Annual Report to Shareholders 2011

Delivering Quality and Value.

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New Business Models

The changing landscape in the drug discovery and development space appears to be spawning new approaches for the development of the medicines of the future, leading to new business models and opportunities for AMRI’s contract services business. During 2011, AMRI announced several noteworthy business relationships that represent new outsourcing models, including:

A six-year insourcing collaboration agreement with Eli Lilly and Company (Lilly) – whereby AMRI employees are working on site in laboratories at the Lilly headquarters campus in Indianapolis, Indiana – is supporting the medicinal chemistry department. AMRI’s expertise for establishing remote locations around the globe coupled with an industry leading brand for performance, quality and delivering results are the right ingredients for making this a successful partnership that can serve as a model for partnership with a range of other companies.

After a highly competitive RFP and peer review process, AMRI was awarded a five-year federal contract from the National Institutes of Health (NIH) / National Institute of Neurological Disorders and Stroke (NINDS) to provide chemistry and other drug discovery technologies in support of NINDS’ Medicinal Chemistry for Neurotherapeutics Program (MCNP), part of the NIH Blueprint Neurotherapeutics Network. The five-year contract provides AMRI with funding of up to $43 million. The initial funding of up to $10 million applies to the first phase of the contract life cycle, and several collaborative projects are now underway.

This new approach by the NIH signals a funding shift to resource efforts to facilitate the translation of basic research discoveries to new therapies that can address unmet medical needs. It is also coincident with a number of pharmaceutical companies turning their attention, focus and checkbooks towards academic research, in partial acknowledgment of the wealth of potential new biological targets under exploration as a result of advances in technology during the past decade. As the turn to academic research gains momentum as a greater source of pharmaceutical innovation, AMRI is positioned with the right mix of services and capabilities to translate promise into clinical candidates, and capitalize on this trend.

Along these lines, in early 2012, AMRI entered into a preferred provider agreement with BioPontis Alliance LLC as an anchor CRO partner to provide services in small molecule discovery, development, and manufacturing in BioPontis’ drug discovery research programs. BioPontis, founded by industry professionals, represents a new business model formed to address the challenge of how to both finance and execute on the effective translation of academic biomedical discoveries into viable therapeutic candidates suitable for the industry pipelines of tomorrow. As anchor CRO for discovery research and API development, AMRI is the right organization to facilitate this translation of research discovery to clinical compounds.

Global Drug Discovery

Early 2011 began with the merger of all discovery operations – AMRI contract discovery services and our internal R&D – across all locations worldwide. Under this revamped platform, we combined all of AMRI’s discovery capabilities into a single unit. This move positions discovery chemistry with biology and drug metabolism and is appropriate given the shift by customers towards more integrated projects.

The beginning of 2011 also saw the shift of a large pharmaceutical customer of our discovery chemistry business shift its relationship from AMRI U.S. to AMRI Singapore. This shift was a large driver for the growth of our business in Singapore in 2011, but left us with considerable excess capacity at our U.S. labs. The softness in the market during 2011 for new discovery business combined with the excess capacity created by the shift to our Singapore operations meant that our U.S. discovery operations carried significant excess fixed costs. Therefore, we took additional actions to further align the discovery business to reflect the realities of the marketplace.

AMRI initiated a workforce reduction involving the rightsizing primarily of U.S. discovery operations late in 2011. These actions included headcount reductions and the modification of the lease of one of our U.S. facilities. Although it is unfortunate that a number of jobs were eliminated, several affected employees accepted positions for other openings in the Company, including a number of experienced scientists who relocated to Indianapolis to serve as key leaders in the insourcing collaboration with Eli Lilly.

We also came to a difficult conclusion that the realities of the economic and licensing environment meant that we should cease all activities related to our internal proprietary compound R&D programs, excluding modest efforts on plant manufacturing processes and generic process R&D that will continue. The above actions related to our U.S. discovery operations and global R&D programs are expected to result in annual savings of approximately $10-11 million, not including savings from the closure of Hungary in 2012. These actions were taken as part of a strategic and ongoing review of global operations, focused on improving the alignment of resources, facilities and technologies around marketplace demands and customer feedback.

In late 2011 and continuing into 2012, we also made the decision to exit our Hungary subsidiary and transfer the unique service offerings of this location between India and Singapore. Closing the Budapest operations is expected to yield $4-6 million in annual savings. Like other cost cutting initiatives taken in 2011, exiting Hungary is consistent with efforts to right size the business and respond to customer preferences for combined services at AMRI’s other global locations. There is a human cost when jobs are eliminated for everyone affected, and we regret the impact these actions cause on our employees, but also believe these steps are correct.

The decision to suspend further investment in proprietary compound R&D represents a simplification of AMRI’s business model. AMRI has substantially benefitted over the years from our intellectual property on Allegra products and our investments in R&D were made with the goal to generate further upside from additional intellectual property that we could license to partners to commercialize. Significant progress had been made and the potential for future royalty streams has already been put in place. For example, in 2005 AMRI licensed a CNS program to Bristol-Myers Squibb (BMS), and in the first half of 2011 received a $3 million milestone payment for a recently initiated Phase II clinical trial of an AMRI compound being developed under this collaboration for treatment resistant depression. Since 2005 AMRI has received six milestone payments relating to this collaboration. If a drug is successfully commercialized from this program, AMRI will receive royalties on worldwide sales. While this program still has a long way to go, and there is no guarantee that a marketed drug will result, we are encouraged by the progress to date.

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In early 2011, we announced a second licensing deal, this one with Genentech, for a family of antibacterial compounds discovered from AMRI’s proprietary research of its natural products collection. In addition to an upfront license fee and research funding, AMRI will be eligible to receive development and milestone payments and royalties from Genentech on worldwide sales of any resulting commercialized compounds.

Besides the licensing agreements with BMS and Genentech, AMRI has developed additional proprietary programs that led to two Phase I clinical compounds, one in cancer and the second in obesity. Although these two programs, together with additional programs targeted to GI and CNS indications were suspended late in 2011, we are actively seeking additional licensing partners or other avenues to recognize value for our shareholders.

**Pharmaceutical Development**

The pharmaceutical services segment of AMRI’s business was a source of positive results in several areas in 2011, but also presented challenges in others. For example, our large scale manufacturing operations in Rensselaer, New York had a record year for revenue, delivering 22% growth over 2010. All signs point to continued revenue and earnings growth in Rensselaer for 2012. Our strategy of working with emerging companies from early development, supporting them with clinical trial APIs and being in a position to be a provider of commercial active ingredients is beginning to bear fruit, as several compounds we have been supporting throughout the years are now leading to higher volume orders for us.

The good year delivered by Rensselaer was largely driven by demand for later stage active ingredients. Development activities in 2011 began showing signs of a return to growth, but as the year progressed the awaited continued growth gave way to a softness in the market for earlier stage outsourcing. As a result, the second half of the year for AMRI’s development activities did not meet our expectations, and this softness in the market also affected our Wales and Burlington locations. We believe we were not suddenly losing more opportunities or market share to competition, but as described previously, factors that led to this weakness had more to do with what was transpiring within our customers. As 2012 unfolds, we are cautiously optimistic that our customers are returning to the marketplace and development, Wales and Burlington will see an increase in opportunities, which ultimately translates to a return to growth and profitability.

Overall the number of drug substances and drug products currently being manufactured at all AMRI locations continues to remain strong. As of the end of 2011, AMRI was working with clients on 61 customer compounds that are currently in Phase I or Phase II and 24 in Phase III. The number of compounds or products in development is significant, because they represent potential repeat orders as customers move their programs through clinical development. Although not every product in clinical development is expected to yield an approved drug, we expect at least a portion of these to lead to future recurring commercial volumes for our manufacturing business. AMRI produces 28 commercial molecules including a number of generic APIs, which are sold to multiple customers. Additionally, we are now producing both the API and drug product for two compounds, which was a synergy we envisioned would occur by adding drug product capability.

In spite of the challenges we faced in 2011, AMRI accomplished a number of objectives that improve the Company’s operations and ability for future growth. On the quality front, our API facilities in Albany, New York and in Holywell, Wales, U.K., were both audited by the FDA, with no written Form 483 observations. Very early in 2012, the Wales site also received an MHRA certificate of compliance from the Medicines and Healthcare Regulatory Agency (MHRA) of the U.K. government following an inspection in October 2011. In March 2012, Rensselaer underwent a general FDA facility audit, which was completed again (for the seventh consecutive time) without a Form 483. The successful Wales audits provide new resources for the cGMP synthesis of APIs for the U.S. and EU markets, as this facility had not previously had approval for GMP operations. In addition, our Burlington, Massachusetts parenteral dosage form facility is now operating without restriction, having received a letter from the FDA that remediation actions taken and proposed in mid 2011 were sufficient to deal with previous FDA observations. The additional proposed activities were completed in early autumn and the Burlington facility is now manufacturing drug product for multiple clients as we work to rebuild its book of business to more significant levels.

**Key Leadership Additions and Promotions**

During 2011 AMRI’s leadership team welcomed the following key additions:

**Lori M. Henderson, Vice President, General Counsel and Secretary.** Ms. Henderson leads all of AMRI’s legal and corporate affairs activities for the Company’s locations worldwide, including the United States, Europe, and Asia. Previously, she served in similar roles for Rand Worldwide, Inc. and Moldflow Corporation. She also served as corporate counsel and clerk at CP Clare Corporation and was an associate at Goodwin Procter LLP.

**Subramanyam Maddala, President, India Operations.** Mr. Maddala is a veteran with more than 20 years of operations, business development, and senior leadership experience in the manufacturing of APIs and intermediates, custom synthesis, and formulations in branded and generics markets. He assumed responsibility of AMRI’s operations in Hyderabad and Aurangabad, India.

**Charles Jensen, Ph.D., Director of Drug Metabolism and Pharmacokinetics.** Dr. Jensen brings more than 20 years of relevant experience, working in the fields of drug metabolism and toxicology in the pharmaceutical and CRO industries. Dr. Jensen assumed responsibility for AMRI’s DMPK discovery services business.

**Takeshi Yura, Ph.D., Senior Director of Drug Discovery Services, Singapore.** Dr. Yura assumed responsibility of site management for AMRI’s Singapore subsidiary, including leadership of the AMRI Singapore Research Centre’s full discovery operations. He is an industry veteran with pharmaceutical research and management experience in Japan as well as several years in the CRO world in Asia.
Allegra®

Allegra® continues to deliver consistent royalty revenues that provide cash flow that we continue to strategically invest in growing our business. As we believed at the time, the introduction of OTC Allegra in the U.S. market has provided greater access to customers and we believe will allow an opportunity to maintain royalty levels at a consistent level through the remaining life of AMRI’s patents.

Our Future

The pharmaceutical R&D industry has delivered tremendous advances to healthcare and quality of life, which are taken for granted. The present challenge for the industry is to continue to duplicate that performance by improving productivity while tackling more difficult disease targets, government regulation, pricing pressures and an intellectual property environment that is constantly being eroded by governments around the world. 2011 witnessed a number of actions in which many pharmaceutical companies reorganized their R&D strategies, streamlined cost structures, and prepared to enter the future with a significant reliance on outsourcing.

During the coming months, it is important that we remain cautious in how we run our business, execute well on the work before us, and plan accordingly that the overall business climate may remain soft for some time as it was in 2011. I believe that the business climate for AMRI is going to improve. Although it is not reflected in our financial results for 2011, my leadership team has worked tirelessly to build and strengthen relationships throughout the industry, and we continue to take actions to improve and strengthen this outreach. Some of these efforts have begun to yield more strategic opportunities in ways to engage with our customers, including the potential new trend of insourcing that may become more significant in AMRI’s future.

While it is appropriate to remain cautious about the current business climate, I continue to believe the actions we are taking remain firmly focused on those that will support the future growth and success of AMRI. We have right-sized and better integrated our global assets as per customer needs, strengthened our leadership team, increased our business development team and proven we can make the decisions necessary to adapt to changing climates. We remain diligent in our efforts to foster and grow significant relationships with both large pharmaceutical companies and biotech. We continue to place considerable resources on training and knowledge sharing across all locations to ensure AMRI customers experience the same exacting standards for quality, performance and customer service and value regardless of where, when, or who they might be interacting with. Our customers are increasingly relying on CROs to be more than just a supplier, and become a trusted partner that can help improve ROI and mitigate risk by providing innovative approaches, improved processes and comprehensive solutions to address the complex challenges faced across all aspects of discovery, development and manufacturing.

We are taking measured steps to improve recognition of the already strong AMRI brand across the globe and capitalize on the emergence of a more partnership driven model for outsourcing or insourcing. Additionally, we remain committed to making AMRI a preeminent provider across the range of technologies and services of our business. Most importantly, we are focused more than ever on delivering shareholder value over both the near and long term, and have and will continue to adjust the business to deliver greater profitability.

On behalf of the Board of Directors and employees of AMRI, I’d like to thank you for your interest and support of AMRI. We look forward to delivering positive results in 2012 and beyond.

Sincerely,

Thomas E. D’Ambra, Ph.D.
Chairman, President & Chief Executive Officer
Management and Corporate Governance

Management Team

Thomas E. D’Ambra, Ph.D.
Chairman, President & CEO

Mark T. Frost
Senior Vice President,
Administration, Chief Financial Officer, and Treasurer

Bruce J. Sargent, Ph.D.
Senior Vice President,
Drug Discovery

Steven R. Hagen, Ph.D.
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Lori M. Henderson, Esq.
Vice President,
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Investor Information
Albany Molecular Research, Inc. common stock is traded on the NASDAQ Global Market under the ticker symbol AMRI.

Inquiries about the transfer or exchange of shares, lost stock certificates or changes of address should be directed to the company’s Registrar and Transfer Agent:
Computershare Shareholder Services
480 Washington Boulevard
Jersey City, New Jersey 07310-1900
Domestic shareholders should call:
1-866-261-6720
TTD for hearing impaired (domestic):
1-800-231-5469
Foreign shareholders should call:
1-201-680-6578
TTD for hearing impaired (foreign):
1-201-680-6610
www.bnymellon.com/shareowner/equityaccess

A copy of the company’s annual report on Form 10-K as filed with the Securities and Exchange Commission has been included with this annual report, and constitutes an integral part of this annual report and is incorporated herein by reference.

Copies of any exhibits filed with the company’s annual report on Form 10-K may be obtained by contacting the Investor Relations department at the company.

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