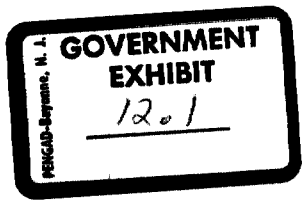
PHARMACEUTICALS INC.

Chron-In

TO: JOE LUMINIELLO
ALAN MACKENZIE
GEORGE SCHAFFER
NOBU SUZUKI

GOVERNMENT EXHIBIT 12.1



FROM: Jeff Peterson

RE: FREE GOODS/PRICING

DATE: August 19, 1994

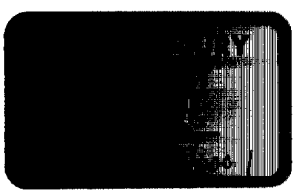
Thought I'd try to give you a taste for the realities of free goods and pricing in Southern CA with respect to the Managed Care "jungle" of Medical Group and IPA providers. The Regional Account Manager's (along with OBU reps) have helped put together the basic facts.

100% of the free goods used by Managed Care reps are used to effect a lower than invoice price (i.e. purchase 10, get 1 free). Approximately 80% of free goods used by OBU reps are used for pricing. While most of these "pricing" kits are used to compete with Zoladex pricing, there is a portion of that 80% that goes to securing "early" and/or end of quarter orders. The remaining 20% of available free goods are really "samples" used for new patient starts, etc.

Nearly all of the free goods used for pricing are used for managed care accounts/patients through the various IPA and Medical Group providers. The invoice pricing to these providers for 7.5mg covers a broad spectrum. Some of these accounts are classified as such that they pay list price ($371) and others are classified to receive our quantity discount pricing. The free goods used for pricing are sometimes used in addition to the quantity discount and can make the actual price for the customer less than our "best" price.

The potential for problems lies in the fact that these free goods are being offered contingent upon the purchase of a certain quantity of product. One thing TAP can do to take a step toward remedying this situation is to stress to the District Managers and Sales Reps that free goods should never be made available contingent upon a sale. Routine sampling of physicians can probably accomplish the same purpose without the potential risk. It could just be a coincidence that a customer receives a certain ratio of samples to purchased kits! This is something that should be stressed nationally. I can almost guarantee you that the practice of providing free kits contingent upon a sale is NOT isolated to Southern CA.

The next logical question is what to do with the pricing to these Managed Care providers. The pricing to this group of customers is currently being determined by field sales personnel on a case by case basis. They are doing a very good job of maintaining business in the face of capitated provider contracts and



Zeneca's quantity discount pricing ($234) to these customers. This decentralized pricing does, however, set us up for some problems (like prices lower than Kaiser!). A couple of options/ideas to deal with these customers:

1. MAINTAIN STATUS QUO. These customers dislike the free goods pricing about as much as each of you probably do. They don't want to have to worry about free goods not being there, reps changing and/or deals changing. The primary advantage in doing this is that we artificially maintain a higher ASP. If that is the number one objective, then this is probably the number one alternative.

2. CONTRACT AS NEEDED WITH INDIVIDUAL MANAGED CARE PROVIDERS. There are a lot of these type customers and would probably be a very time consuming ordeal for Joe and his staff. This would lower our reported ASP. That would be partially offset by an increase in units as contracted prices would replace free goods. We also stand the realistic chance of losing some business as any contracted price for 7.5mg would be a "price increase" for some accounts. Most of the Regional Account Managers will tell you that as a rule these accounts would rather pay a slightly higher contracted price than the free goods deals.

3. OFFER QUANTITY DISCOUNT PRICING TO MANAGED CARE PROVIDERS. Too extreme. This would have a significant (and in a lot of cases, unnecessary) downward impact on ASP.

There are probably several other options in dealing with these customers, but the bottom line is that what the field sales people really need is some guidance as to how the pricing to these accounts should be handled.

cc: Dina Guedikian
David Ricketts
Tom Siron