determined that Messrs. Candee and Goldwasser and Dr. Salans are independent as defined under the NYSE listing standards. The Committee operates under a written charter adopted by the Board of Directors.

The Committee recommends to the Board, subject to stockholder ratification, the selection of our independent registered public accounting firm. Management is responsible for our internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board and for issuing a report thereon. The Committee monitors and oversees these processes.

In this context, the Committee has met and held discussions with management, the internal auditor and BDO Seidman, LLP (or BDO), our independent registered public accounting firm. Management represented that the consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Committee reviewed and discussed the audited consolidated financial statements, as well as the unaudited financial statements included in Quarterly Reports on Form 10-Q for each of the first three quarters of the fiscal year, with management and BDO. The Committee discussed with BDO matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees). BDO also provided the Committee with the written disclosures required by Independence Standard Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee discussed with BDO its independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included or incorporated by reference in the Annual Report on Form 10-K for the fiscal year ended March 31, 2006 for filing with the Securities and Exchange Commission. The Board has adopted this recommendation.

**The Audit Committee**

William J. Candee, III

Dan L. Goldwasser

Lester B. Salans, M.D.

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(1) Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the 1934 Act, the Audit Committee Report shall not be incorporated by reference in any such filings.

**REPORT ON EXECUTIVE COMPENSATION  
BY THE COMPENSATION COMMITTEE (1)**

The Compensation Committee of the Board of Directors (or the Compensation Committee) is composed of four (4) independent directors whose names appear at the end of this report. The Committee is responsible for setting and administering the policies that govern executive salaries and cash bonus awards, and recommends participants and sizes of stock option awards to our Board of Directors. The Committee evaluates on an annual basis the performance

and determines the compensation of our executive officers.

### **Compensation Policy**

Our executive compensation program consists of base salary, cash bonus incentives and stock option awards. The goals of our executive officer compensation policy are to attract, retain and reward executive officers who contribute to our success, to align executive compensation with our performance as reflected in stockholder value and to motivate executive officers to achieve our business objectives.

The Compensation Committee is responsible for determining the CEO's and the COO's compensation. In reaching its decision, the Committee considers several factors, such as the compensation policies and practices at comparable public pharmaceutical companies, our performance and relative stockholder return, the implementation of strategic plans consistent with our long-term growth objectives and the awards given to the CEO and COO in prior years. The Committee also evaluates achievements with respect to specific objectives, including the development and acquisition of new product opportunities, the progress of clinical and other studies and development activities required to bring new ethical pharmaceutical products to market and the successful marketing of our principal products. Executive compensation decisions have traditionally been made on a calendar year basis.

Long-term incentive compensation policy consists exclusively of the award of stock options under our stock option plans. The Committee believes this form of award links the reward for executive performance with increases in stockholder value.

### **Company Performance and Basis for 2006 Compensation**

Executive compensation for the fiscal year ended March 31, 2006 consisted of base salary, an annual bonus and the award of stock options by the Compensation Committee as indicated at "Options Granted in Fiscal 2006." The Compensation Committee met in December 2005 to review executive compensation for the calendar year commencing January 1, 2006.

The Chairman of the Compensation Committee prepared a report that provided an analysis of the factors to be considered in connection with the Committee's determination of the senior executive compensation for calendar year 2006. The report addressed adverse events which affected us during the year, including a decline in revenues and earnings attributable primarily to the loss of market exclusivity for Celexa® and the resulting generic competition and the failure to secure FDA approval for a Social Anxiety Disorder indication for Lexapro® and a mild Alzheimer's disease indication for Namenda®. The report also noted positive developments for the year, including significant sales growth of Namenda and Benicar® (co-promoted with Daiichi Sankyo) and various product opportunity license negotiations being undertaken by management. The report also included data relating to the compensation of senior executives at other pharmaceutical companies.

The Committee reviewed the findings in the Chairman's report, specifically noting the decline in revenues over the four quarters ended December 31, 2005 from \$3,087,000,000 to \$2,908,000,000 and the decline in earnings per share from \$2.37 to \$2.07 over the same period, such amounts being estimated forecasts prepared in advance of the meeting. The Committee also specifically considered comparative pharmaceutical executive information assembled by the Chairman as well as the active negotiations relating to several additional products and the progress of Forest's scientific and research activities. Based on a review and evaluation of these factors, the Committee approved an increase in base compensation and granted a bonus and stock options for the senior executive officers, including the CEO. The percentage increases in executive compensation approved were less than the percentage increases approved for non-officers.

### **Chief Executive Officer Compensation for 2006**

The Committee meets each year in executive session to evaluate the performance of the CEO, the results of which are used to determine his compensation. In December 2005, the Committee approved an approximately 2.83% salary increase for Mr. Solomon from \$1,060,000 to \$1,090,000, effective January 1, 2006.

The Committee also awarded Mr. Solomon a \$525,000 bonus payment for calendar year 2005, which reflected a decrease of \$55,000 from the previous year's bonus. The Committee's decision on Mr. Solomon's annual incentive payment was based on Mr. Solomon's leadership in advancing our growth through new product development and the licensing of new products. With respect to long-term compensation, the Committee granted Mr. Solomon 200,000 stock options, the same number of options as were granted to him in each of the previous two years.

### **Executive Stock Ownership**

During fiscal 2006, the Compensation Committee awarded stock options to Howard Solomon, Chairman and CEO, Kenneth E. Goodman, President and COO, Ivan Gergel M.D., Senior Vice President – Scientific Affairs, Elaine Hochberg, Senior Vice President – Marketing and Francis I. Perier, Jr., Senior Vice President – Finance and CFO as set forth in the table set forth at "Options Granted in Fiscal 2006". The Stock Option Committee resolved to continue our long-standing policy of utilizing the award of stock options (which provide value to the executive over time as growth in the market price of our shares reflects the successful achievement of our business objectives) to identify the success of the executives with the growth in equity value to our stockholders.

The Committee takes into account its view of the appropriate equity position of our executive officers in light of our market capitalization in determining the size of all awards. Except for Dr. Gergel who was promoted in May 2005 and whose award was fixed at that time, the Committee also based the size of each award upon the officer's contribution to the achievement of the performance objectives described above. Each of these factors was equally considered.

#### **Compensation Committee**

William J. Candee, III  
George S. Cohan  
Dan L. Goldwasser  
Lester B. Salans, M.D.

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(1) Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the 1934 Act, the Report on Executive Compensation by the Compensation Committee shall not be incorporated by reference in any such filings.

### **PERFORMANCE GRAPH**

The graph below compares the cumulative total stockholder return on our Common Stock for the last five fiscal years with the cumulative total return on the S&P 500 Index and the Standard & Poors Pharmaceuticals Index over the same period. The graph assumes the investment of \$100 in our Common Stock, the S&P Pharmaceuticals Index and

the S&P 500 Index on March 31, 2001, and the reinvestment of all dividends.

**Comparison of 5 Year Cumulative Total Return  
Among Forest Laboratories, Inc., The S & P 500 Index  
And the S & P Pharmaceuticals Index**

[GRAPH OMITTED]

Begin: 3/31/01  
Period End: 3/31/06  
End: 3/31/06

<u>Date*</u>	<u>Transaction Type</u>	<u>Closing Price**</u>	<u>Beginning No. of Shares***</u>	<u>Dividend per Share</u>	<u>Dividend Paid</u>	<u>Shares Reinvested</u>	<u>Ending Shares</u>	<u>Cum. Tot. Return</u>
31-Mar-01	Begin	29.620	3.38	-	-	-	3.376	100.00
31-Mar-02	Year End	40.850	3.38	-	-	-	3.376	137.91
31-Mar-03	Year End	53.970	3.38	-	-	-	3.376	182.21
31-Mar-04	Year End	71.620	3.38	-	-	-	3.376	241.80
31-Mar-05	Year End	36.950	3.38	-	-	-	3.376	124.75
31-Mar-06	End	44.630	3.38	-	-	-	3.376	150.68

\* Specific ending dates or ex-dividends dates.

\*\* All Closing Prices and Dividends are adjusted for stock splits and stock dividends.

\*\*\*Begin Shares based on \$100 investment.

	<u>Cumulative Total Return</u>					
	3/01	3/02	3/03	3/04	3/05	3/06
Forest Laboratories, Inc.	100.00	137.91	182.21	241.80	124.75	150.68
S & P 500	100.00	100.24	75.42	101.91	108.73	121.48
S & P Pharmaceuticals	100.00	100.26	80.88	85.03	81.19	82.12

**PROPOSAL 2**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM**

The firm of BDO Seidman, LLP (or BDO) has audited our financial statements for each of the three fiscal years ended March 31, 2006. In addition to retaining BDO to audit our consolidated financial statements for the fiscal year ended 2006, we and our affiliates retained BDO, as well as other accounting and consulting firms, to provide various

consulting and other services in the fiscal year ended 2006, and expect to continue to do so in the future.

The following table presents fees for professional audit services rendered by BDO for the audit of our annual financial statements and review of financial statements included in our Quarterly Reports on Form 10-Q (or Audit Fees) for fiscal 2006 and 2005, and fees billed for other services rendered by BDO.

	<u>2006</u>	<u>2005</u>
Audit Fees	\$1,430,745	\$1,591,459
Audit Related Fees(1)(2)	48,056	33,923
Tax Fees(2)(3)	<u>137,961</u>	<u>173,131</u>
	\$1,616,762	\$1,798,513
	=====	=====

- (1) Audit related fees consisted principally of the audit of our benefit plan.
- (2) The Audit Committee has considered the non-audit services performed for us by BDO in their evaluation of that firm's independence.
- (3) Tax fees consisted primarily of tax return review, state tax matters and tax advisory services.

The Audit Committee's policy is to pre-approve all audit services and all non-audit services that our independent registered public accounting firm is permitted to perform for us under applicable federal securities regulations. While the general policy of the Audit Committee is to make such determinations at full Audit Committee Meetings, the Audit Committee may delegate its pre-approval authority to one or more members of the Audit Committee, provided that all such decisions are presented to the full Audit Committee at its next regularly scheduled meeting.

The Board desires to continue the services of BDO for the current fiscal year ending March 31, 2007. Accordingly, the Board recommends that you ratify the appointment by the Board of BDO to audit the financial statements of Forest for the current fiscal year. Representatives of BDO are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions from the stockholders.

**THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE IN FAVOR OF THE APPOINTMENT OF BDO SEIDMAN, LLP.**

#### MISCELLANEOUS

##### **Annual Report**

Forest's 2006 Annual Report is being mailed to stockholders contemporaneously with this Proxy Statement.

##### **Form 10-K**

AT YOUR WRITTEN REQUEST, WE WILL PROVIDE WITHOUT CHARGE A COPY OF OUR ANNUAL REPORT ON FORM 10-K AS FILED WITH THE SEC FOR THE FISCAL YEAR ENDED MARCH 31, 2006. PLEASE MAIL YOUR REQUEST TO CORPORATE SECRETARY, FOREST LABORATORIES, INC., 909

THIRD AVENUE, NEW YORK, NEW YORK 10022. YOU MAY ALSO ACCESS OUR 10-K UNDER THE "INVESTORS" LINK ON OUR WEBSITE AT WWW.FRX.COM.

### **Proposals of Stockholders; Stockholder Business**

If you wish to submit a proposal for consideration at our 2007 Annual Meeting of Stockholders, you should submit the proposal in writing to us at the address set forth on page one of this Proxy Statement. Proposals must be received by us on or before February 23, 2007, for inclusion in next year's proxy materials. If you submit a proposal you must, in all other respects, comply with Rule 14a-8 under the Securities Exchange Act of 1934. If you intend to present a proposal at our 2007 Annual Meeting without inclusion of the proposal in our proxy materials, you are required to provide notice of the proposal to us in accordance with our By-Laws no later than June 8, 2007 nor earlier than May 9, 2007.

If a properly submitted stockholder proposal is received after May 9, 2007, we may vote in our discretion as to that proposal all of the shares for which we have received proxies for the 2007 Annual Meeting of Stockholders.

**Your vote is important. We urge you to vote by mail, by telephone or on the Internet without delay.**

**WILLIAM J. CANDEE, III,  
Secretary**

Dated: June 29, 2006

## **APPENDIX A**

### **DIRECTOR QUALIFICATION STANDARDS**

No Director who is an employee or a former employee of Forest will be considered "independent" until three years after the employment has ended.

No Director who receives more than \$100,000 per year in direct compensation from Forest, other than director and committee fees and pension or other form of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) until three years after he ceases to receive more than \$100,000 per year in such compensation will be considered "independent."

No Director who is, or in the past three years has been, part of an interlocking directorate in which an executive officer of Forest serves on the compensation committee of another company that currently employs the Director will be considered "independent."

No Director who during the prior three years, was an executive officer or an employee, or whose immediate family member was an executive officer, of a company that made payments to, or received



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(INSTRUCTION: To withhold authority to vote for any individual nominee, write the nominee's name on the line provided above.)

2. Ratification of BDO Seidman, LLP as Independent Registered Public Accounting Firm.

FOR	AGAINST	ABSTAIN
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please sign here exactly as your name(s) appear(s) on this proxy. If signing for an estate, trust or corporation, title or capacity should be stated. If shares are held jointly, each holder should sign. If a partnership, sign in partnership name by authorized person.

Dated

(Signature)

(Signature)

PLEASE MARK BOXES IN BLUE OR BLACK INK

**PLEASE SIGN, DATE AND MAIL IN THE ENVELOPE PROVIDED**