

Icahn's Power Stems from His People

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Investor Carl Icahn is dispatching his Harvard team to a new corporate confrontation at yet another medical company.

Icahn, who previously targeted local biotechnology giants Biogen Idec Inc. of Weston and Genzyme Corp. of Cambridge, is an expert in the art of the proxy fight. He often buys shares of weak companies and then nominates his own slate of directors who can challenge management from the inside.

Icahn is taken as a serious threat in proxy contests thanks, in part, to his track record of nominating highly qualified people as board candidates. Over time, he has developed a deep pool of talent from which to draw.

Most recently, Icahn has challenged the management at drugmaker Forest Laboratories Inc., the company that paid \$1.2 billion for Newton's Clinical Data Inc. in February. He acquired 6.9 percent of the company's shares and proposed four candidates for a nine-member board. Among them: Richard Mulligan and Lucian Bebchuk.

Mulligan is a Harvard Medical School professor and director of the Harvard Gene Therapy Initiative who also has proxy fighting experience. He became a director at an early Icahn biotech target, Imclone Systems Inc., and later became a successful candidate in a contested board vote at Biogen Idec.

Bebchuk is a Harvard Law School professor and an expert in corporate governance issues. He was tapped by Icahn in 2008 to join a dissident slate of directors at Yahoo Inc., formed after the Internet search company spurned a takeover offer from Microsoft Inc. (a settlement later defused the proxy contest).

Corporate governance is emerging as a big issue at Forest Labs. Icahn sued last week, seeking details of a proposal by regulators that could bar the company's chief executive from doing business with federal health programs. Icahn argues shareholders have a right to know what the CEO allegedly did to warrant the "unprecedented" action.

Forest Labs, which normally conducts its annual shareholder meetings in early August, has not yet disclosed a date for this year's event.

Speaking of Icahn: The man who turned Biogen Idec inside out has been selling millions of shares over the past two months.

The web of investment entities controlled by Icahn has sold about half its Biogen Idec holdings since late April. Perhaps he noticed the company's stock, and the value of his investment, has soared 61 percent so far this year and climbed 131 percent over the past 12 months.

Icahn owned about 16.1 million Biogen Idec shares, accumulated at a cost of \$811 million, at the start of this year. By late May, that pile had shrunk to 13.4 million shares. Icahn's latest disclosure reports showed more selling of Biogen Idec shares through late June. The most recent tally fell to 8.2 million shares.

All of Icahn's Biogen Idec transactions took place in a narrow price range, from a low of \$97.88 to a high of \$99.60. But the stock has continued to climb since Icahn's latest reported trade, on June 22, and finished last week at \$108.50.

The sales to date have turned a lot of Icahn's paper profits into hard cash. I estimate he made a profit of about \$376 million on the stock he sold.

But Icahn also has a big pile of unrealized profits on the Biogen Idec shares he still owned at the time of the filing. Those 8.2 million shares, which cost Icahn \$402 million, would be worth about \$892 million at the moment.

The Red Herring

Like the broader market, Massachusetts stocks as a group virtually broke even during the second quarter of the year. The best local performers among companies with at least \$1 billion in stock market value were Ariad Pharmaceuticals of Cambridge (up 50.7 percent), Biogen Idec (up 45.5 percent), and Alkermes Inc. of Waltham (up 43.6 percent).