



Specialty Pharmaceuticals
An Analysis of Board Trends and Director Compensation
2009

CTPartners
Board Consultants

Vertical Market: Specialty Pharmaceuticals

Introduction

To provide information on governance and directorship trends in the Specialty Pharmaceuticals industry, CTPartners conducted the following research based upon the most recent proxy statements of ten selected, seasoned public companies that operate in the industry.

Key Findings

Performance: The market performance of the ten companies surveyed indicates that the Specialty Pharmaceuticals industry as a whole has weathered a difficult financial period well. Eight of the ten companies surveyed outperformed the S&P 500 during the period examined (9/1/2000 – 9/1/2009), and six of the ten companies posted overall share price appreciation.

Share Ownership: Alignment between the interests of directors and shareholders is strong, with non-executive directors holding sizeable stakes (average: \$9.4 MM) in the companies on whose boards they serve. Including executive board members in the analysis raises the average director's equity stake to over \$21 MM.

Overboarding: Within the ten companies surveyed, overboarding is slightly more prevalent than for other S&P 500 segments. Four of the surveyed companies had directors who serve on four or more public boards.

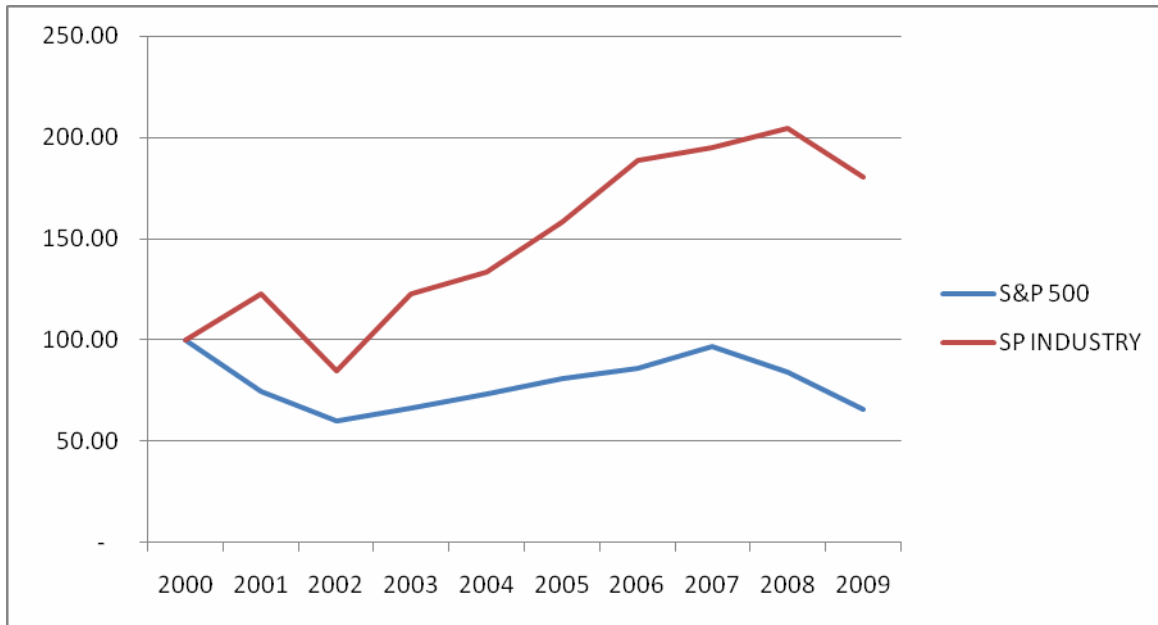
Rotation: There is some indication that the next few years will see a higher-than-average service rotation. Current board members have an average age of 63 and an average length of board service of ten years; 23% of non-executive directors are over the age of 70.

Composition: The surveyed boards are relatively similar in composition. The average board has nine directors, with a range from eight to eleven, and 80% of the directors are independent. Selection of directors by industry or functional background appears to be key in their selection, with boards exhibiting somewhat similar percentages of directors with specific functional experience.

Diversity: Efforts to increase board diversity by gender and ethnicity appear to be yielding results. Every board surveyed has at least one female director; two employ minority directors.

Compensation: Non-executive director compensation is heavily comprised of equity grants (a mean of 82% of total director compensation). Average annual director compensation was \$294,700 in equity grants, \$160,196 in stock options, and \$67,744 in cash.

Industry Performance



Indexed performance of the ten SP equities as compared to the performance of the S&P 500.
From 9/1/00 to 9/1/09

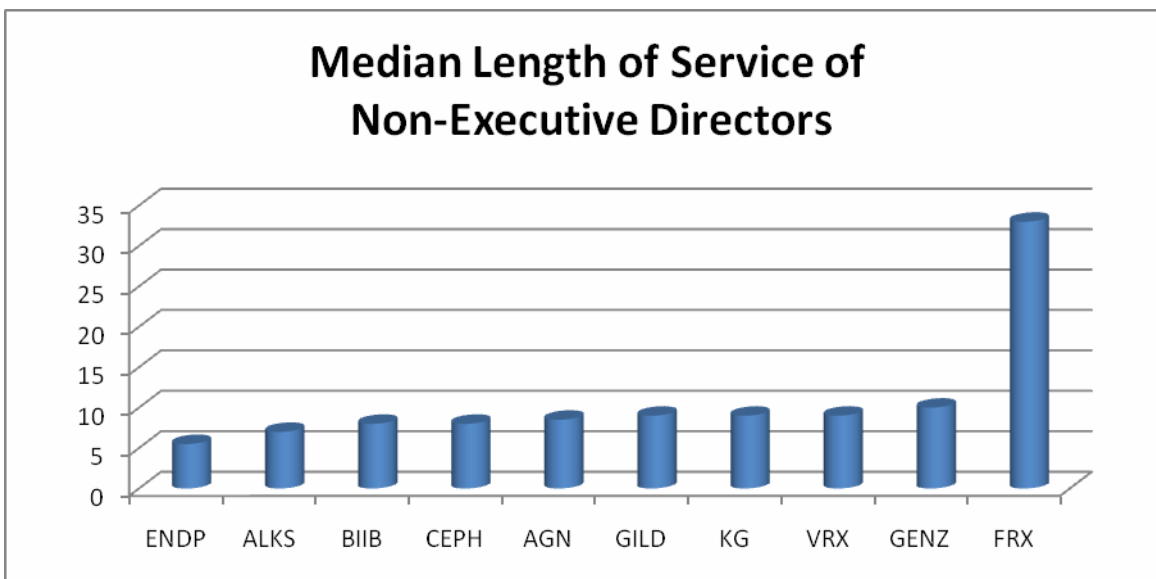
Stock performance data relative to the S&P 500 index over an extended period of time can often be useful in determining board performance. We compared equity performance data to the S&P 500 index performance from the period of September 1st, 2000 through September 1st, 2009.

During this period, the S&P 500 lost 34%. Eight of the ten companies surveyed beat the index performance (the average gain was 80%). Two companies failed to beat the index: Alkermes and King Pharmaceuticals.

The high performer for the period was Gilead Sciences (GILD), whose stock increased by 588% over the past nine years.

While the industry average performance could be viewed as indicative of good governance, the significant gains and losses posted during the period indicate a high level of volatility for specialty pharmaceuticals equities. The companies surveyed appear to have either capitalized on exceptional market opportunities or fallen victim to bad fortunes, and it is difficult to ascertain how much influence their past Directors had on equity performance.

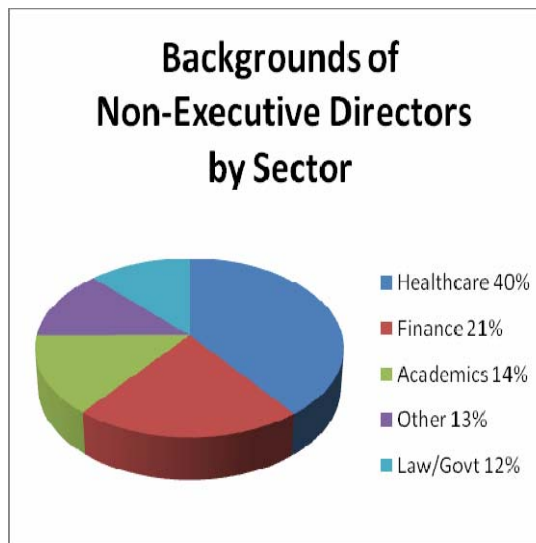
Director Demographics



The typical Specialty Pharmaceuticals company board consists of nine directors, 80% of whom are independent. Non-executive directors likely come from the finance and healthcare industries, and each board typically includes at least one director with an academic background or legal experience. Other professional backgrounds represented on the boards of the companies surveyed include consulting and consumer packaged goods.

Directors had an average age of 63 and an age range of 33 to 85. They have served for an average of ten years with a range of one to 60 years.

Most directors serve on at least one other public company board; of the 74 non-executive directors studied, 76% hold other directorships.



Board Diversity

As director diversity has been touted as a desirable board composition characteristic in the past few years, it appears that the Specialty Pharmaceuticals industry has made progress in

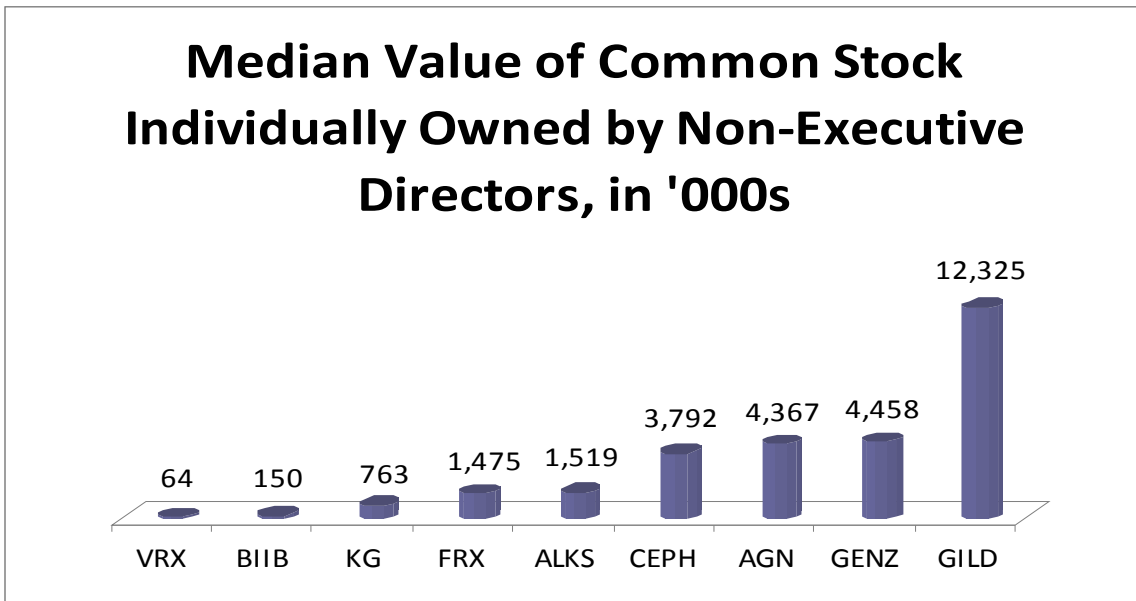
its efforts to diversify its boards by gender and ethnicity. Women currently hold 12 of the 90 seats in the ten companies surveyed, a level comparable to that of the S&P 500. Each board

Board Diversity (continued)

surveyed employs at least one female director. Board diversification by ethnicity also seems to have made progress: three minority board

members were present in this survey. Minorities held an average of 6% of non-executive directorships.

Equity Ownership



Equity ownership has historically been viewed as a metric by which director-shareholder alignment can be measured. In keeping with that philosophy, it can be derived from the data above that this alignment strongly exists among the major firms in the specialty pharmaceuticals industry. The 66 non-executive directors of the nine companies for which data was available own a total of \$725 MM in stock in the companies on whose boards they serve, or an average individual investment of \$9.8MM.

In the instance of several of the companies surveyed, the median figure of the stakes of non-executive directors obscures a tremendous variation in individual investment. One director of Valeant, for example, personally owns over \$343 MM of common stock in the company, while one of his colleagues owns \$65K. The difference between the company median figures and the overall average illustrates the existence of several individual directors holding very significant stakes in their respective companies.

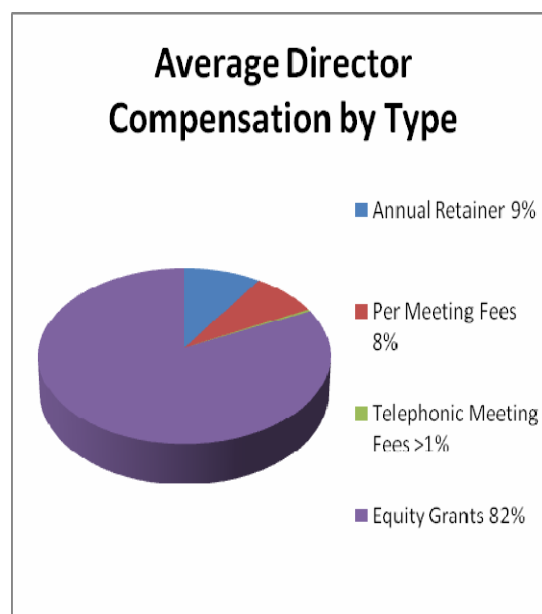
Non-Executive Director Compensation

| Company | Market Cap as of 10/15/09 (in Bs)* | Data Year | Annual Retainer | Per Meeting Fee | Telephonic Meeting Fee | Equity Grants | # of Meetings |
|------------------------------------|------------------------------------|-----------|-----------------|-----------------|------------------------|---------------|---------------|
| ALKERMES INC (ALKS) | \$0.86 | 2008 | \$30,000 | \$1,500 | \$750 | \$139,098 | 7 |
| ALLERGAN INC (AGN) | \$17.90 | 2008 | \$40,000 | \$2,000 | | \$838,374 | 6 |
| BIOGEN IDEC INC (BIIB) | \$14.38 | 2008 | \$35,000 | \$2,500 | \$1,500 | \$829,850 | 23 |
| CEPHALON INC (CEPH) | \$4.17 | 2008 | \$50,000 | \$5,000 | \$2,000 | \$246,812 | 10 |
| ENDO PHARMACEUTICALS (ENDP) | \$2.80 | 2008 | \$30,000 | \$2,250 | | \$135,000 | 14 |
| FOREST LABORATORIES (FRX) | \$9.10 | 2008 | \$30,000 | \$2,000 | | \$88,098 | 5 |
| GENZYME CORP (GENZ) | \$15.13 | 2008 | \$40,000 | \$2,500 | | \$355,231 | 7 |
| GILEAD SCIENCES INC (GILD) | \$42.17 | 2008 | \$40,000 | | | \$296,808 | 5 |
| KING PHARMACEUTICALS INC (KG) | \$2.77 | 2008 | \$38,000 | \$2,000 | | \$135,000 | 23 |
| VALEANT PHARMACEUTICALS INTL (VRX) | \$2.59 | 2008 | \$30,000 | \$1,500 | | \$120,000 | 32 |

*approximate as of October 15th, 2009

Non-executive director compensation has historically been split between cash payments and equity grants. Among the companies surveyed in the specialty pharmaceuticals industry, the ratio of this compensation division heavily favors equity grants. This reflects a larger trend in corporate governance.

The median compensation split was 77% equity, 23% cash.



Board Directors

As of most recent proxy statement.

Alkermes Inc (9)
NYSE: ALKS

Alexander Rich
David W. Anstice
Floyd E. Bloom
Geraldine Henwood ◦
Mark B. Skaletsky ± (C)
Michael A. Wall
Paul J. Mitchell (A)
Richard F. Pops ×
Robert A. Breyer

Endo Pharmaceuticals Hldgs (9)
NASDAQ: ENDP

Clive A. Meanwell
David P. Holveck
John J. Delucca (A)
Joseph C. Scodari (C)
Michael Hyatt
Nancy J. Hutson ◦
Roger H. Kimmel ×
William F. Spengler
William P. Montague

King Pharmaceuticals Inc (8)
NASDAQ: KG

Brian A. Markison ×
D. Greg Rooker
Earnest W. Deavenport (C)
Elizabeth M. Greetham ◦
Gregory D. Jordan
Philip A. Incarnati
R. Charles Moyer (A)
Ted G. Wood ±

Allergan Inc (12)
NYSE: AGN

David E.I. Pyott ×
Deborah Dunsire ◦
Gavin S. Herbert
Herbert W. Boyer ±
Leonard D. Schaeffer (C)
Louis J. Lavigne
Michael R. Gallagher
Robert A. Ingram
Russell T. Ray (A)
Stephen J. Ryan
Trevor M. Jones
Dawn Hudson

Forest Laboratories -CI A (8) NYSE:
FRX

Dan L. Goldwasser (C)
George S. Cohan
Howard Solomon ×
Kenneth E. Goodman
Lawrence S. Olanoff +
Lester B. Salans
Nesli Basgoz ◦
William J. Candee (A)

Valeant Pharmaceuticals Intl (8)
NASDAQ: VRX

Anders Lönner
J. Michael Pearson ×
Lawrence N. Kugelman
Mason Morfit (C)
Norma A. Provencio (A) ◦
Richard H. Koppes
Robert A. Ingram ±
Theo Melas-Kyriazi

Biogen Idec Inc (13)
NYSE: BIIB

Brian S. Posner
Bruce R. Ross ×
Cecil B. Pickett †
James C. Mullen
Lynn Schenk ◦
Marijn E. Dekkers
Nancy L. Leaming (A) ◦
Robert W. Pangia
Stelios Papadopoulos †
William D. Young (C)
Lawrence Best
Alan Glassberg
Philip A. Sharp

Genzyme Corp (8)
NYSE: GENZ

Charles L. Cooney (C)
Douglas A. Berthiaume (A)
Gail K. Boudreaux ◦
Henri A. Termeer ×
Richard F. Syron
Robert J. Carpenter
Sen. Connie Mack
Victor J. Dzau †

Gilead Sciences Inc (11)
NYSE: GILD

Carla A. Hills ◦
Etienne F. Davignon
Gayle E. Wilson ◦
Gordon E. Moore (C)
James M. Denny ±
John C. Martin ×
John F. Cogan
John W. Madigan
Nicholas G. Moore (A)
Paul Berg
Richard Whitley

Cephalon Inc (8)
NYSE: CEPH

Charles A. Sanders (C)
Dennis L. Winger (A)
Frank Baldino ×
Gail R. Wilensky ◦
Kevin E. Moley
Martyn D. Greenacre
Vaughn M. Kailian
William P. Egan ±

× chair
± lead independent director
(A) audit committee chair
(C) comp committee chair
+ insider
◦ woman
† minority**

**director ethnicity data not available for all companies
*** some information could not be obtained due to merger

Basis of the Research

The data in this survey was compiled from proxy statements from January 2008 through March 2009.

This study focuses on ten specialty pharmaceutical companies. Seven of the companies surveyed are traded on the New York Stock Exchange: Alkermes Inc., Allergan Inc., Biogen Idec Inc., Cephalon Inc., Forest Laboratories, Genzyme Corp., and Gilead Sciences Inc. Three of the companies surveyed trade on the NASDAQ: Endo Pharmaceuticals Holdings, King Pharmaceuticals Inc., and Valeant Pharmaceuticals Intl.

More detailed information concerning the company boards discussed in this survey is available by contacting John Hawkins, Vice Chairman, at the address below.

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