

An investment visionary
draws world attention
to South Florida.

By John Pacenti

BUSINESS LEADER OF THE YEAR:

DR. PHILLIP FROST

Forbes' 204th richest American is as busy as ever, with new investments and philanthropy.



MICHAEL MCELROY

In the early 1970s, respected dermatologist Dr. Phillip Frost put some money into a 50-acre tropical fish farm in Florida City with a few other investors. “We were told by the manager the birds were eating a lot of our fish, but the land fortunately went up in value, so we got our money out,” Frost recalls. The dermatologist-turned-entrepreneur has been investing in South Florida businesses ever since.

More than three decades removed from his tropical fish venture, Frost, 70, is one of the region’s wealthiest and most powerful individuals, listed by *Forbes* magazine in October with a net worth of \$2.2 billion — the 204th richest American. Still, he is as approachable and down-to-earth as when he was a teenager selling shoes at his father’s store in South Philadelphia. And his appetite for investing has hardly dulled.

After he sold Miami pharmaceutical maker Ivax Corp. for \$7.4 billion to Israel-based Teva Pharmaceuticals in January 2006, Frost could have retired from South Florida’s business community and simply concentrated on philanthropy — he and Patricia Frost, his wife of 44 years, are among the region’s top donors. Instead, the energetic doctor and his team have invested in around a dozen enterprises — most in South Florida — taking several public. Some of those investments

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are passive, but many others find Frost actively helping small companies grow.

He and his investment team “see a lot of opportunities now. We can’t handle too many more investments,” Frost says. “The projects are interesting for different reasons, but they all can represent new improvements to help people or move the particular field ahead. And we have some fun type of investments, which are represented by Dreams.”

Dreams is Dreams Inc. (Amex: DRJ), a Plantation-based company that sells licensed sports products and memorabilia. Although Dreams had been around for 27 years, it was when Frost got involved, buying a 14 percent stake last year and then putting two of his confidants on the board, that the company began thinking really big. Dreams had traded on an over-the-counter stock exchange but was trying, to no avail, to get on a larger one. Management brought it up at a meeting with Frost, who is a vice chairman of the Board of Governors of

the American Stock Exchange (Amex). He immediately phoned the Amex chairman to get the listing moving, recalls David Greene, Dreams’ senior vice president.

“You are in awe; you cannot help it,” Greene says of Frost. “When he speaks, everybody listens. Everybody is quiet as a mouse.”

Even though Frost, a big fan of college football, admits that investing in Dreams has been a blast, he still rules his investments with solid business instincts, looking for under-the-radar companies or those, such as Dreams, that may be in a fractured industry where there is no clear leader. “He is not a trader or a speculator,” Greene adds. “He is a long-term investor. He uses his influences to organize and to manage.”

MAKING MEDICAL MAGIC

Many of Frost’s newest investments are medical startups he aims to take public eventually. That brings him back to his roots and his passion: medical research. He is a trustee of the Scripps Research Institute, a science research non-profit with a branch in Jupiter, and made his fortune by turning South Florida companies Key Pharmaceuticals Inc. and Ivax into very successful pharmaceutical firms, catalyzing the industry in the region.

“I think I have been very lucky at being at the right place at the right time to pursue my real interests — to be able to be creative and productive,” Frost says. “But a lot of it has really been a question of taking advantage of situations that have presented themselves to me that other people might have let go by — like chance meetings of people and following up on ideas we discussed.”

Luck had nothing to do with it, says Michael Jaharis, Frost’s co-founder of the company that would become Key Pharmaceuticals. Jaharis, who went on to found Kos Pharmaceuticals in South Florida (eventually sold to Illinois-based Abbott Laboratories) and is now No. 261 on *Forbes*’ list of the richest people in America, says Frost has a knack for recognizing an untapped medical industry. “He’s a visionary of things,” Jaharis says from his New York City office.

Andrew Foreman, an analyst with WR Hambrecht & Co. Inc. in Fairfax, Va., who has followed Ivax and other Frost ventures, says of the silver-haired billionaire: “He has a little bit of the mystery of Howard Hughes. You’re not exactly sure what he is doing, but at the end of the day you know his heart is in the right place.”

After all these years, the possibilities of medical research still excite Frost. Even with all the advancements in the last 50 years, he believes the golden age of medicine is yet to come. He says new medications and therapies will soon address diseases of the brain and the problems of life, such as aging.

BUSINESS LEADER OF THE YEAR

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He owns about a 3 percent stake in Teva (Nasdaq: TEVA), and is vice chairman of the firm. He says he is excited about Teva's development of the first pill for a new multiple sclerosis treatment, which is currently in clinical trial. His post-Ivax investments in the medical field all are focused on bringing innovations to the marketplace and even curing diseases. They are engaged in research such as non-invasive surgery tools, female infertility cures, therapeutic proteins and treatments for eye diseases. His philosophy is that to bring those innovations to the marketplace, the companies must be profitable.

"He is very intuitive," says Steve Rubin, one of Frost's most trusted advisors and executive vice president of administration for Miami-based Opko Health Inc. (Amex: OPK), a Frost holding that is researching eye disease therapies. "I think that is what served him well over the years. He is a very quick study."

Opko is the only medical company for which Frost decided to be more than just the advising investor, taking on the CEO/chairman position. He developed it out of Pennsylvania-based Acuity Pharmaceuticals. Acuity had created a compound that turns off the gene which leads to progressive blindness in patients with macular degeneration. But the company needed cash for Phase 3 trials. Sam Reich, the co-founder of Acuity, had thought the company would have to be bought by a large pharmaceutical firm. Then Frost called. He merged Acuity with a Gainesville-based company called Froptix Corp., which also was researching macular degeneration, the leading cause of vision loss in Americans 60 and older. He then united both with a shell company called eXegenics, which had \$16 million in cash. Frost gave it a \$12 million line of credit, moved the new company to South Florida, put Scripps' President Dr. Richard Lerner on the board and renamed the whole project Opko.

"We gained a new partner with the experiences of a large pharmaceutical company without ... the down-

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SOME OF PHILLIP FROST'S INVESTMENTS

- **Cellular Technical Services Company Inc.** (OTCBB: CTSC), a start-up developing non-invasive surgery tools. (Valley Stream, N.Y.)
- **Dreams Inc.** (Amex: DRJ), a manufacturer and seller of sports memorabilia and licensed products. (Plantation)
- **Continuicare Corp.** (Amex: CNU), which provides primary care service through 18 medical centers; Frost has been involved since 1996. (Miami)
- **Ladenburg Thalmann & Co. Inc.** (Amex: LTS), an investment and brokerage. One specialty is creating blank-check companies to merge with private firms in order to bring them public. (Miami)
- **Modigene Inc.**, a biopharmaceutical firm looking to improve therapeutic proteins already on the market. (Vienna, Va.)
- **Non-Invasive Monitoring Systems Inc.**, whose top product detects abnormal respiratory, cardiac and other medical conditions without surgery. (North Bay Village)
- **Opko Health Inc.** (Amex: OPK), which aims to bring to market new medicines and therapies for devastating eye diseases. (Miami)
- **Protalix Biotherapeutics Inc.** (Amex: PLX), which aims to find cures for female infertility and other diseases. (Israel)
- **Teva Pharmaceutical Industries Ltd.** (Nasdaq: TEVA), is among the largest drug manufacturer in the world. (Israel)
- **Vector Group Ltd.** (NYSE: VGR), financier Bennet LeBow's cigarette company. (Miami)



Patricia Frost and Phillip Frost, who have been married 40 years, are major donors to the arts and higher education in South Florida.

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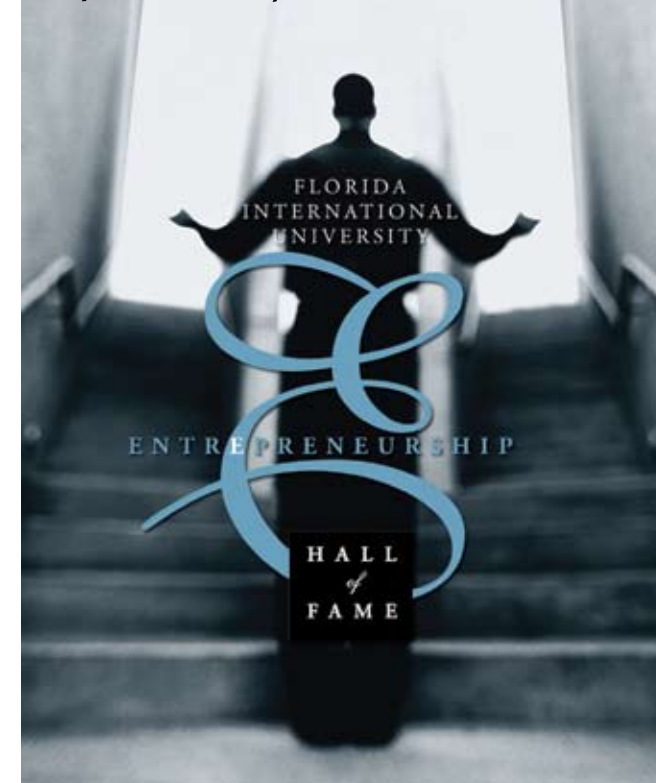
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side, such as dealing with the slow bureaucracy of a big firm," says Reich, now a vice president for Opko. "It was the best possible outcome for a small company."

THE ROAD TO INVESTMENT BANKING

"Blank check" companies — public companies that have ceased operations or publicly traded shells like Fropix looking to merge with a private enterprise — are one of Frost's favorite vehicles these days. They allow a firm to go public without an initial public stock offering.

Frost has brought five companies public during the past two years. He says he and his investment team plan during the next year to bring three or four more private firms public through shell companies. "Our strategy is to invest in whatever funds are necessary to take them to a certain point [where] they can stand on their own, and then we facilitate that process by backing them into a public shell," Frost explains. "That has become a process that we have become very comfortable with, and it has worked out well for the investors, the employees and the managers of the companies."

Frost moving Ladenburg Thalmann to South Florida "brings Miami into the major leagues," Barry Johnson says. "It's been a long time since we've had a firm like that. It allows Miami to achieve what many people have been forecasting for it for a long time."

Those in Frost's inner business circle describe him as the ultimate multi-tasker. They say he can exhaust them with his boundless energy. But Frost's public persona is careful, deliberate and even-keeled. He exudes confidence. Officials of the companies in which he has stake say it can be a little intimidating when this South Florida business icon calls a meeting of the minds. "I'm not a wordy person," Frost says. "I listen, and I like to make quick decisions — some people think too quick."

He listens most closely to his inner circle. By the time he sold Ivax last year, those trusted advisors included Dr. Jane Hsiao, Dr. Rao Uppaluri and Steve Rubin. "We know what to expect. We have trust and confidence in one another," Frost says of the group.

"He's part of the team," Rubin says of Frost. Uppaluri, Opko's chief financial officer, says that with Frost, "There is never a lack of challenges, never a lack of new things to do."

He has invested repeatedly with this same team —

colleagues who have been with him since the days of Key and Ivax — and with others he knows. For example, he knew Dreams Inc.'s David Greene through his father, Richard S. Greene, a dermatologist who was a friend of Frost's from academic societies. Frost also teamed up with Robert N. Fried, his cousin and the producer of 15 films, to form Ideation Acquisition Corp. in June. Ideation (Amex: IDI) is a blank-check company established to distribute digital content for computers, mobile phones, television and other media. It filed with Amex for an initial public offering to raise as much as \$92 million to start acquiring private companies.

Moving private companies into a blank-check company is a specialty of Ladenburg Thalmann & Co. Inc. (Amex: LTS), an investment banking firm of which Frost owns nearly a third. He became chairman in 2006, moving its headquarters from New York to Miami.

Barry E. Johnson, president of the Greater Miami Chamber of Commerce, thinks Frost helped the region take a giant step forward by bringing Ladenburg Thalmann to Miami, changing the perception that this is a tourist economy only. "This brings Miami into the major leagues," Johnson says. "It's been a long time since we've had a firm like that. It allows Miami to achieve what many people have been forecasting for it for a long time. It validates the business community of the metropolitan area."

Ladenburg's headquarters are now in the 15-story Ivax building, along the Biscayne Corridor at 44th Street, where its namesake had its headquarters. Frost has moved many of the companies in which he owns stakes

into that building. His own office is there as well, its décor making visible his eclectic passions, from the arts to native cultures. The office is adorned with sports memorabilia: a University of Miami football helmet signed by the 1987 national championship team led by Jimmy Johnson, a Miami Heat basketball that served as the invitation to its inaugural game in 1988. The centerpiece of his coffee table is an Eskimo-made eagle in flight carved from whalebone and walrus tusk. A copy of *Gray's Anatomy of the Human Body* peeks out from the large bookshelves bracing one wall. Two flat-screen monitors show stock prices. In fact, tickers scroll throughout the building.

Andrew Foreman, the analyst with WR Hambrecht & Co. Inc., says Frost embodies the long-held American dream of a man with an idea making a fortune. "He came from tough economic circumstances," Foreman says. "He is a value investor. He has been able to buy assets at very low prices. It's possibly a survival mechanism from his early days: Get more for less."

MICHAEL PRICE

Medical research is still Frost's passion.





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Those early days included earning his way into an honors high school and working not only in his father's shoe store but also in his brother's hardware shop. Those jobs gave him a sense of urgency — he still recalls how much he enjoyed the immediate rush of accomplishment when he sold a pair of Florsheims or wrench set.

A teacher sparked Frost's interest in dermatology, and he attended Albert Einstein College of Medicine of Yeshiva University in New York. He did his dermatological residency at the University of Miami Medical School and went on to start the dermatology department at Mount Sinai Medical Center in Miami Beach. Even then, traditional medical practice held little lure. "I was always doing research on dermatology to find new forms of therapy," he says.

In the late 1960s, while at Mount Sinai, Frost teamed up with Jaharis, then an attorney for another dermatology company, to form Transmedics Inc. They hoped to bring to market a skin biopsy device Frost had created. In 1972, they merged with a struggling public company called Key Pharmaceuticals, which had two products in development — for asthma and heart conditions — but needed money immediately. Jaharis remembers his CEO pay was \$15,000 and that to bring in cash flow Key had to beg banks for financing to buy products already on the market. While Jaharis stuck to the numbers and the details, Frost pursued research — and kept his day job at the hospital. Frost was exhaustively enthusiastic about the venture. "Sometimes we had to calm him down," Jaharis says. "It's been a wonderful relationship."

Both of Key's drugs hit it big. By 1984, Frost and Jaharis had turned a near-bankrupt company into one that posted \$200 million in profits. Two years later Frost and Jaharis sold Key to Kenilworth, N.J.-based pharma giant Schering-Plough Corporation for \$826 million.

Key was just the beginning. The following year, Frost founded Ivax, hoping it would become a major distributor of proprietary drugs by improving upon existing medicines. After all, the asthma drug that put Key on top had been around for 50 years, but Key improved the product by making it time-released.

Soon, though, Frost's attention turned to generic drugs. He bought Goldline Laboratories Inc., a struggling distribution company that introduced Verapamil, a generic heart disease treatment it developed in 1992. It was one-quarter cheaper than brand-name drugs. By 1993, Ivax posted \$645 million in revenues, but soon found itself in rough waters as other pharmaceutical companies caught up to the generic market. Analysts voiced concerns over Ivax's credit ratings, and there were two failed mergers. In the late 1990s, large pharmaceutical companies began looking for ways to slow down the generic market and extend their patents on profitable drugs. Ivax took them on in court, arguing that their patent extensions were illegal.

University of Miami President and former US Secretary of Health and Human Services Donna E. Shalala says it took great courage to confront the deep pockets of the pharmaceutical industry. Ivax's big turn-around came in 2001, when Frost beat pharmaceutical giant Bristol Meyers on appeal and earned the right to sell a generic version of Paxil — then one of the most popular mental-health drugs on the market. Ivax's stock tripled to the mid-\$20s a share. Then Frost moved into the Latin American market, buying Chile's top pharmaceutical company, which served much of the region.

In his long tenure as the head of Ivax, Frost never played to Wall Street, refusing to compromise what he was trying to accomplish in terms of quarterly performance, analyst Foreman says. If Ivax's stock underperformed, Frost did not care because he was in it for the long haul. "He gave no guidance, and there was sometimes great frustration among investors," Foreman says. "You had to spend time to figure what he was doing instead of reading a press release. That's what I loved about him. That's what liberated Phil."

'APPROACHABLE AS ANYBODY'

Even so, Frost's post-Ivax career has had some bumps. One day during October he saw the value of his 15 percent stake in Israeli biotech firm Protalix Biotherapeutics Inc. (Amex: PLX) drop in value from \$352 million to \$65 million. Frost and a group of investors had taken Protalix public through a reverse merger with a shell company in 2006. It is developing a method of making proteins in cultured carrot cells, but has no products on the market. Frost is the largest shareholder in the company, whose chairman, Eli Hurvitz, is also chairman of Teva. The stock dropped after Protalix announced it would issue 10 million new shares. Although Frost could not be reached for comment, the company released a statement about Protalix stock's steep decline: "We are very bullish on the company. It is an exciting company with innovative technology and a great future."

Frost has never been afraid to take risks. He sank \$2 million into an attempt to resurrect Pan Am Airways in 1996. The effort foundered when a deal with Carnival Airlines fell through. "He has good instincts and he has an appetite for risky moves. At this point, he personally can afford to lose," Foreman says. "He can make his own decisions."

And investors continue to follow. InsiderScore.com, an online trading data monitoring and intelligence service, ranked Frost No. 2 last year as the investor whose disclosed stock purchases have generated the highest rates of return. "He can identify growing markets before the general market or larger companies," Foreman says.

"There is no question why he is successful," says Frank R. Nero, CEO of The Beacon Council, Miami-Dade County's public-private economic development partnership. "He has very good business acumen, but he is also a visionary."

For a much-lauded visionary, Frost's friends find him down-to-earth. "For his stature and wealth, he is as approachable as anybody. You see him shopping at Costco and CVS," Rubin says. Nero says, "I have found, for a person of his stature, that he is very easy to talk to, very direct."

When not working, Frost says he has a passion for gardening, growing yellow and white roses — not the easiest hobby in South Florida's acidic soil.

"You wouldn't know he was man of such wealth. He isn't grandiose," says Harry B. Smith, a close friend and an attorney with the Ruden McCloskey law firm. "He started out as a local dermatologist, took over a failing company and it's been the sky's the limit." Smith says the real legacy Frost and wife Patricia are creating is through their philanthropy. "They give of themselves without looking for anything in return," he says.

In 2003, they helped kick off UM's \$1 billion fundraising campaign with a \$33 million contribution to what is now known as the Frost School of Music. "It started the Momentum [Campaign]," Shalala says. Frost even helped recruit renowned jazz pianist Shelly Berg as the school's dean. Frost says he prefers classical music — his favorite composer is Tchaikovsky — but will listen to almost anything.

He and wife Patricia, a former principal of Henry S. West Laboratory Elementary School, are avid arts supporters. They provided \$6 million of the \$10 million funding to build a new museum at Florida International University, where Patricia is a trustee. Frost continues to advise FIU on everything from academics to acquiring new donors, FIU President Modesto A. Maidique says.

Frost "is always talking about the future, and, of course, is clearly someone who believes deeply in the community," Nero says. And Maidique adds, "Phil Frost may be better known around the world than in Miami. He has worldwide access and incredible wisdom." ■



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