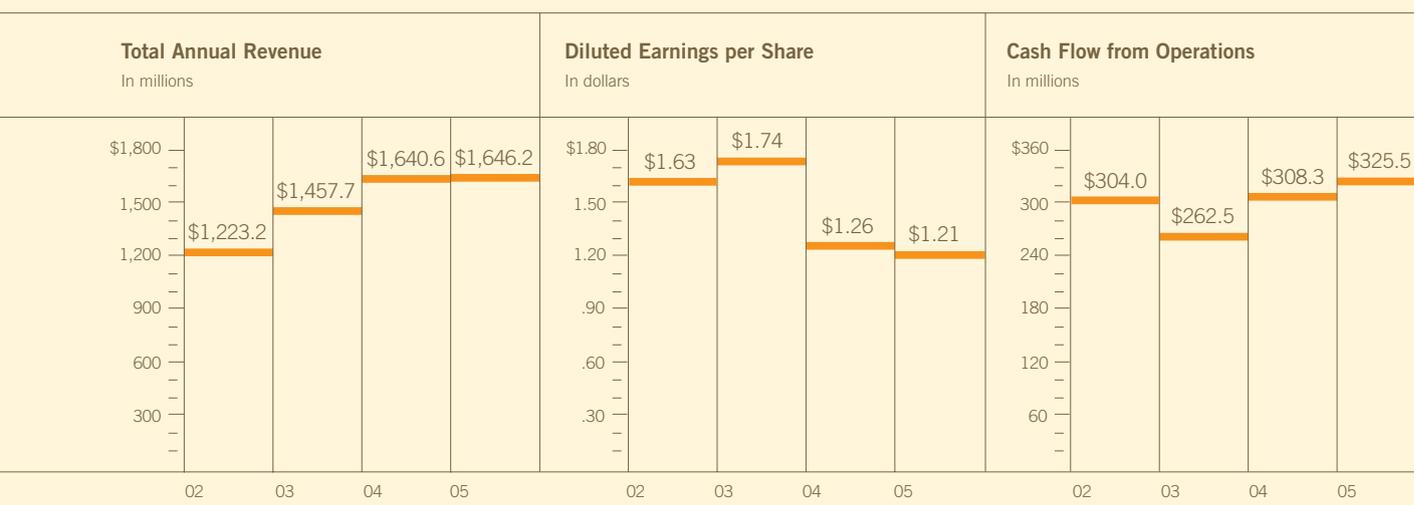


Doing the right thing :: Taking the next step



Watson Pharmaceuticals, Inc.
Annual Report 2005



Strong Fundamentals

Our balance sheet and cash flow provide us with strategic flexibility.

Years ended December 31	2005	2004	2003	2002
(in thousands, except per share amounts)				
Operations¹				
Net revenue	\$1,646,203	\$1,640,551	\$1,457,722	\$1,223,198
Gross profit ²	793,789	819,757	833,071	651,316
Operating income ²	218,512	265,940	338,913	269,364
Earnings before income tax provision	219,416	235,568	317,327	278,327
Net income ²	138,233	150,023	202,079	175,033
Diluted earnings per share	1.21	1.26	1.74	1.63
Diluted weighted average shares outstanding	120,021	124,727	120,727	107,367
Financial Position				
Cash flow from operations	325,503	308,269	262,517	303,989
Total assets ²	3,080,033	3,237,483	3,277,731	2,659,381
Total long-term debt	587,935	587,653	722,535	415,237
Stockholders' equity	2,104,241	2,236,949	2,052,477	1,794,201
Working capital ²	1,114,760	1,114,557	984,804	537,986

¹ We increased our equity ownership in Scinopharm, Taiwan Ltd. to a greater than 20% share effective December 2005. Accordingly, the selected consolidated financial data for all periods presented has been prepared as if this investment had been accounted for using the equity method since our initial investment.

² As of January 1, 2003, we reclassified our Steris Laboratories, Inc. and Marsam Pharmaceuticals, Inc. facilities from assets held for disposition to assets held and used. The Company reclassified gross profit, operating income, assets and working capital for the 2002 period to conform to current period presentation, which has no effect on net income, total assets or retained earnings.

OUR COMPANY

- :: 3,800 employees
- :: 14 locations
- :: \$1.65 billion revenue

OUR STRUCTURE

- :: Watson Generics
- :: Watson Brands
- :: Watson Shared Services

2005 Watson at-a-glance

WATSON GENERICS

\$1,243 M

Product Revenue
(in millions)

39%

Gross Margin



125

Product Families
in 294 Strengths

2005 HIGHLIGHTS

A new prostate cancer treatment

In April, we announced the nationwide launch of TRELSTAR® DEPOT and TRELSTAR® LA (triptorelin pamoate for injectable suspension) for the palliative treatment of advanced prostate cancer.

An expanded leadership team

As part of our continuing effort to strengthen our leadership team, in April we announced the appointment of Ed Heimers, Jr. to head the Watson Brands operating division.

ABOUT WATSON

Watson Pharmaceuticals, Inc., headquartered in Corona, California, is a leading specialty pharmaceutical company that develops, manufactures, markets, sells and distributes brand and generic pharmaceutical products. Watson pursues a growth strategy combining internal product development, strategic alliances and collaborations and synergistic acquisitions of products and businesses.

58%

Watson products that hold the #1 or #2 market share position.*

OUR CUSTOMERS

- :: 61%
Pharmaceutical wholesalers
- :: 34%
Retail chain pharmacies
- :: 5%
Other

OUR OPERATIONS

- :: Watson's supply chain operation includes facilities on three continents.
- :: Our company manufactured and distributed more than 10 billion dosage units in 2005.

<

Top 5

Our company is one of the "Top 5" pharmaceutical companies in the U.S. based on prescriptions dispensed.*

WATSON BRANDS

\$390 M

Product Revenue
(in millions)

77%

Gross Margin

24

Product Families
in 39 Strengths



A promising prostate treatment study

Our R&D team initiated Phase III clinical studies on silodosin as a potential treatment for benign prostatic hyperplasia (non-cancerous enlargement of the prostate).

An enlarged pipeline of generic products

We submitted 22 abbreviated new drug applications (ANDAs) with the U.S. Food and Drug Administration (FDA), significantly expanding our pipeline of generic products.

A new distribution center

A new 272,000 square-foot distribution facility opened this year in Gurnee, Illinois (near Chicago). The center has the capacity to house 16,000 pallets of product.

A \$300 million share repurchase program

In September, we completed a \$300 million share repurchase program.

*Source: IMS Health Data, December 2005



Doing the right thing

Watson has emerged from 2005 a stronger company, poised for growth in 2006 and beyond. We are successfully executing on our strategy and staying true to our vision. Guided by our fundamental commitment to doing the right thing, we are intent on building a company of which we can be proud.

Taking the next step

This year we continued our intense focus on business processes and product innovations that will enable us to stay competitive and flexible during any industry cycle. We continue to adapt to changing industry dynamics and our business continues to evolve. We believe the steps we are taking today will create superior value for our customers and shareholders.

Allen Chao, Ph.D.
Chairman, President and
Chief Executive Officer

To Our Shareholders ::

In 2005 we made significant progress in the effort to position our company for future growth. We continue to focus our strategy, increase efficiencies and expand our R&D pipeline. We implemented initiatives aimed at making us more competitive in the face of offshore competition, including efforts to establish a stronger presence in Asia. Equally as important, we continued to strengthen our balance sheet and cash flow.

We remain steadfastly committed to doing the right thing in the conduct of our business and our strategy is working. For over two decades our flexible business model and proactive approach to handling changes in our industry has enabled us to achieve growth in all types of market conditions and industry cycles. We think that our ability to anticipate and manage change is one of the attributes which makes us a different kind of specialty pharmaceutical company.

TAKING THE NEXT STEP

As part of our ongoing effort to position Watson for growth, two years ago we reorganized into two distinct business units. Watson Generics accounts for approximately 76 percent of our business, and Watson Brands accounts for the remaining 24 percent. Through the combined efforts of these two vital and growing businesses, we manufacture and distribute more than 150 pharmaceutical product families that are improving the quality of life for people all over the world. And with exceptional support from the Watson Shared Services organization, today we are stronger than ever and working as a team to take the next step towards positioning our company for growth.

FUELED BY A SOLID BALANCE SHEET AND CASH FLOW

By effectively executing our long-term growth strategy, we continue to maintain a strong market position and generate solid revenues. It takes working capital to execute our vision and we sustained our healthy cash position again this year, even in the face of increasing competition from offshore companies and continuing price pressures affecting our entire industry. Our net revenue increased to \$1.65 billion in 2005. Our cash flow from operations grew by six percent this year to approximately \$325 million.

2005 was a year of positioning for future growth.

Although still healthy at approximately 48 percent, our gross margin was reduced by almost two percentage points this year, in large part due to a price reduction in nicotine gum, one of our key generic products. While market fluctuations such as this are outside our control, we are able to mitigate these types of risks through our balanced business strategy of maintaining a diverse product portfolio of generics that target a broad range of primary care markets along with a growing brand portfolio targeted to selected specialty markets including urology and nephrology. Net income for 2005 was \$138.2 million, or \$1.21 per diluted share, slightly lower than the \$1.26 posted in the previous year.

**A CLEAR AND CONSISTENT
STRATEGY**

Watson has achieved leadership as one of the “top 5” pharmaceutical companies in the U.S., based on total prescriptions dispensed, in large part through our commitment to creating superior value for our customers. We are successfully executing on our strategy, adapting to industry change and maintaining a competitive cost base.

Since our founding in 1984, it has been our strategy to grow through internal product development efforts, acquisitions and by forming win-win alliances, such as the alliance we formed in 2002 with Cipla, Ltd., the second largest pharmaceutical company in India. As this annual report went to press, we announced our intention to acquire Andrx Corporation, a Florida-based company that is a leader in formulating difficult-to-replicate generic products and a developer of “best-in-class” drug delivery technologies.

The acquisition is expected to bring a unique portfolio of difficult-to-replicate generic products to our offering. Upon completion of the acquisition, Watson will have more than 60 Abbreviated New Drug Applications (ANDAs) in the pipeline and will become the third largest generic pharmaceutical company in the U.S. (based on prescriptions dispensed).

The Andrx acquisition will accelerate our R&D efforts and further position Watson for long-term growth. Our outstanding R&D teams around the world are the engines for driving the growth of our product pipeline, and we continue to invest heavily in this part of our business, including \$125 million, or 7.6% of our revenues, in 2005.

Service is another key component to our strategy and we continue to raise the bar in our sales and marketing efforts and in our customer relationship management activities. Our strategy is underpinned by a relentless focus on operational discipline and efficiency. As part of that ongoing focus, we continue to take steps aimed at improving efficiencies across our entire supply chain. Areas of focus in this important endeavor include procurement process improvement, improved utilization of existing manufacturing facilities, site rationalization and establishment of an Asian product development and manufacturing capability through alliances and investments.

**CONTINUING GROWTH IN
WATSON GENERICS**

We continue to be one of the largest participants in the growing U.S. generic pharmaceutical market. Although it was a relatively quiet year for new product launches in the generic sector, Watson Generics launched eight new products in 2005 and filed 22 ANDAs, including an impressive eight filings in the fourth quarter alone. At the end of December 2005, a total of 47 ANDAs were pending for this business, thanks to the hard work and dedication of our R&D teams.

As part of our Asian strategy, this year we increased our investment in a specialty active pharmaceutical ingredients (API) manufacturing company in Taiwan. And during the fourth quarter, Watson acquired a small manufacturing facility located in Goa, India, that will ultimately produce solid dosage generic products for the U.S. market.

Looking ahead to 2006, we are establishing a generic product development center in India. As part of this center, we have acquired an Indian company with Food and Drug Administration (FDA) approved API development and manufacturing facilities, as well as product development capabilities.

STEADY PROGRESS IN
WATSON BRANDS

Sales at Watson Brands have been growing steadily and we achieved a seven percent increase this year, reaching \$390 million in revenue for this business. Our new TRELSTAR® LA and TRELSTAR® DEPOT (TRELSTAR®) products were launched in April and have been doing well as a result of the terrific efforts of our urology team. Indicated for the palliative treatment of advanced prostate cancer, these important new products increase our strategic position within the urology market and we are pleased to report that unit sales exceeded our expectations during its first year on the market. Also in urology, our OXYTROL® product achieved \$43 million in sales, a 13% increase from 2004.

In other noteworthy news in Watson Brands, we completed the largest study of its kind in overactive bladder to assess the effect of OXYTROL® on quality of life, work productivity and mental health in patients with overactive bladder. Referred to as the MATRIX study, the large size (over 2,800 patients) and diversity of patients participating in MATRIX allowed us to gather data on the effects of overactive bladder and treatment with OXYTROL® in a large real-world setting.

We are successfully executing our strategy, adapting to industry change and maintaining a competitive cost base.

Looking to the future in Watson Brands, a new pipeline of products is expected to yield results in 2008 and 2009. This year our R&D team initiated Phase III clinical trials for Silodosin, a potential treatment for benign prostatic hyperplasia (BPH), a non-cancerous enlargement of the prostate. For the overactive bladder market, we are building on our OXYTROL® success by conducting studies for a topical oxybutynin gel formulation that will only require a once daily dosing. We plan to initiate Phase III trials for this product in the second quarter 2006.

A POSITIVE OUTLOOK FOR
2006 AND BEYOND

As we look to the future, there are many opportunities on the horizon. A large number of brand products are coming off patent in 2006 and beyond, creating opportunities for the generic industry. In addition, generic substitution rates are increasing dramatically. We expect to see that trend continue with the recent implementation of the Medicare prescription drug benefit program. And with major drug chains and wholesaler consolidation, we believe larger generic pharmaceutical companies that have broad portfolios and the ability to consistently and reliably supply the market will become the manufacturers of choice. Our aim in the year ahead is to grow the top line with the launch of eight or more products, while continuing our efforts to reduce our costs of goods sold.

DOING THE RIGHT THING,
TAKING THE NEXT STEP

This year we made significant progress in the effort to position Watson for the future. We will continue to focus on fundamentals in the year ahead, retooling our infrastructure and enhancing our operations in anticipation of growth in 2006 and beyond, when we expect to see new product approvals coming out of our R&D program, and other important strategic initiatives coming to fruition. We are proud to employ one of the world's finest workforces and I'd like to thank everyone on the Watson team for their dedication and commitment to our mission. Together, we are doing the right thing—for our customers, for the patients they serve, and for our shareholders who make our continued growth possible.



Allen Chao, Ph.D.
Chairman, President and Chief Executive Officer
March 17, 2006

Together, we are doing the right thing—for our customers, for the patients they serve, and for our shareholders who make our continued growth possible.



500

SUCCESS FACTORS FOR THIS BUSINESS

- :: Broad product offering
- :: Operational excellence
- :: Strong customer service

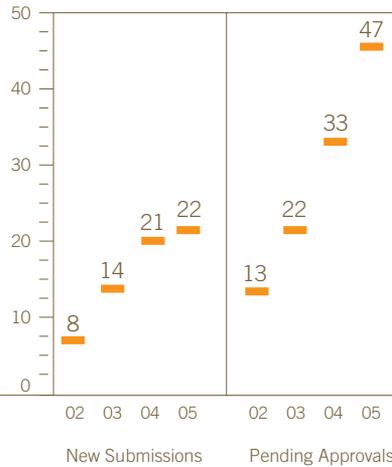
WHY GENERICS?

- :: Our Company has a strong heritage in this business. Watson was rated #2 in a 2005 industry survey of generic pharmaceutical manufacturers based on “overall performance” and on “quality of products and services.” (Source: Retail Pharmacy Management)
- :: Socio-economic indicators point to continuing growth in demand for generics. Over the last two decades, generic substitution rates have tripled from 19% to 60%.
- :: A large wave of patent expirations is imminent, opening the door to new generic product launches. This includes a significant number of “blockbuster” product franchises, representing a large market opportunity for nimble competitors like Watson.

Watson Generics



Watson Generics R&D Pipeline



:: 6

We are proud of our pipeline for this business and grateful to the talented men and women at Watson who work so hard to make it happen.

Watson Generics products are marketed primarily under the “Watson Laboratories” label. Our over-the-counter products are primarily sold under the “Rugby” label.

Watson Generics Product Line

- Acyclovir Capsules/Tablets USP
- Afeditab CR (Nifedipine ER) Tablets
- Allopurinol Tablets USP
- Amoxapine Tablets USP
- Atenolol Tablets USP
- Atenolol/Chlorthalidone Tablets USP
- Baclofen Tablets USP
- Bisoprolol Fumarate & HCTZ Tablets
- Bupropion HCL SR Tablets
- Buspiron HCL Tablets USP
- Butalbital/APAP/Caffeine Tablets USP
- Butalbital/APAP/Caffeine/Codeine Phosphate Capsules C-III
- Butalbital/ASA/Caffeine Capsules USP C-III
- Butalbital/ASA/Caffeine/Codeine Phosphate Capsules USP C-III

Compare to Brand

- Zovirax®
- Adalat CC®
- Zyloprim®
- Asendin®
- Tenormin®
- Tenoretic®
- Lioresal®
- Ziac®
- Wellbutrin® SR, Zyban®
- Buspar®
- Fioricet®
- Fioricet® w/Codeine
- Fiorinal®
- Fiorinal® w/Codeine

Watson Generics Product Line

- Carisoprodol Tablets USP
- Cefazolin for Injection, USP
- Cefuroxime Axetil Tablets USP
- Citalopram Hydrobromide Tablets
- Clindamycin HCL Capsules USP
- Clomiphene Citrate Tablets
- Clonazepam Tablets USP C-IV
- Clorazepate Dipotassium Tablets USP C-IV
- Colchicine Tablets USP
- Cyclobenzaprine HCL Tablets USP
- Diazepam Tablets USP C-IV
- Diclofenac Sodium DR Tablets
- Diclofenac Sodium ER Tablets
- Dicyclomine HCL Capsules/Tablets USP
- Diethylpropion HCL Tablets C-IV
- Diethylpropion HCL ER Tablets C-IV

Compare to Brand

- Soma®
- Ancef®
- Ceftin®
- Celexa®
- Cleocin®
- Serophene®
- Klonopin®
- Tranxene® T-Tab®
- Flexeril®
- Valium®
- Voltaren®
- Voltaren XR®
- Bentyl®
- Tenuate®
- Tenuate® Dospan®

**ACCOMPLISHMENTS
THIS YEAR**

- :: Launched 8 new generic products
- :: Filed 22 ANDAs with the U.S. FDA
- :: 47 ANDAs at year end

LOOKING AHEAD

- :: We expect to submit more than 20 additional applications in 2006

Our company has a strong heritage in generics and we have one of the broadest generic product lines in the industry.



Watson Generics Product Line

Diltiazem HCL Tablets
Disopyramide Phosphate Capsules USP
Doxepin HCL Capsules USP
Doxycycline Hyclate Capsules USP
Doxycycline Hyclate Tablets USP
Doxycycline Monohydrate Capsules USP
Enalapril Maleate Tablets USP
Estazolam Tablets C-IV
Estradiol Tablets USP
Etoposide Tablets USP
Folic Acid Tablets USP
Furosemide Tablets USP
Gemfibrozil Tablets USP
Glipizide Tablets USP
Glipizide ER Tablets
Guanfacine HCL Tablets USP

Compare to Brand

Cardizem®
Norpace®
Sinequan®
Vibramycin®
Vibra-tabs®
Monodox®
Vasotec®
Prosom®
Estrace®
Ogen®
Folvite®
Lasix®
Lopid®
Glucotrol®
Glucotrol® XL
Tenex®

Watson Generics Product Line

Hydrochlorothiazide Capsules
Hydrocodone Bitartrate/APAP Tablets USP C-III

Hydrocodone Bitartrate/Ibuprofen Tablets C-III
Hydroxocobalamin Injection USP
Hydroxychloroquine Sulfate Tablets USP
Hydroxyzine HCL Tablets USP
Ibuprofen Tablets USP
Jolivette® (Norethindrone Tablets)
Labetalol HCL Tablets
Lactulose Solution USP
Leena™ (Norethindrone And Ethinyl
Estradiol Tablets, USP)
Levora® (Levonorgestrel and
Ethinyl Estradiol Tablets, USP)

Compare to Brand

Microzide®
Lorcet®, Lorcet Plus®, Lortab®,
Maxidone®, Norco®, Vicodin®,
Vicodin ES®
Vicoprofen®
Alpharedisol®
Plaquenil®
Atarax®
Motrin®
Ortho Micronor®
Normodyne®
Cephulac®, Chronulac®
Tri-Norinyl®

Nordette®

Watson Generics Product Line (continued)

Lisinopril Tablets USP
 Lisinopril/HCTZ Tablets
 Lorazepam Injection USP C-IV
 Lorazepam Tablets USP C-IV
 Low-Ogestrel® (Norgestrel and Ethinyl Estradiol Tablets, USP)
 Loxapine Capsules USP
 Lutera™ (Levonorgestrel and Ethinyl Estradiol Tablets, USP)
 Meclizine HCL Tablets
 Meperidine HCL Tablets USP C-II
 Meprobamate Tablets USP C-IV
 Metformin HCL Tablets
 Methocarbamol Tablets USP
 Methylphenidate HCL Tablets USP C-II
 Methylphenidate HCL ER Tablets USP C-II
 Methylprednisolone Tablets USP
 Metoprolol Tartrate Injection USP
 Metoprolol Tartrate Tablets USP
 Metronidazole Tablets USP
 Mexiletine HCL Capsules USP
 Microgestin® (Norethindrone Acetate and Ethinyl Estradiol Tablets, USP)
 Microgestin® FE (Norethindrone Acetate and Ethinyl Estradiol Tablets, USP and Ferrous Fumarate Tablets)

Compare to Brand

Zestril®
 Zestoretic®
 Ativan® Injection
 Ativan®
 Lo/Ovral®

 Loxitane®
 Alesse®

 Antivert®
 Demerol®
 Miltown®
 Glucophage®
 Robaxin®
 Ritalin®
 Ritalin SR®
 Medrol®
 Lopressor® Injection
 Lopressor®
 Flagyl®
 Mexitil®
 Loestrin®

 Loestrin® FE

Watson Generics Product Line

Orphenadrine Citrate Injection USP
 Oxybutynin Chloride Tablets USP
 Oxycodone/ASA Tablets USP C-II
 Oxycodone HCL/APAP Capsules USP C-II
 Oxycodone HCL/APAP Tablets USP C-II
 Oxycodone HCL CR Tablets C-II
 Pentazocine HCL/APAP Tablets C-IV
 Pentazocine/Naloxone HCL Tablets USP C-IV
 Podofilox 0.5% Topical Solution
 Prednisolone Tablets USP
 Prednisone Tablets USP
 Primidone Tablets USP
 Probenecid Tablets USP
 Probenecid/Colchicine Tablets USP
 Progesterone Injection USP
 Promethazine HCL Injection USP
 Promethazine HCL Tablets USP
 Propafenone HCL Tablets
 Propoxyphene HCL/APAP Tablets USP C-IV
 Propranolol HCL Tablets USP
 Pyridostigmine Bromide Tablets USP
 Quinidine Gluconate ER Tablets USP
 Quinidine Sulfate Tablets USP
 Quinine Sulfate Capsules/Tablets USP
 Ranitidine Tablets USP

Compare to Brand

Norflex®
 Ditropan®
 Percodan®
 Tylox®
 Percocet®
 Oxycontin®
 Talacen®
 Talwin® NX
 Condylox® Solution
 Delta-Cortef®
 Deltasone®
 Mysoline®
 Benemid®
 Col-Benemid®

 Phenergan® Injection
 Phenergan®
 Rythmol®
 Wygesic®
 Inderal®
 Mestinin®
 Quinaglute®

 Zantac®



Minocycline HCL Capsules USP
 Minoxidil Tablets USP
 Mirtazapine Tablets
 MonoNessa® (Norgestimate and Ethinyl Estradiol Tablets)
 Nandrolone Decanoate Injection USP C-III
 Naproxen Sodium Tablets USP
 Naproxen Tablets USP
 Necon® 0.5/35 (Norethindrone and Ethinyl Estradiol Tablets, USP)
 Necon® 1/35 (Norethindrone and Ethinyl Estradiol Tablets, USP)
 Necon® 1/50 (Norethindrone and Mestranol Tablets, USP)
 Necon® 10/11 (Norethindrone and Ethinyl Estradiol Tablets, USP)
 Necon® 7/7/7 (Norethindrone and Ethinyl Estradiol Tablets, USP)
 Nicotine Transdermal System USP
 Nitrofurantoin Macrocrystals Capsules
 Nitrofurantoin Monohydrate Macrocrystals Capsules
 Nizatidine Capsules USP
 Nora-BE® (Norethindrone Tablets, USP)
 Nortriptyline HCL Capsules USP
 Ogestrel® (Norgestrel and Ethinyl Estradiol Tablets, USP)

Dynacin®, Minocin®
 Loniten®
 Remeron®
 Ortho-Cyclen®

 Deca-Durabolin®
 Anaprox®, Anaprox DS®
 Naprosyn®
 Modicon®

 Ortho-Novum® 1/35

 Ortho-Novum® 1/50

 Ortho-Novum® 10/11

 Ortho-Novum® 7/7/7

 Habitrol®
 Macrochantin®
 Macrobid®
 Axid®
 Nor-QD®
 Pamelor®
 Ovral®

Reclipsen™ (Desogestrel and Ethinyl Estradiol Tablets)
 Silver Sulfadiazine 1% Cream
 Sucralfate Tablets
 Sulfasalazine Tablets USP
 Sulindac Tablets USP
 Terconazole Cream
 Testosterone Cypionate Injection USP C-III
 Testosterone Enanthate Injection USP C-III
 Trazodone HCL Tablets USP
 Triamterene/HCTZ Tablets USP
 Trihexyphenidyl HCL Tablets USP
 Trimethoprim Tablets USP
 TriNessa® (Norgestimate and Ethinyl Estradiol Tablets, USP)
 Trivora® (Levonorgestrel and Ethinyl Estradiol Tablets, USP)-Triphasic Regimen
 Ursodiol Capsules USP
 Valproic Acid Capsules USP
 Valproic Acid Syrup USP
 Verapamil HCL Tablets USP
 Verapamil HCL SR Capsules
 Zovia® (Ethinodiol Diacetate and Ethinyl Estradiol Tablets, USP)

Ortho-Cept®

 Silvadene®, SSD®
 Carafate®
 Azulfidine®
 Clinoril®
 Terazol®
 Depo-Testosterone®
 Delatestryl®
 Desyrel®
 Maxzide®
 Artane®
 Trimpex®
 Ortho Tri-Cyclen®

 Triphasil®

 Actigall®
 Depakene®
 Depakene®
 Isoptin®
 Verelan®
 Demulen®



The glue that holds our company together.

Shared Services

THE SHARED SERVICES ORGANIZATION

- Finance
- Human Resources
- Information Technology
- Legal
- Sales Operations

At Watson, we are an organization of scientists, technicians, sales and marketing specialists and other business professionals working together to meet unmet medical needs by bringing innovative pharmaceuticals to market. We operate manufacturing, distribution, R&D and administrative facilities. From developing new therapies and advanced drug delivery systems to manufacturing and distributing more than ten billion doses per year, our capabilities are diverse and complex.

Teamwork. It takes a lot of communication, coordination and a myriad of support activities to keep any large company running smoothly. At Watson, our world-class Shared Services organization is the glue that holds us together. Our Human Resources team does an exceptional job of attracting and retaining a diverse and talented workforce. At every level of our Company there is a strong sense of pride in our mission and we employ some of the best and brightest people from the fields of science and business.

Experience. In addition to Human Resources, the Watson Shared Services organization is responsible for delivering leading-edge and highly integrated IT, Legal and Financial services. These teams play a vital role not only in servicing Watson's internal needs, but they are also on the front line when it comes to delivering excellent service.

Commitment. For the people at Watson, our commitment to service is evident in every encounter with our company. From the trading partners we do business with, to the physicians who prescribe our products for their patients, we are determined to do the right thing—always honoring our commitments, and always being available and willing to provide prompt attention and support.

SUCCESS FACTORS FOR THIS BUSINESS

- :: Focused pipeline
- :: Clinical differentiation
- :: Sales & marketing excellence

WHY BRANDS?

- :: Having longer product lifecycles increases the potential return on investment.
- :: This is a higher margin business. In 2005, we achieved 77% gross margin in Watson Brands.
- :: Our focused portfolio strategy enables us to build brand equity with the specialty physicians we serve.

AREAS OF FOCUS

- :: Urology
- :: Nephrology
- :: Endocrinology (and other specialty products)

Watson Brands

We continue to achieve steady sales growth in our key brand franchises.



FEATURED PRODUCTS

TRELSTAR® DEPOT and TRELSTAR® LA www.trelstar.com

As of 2005, over 2 million American men are living with prostate cancer. For those with more advanced stages of the disease, Watson's TRELSTAR® is a new treatment choice.

TRELSTAR® is a type of prescription drug known as an LHRH agonist that can help slow down the growth of the disease.

Launched this year, TRELSTAR® exceeded expectations, achieving \$23 million in sales during its first year on the market, and has further strengthened our position in urology.

OXYTROL® www.oxytrol.com

OXYTROL® is the first and only transdermal system (skin patch) to treat overactive bladder (OAB).

This product is marketed as OXYTROL® in the U.S., Canada and Australia and as KenteraSM in the U.K., Germany, Ireland, Sweden, Norway, Finland, Denmark, Austria and the Netherlands. Additional launches are expected in Greece, the Slovak Republic, Luxembourg, Switzerland and Belgium.

A flagship product for Watson, OXYTROL® accounted for \$43 million of sales in 2005.

FERRLECIT® www.ferrlecit.com

FERRLECIT® is indicated for the treatment of iron deficiency anemia for patients (over the age of 6) who are undergoing chronic hemodialysis and receiving supplemental epoetin therapy.

For these patients, FERRLECIT® provides iron supplementation needed to restore and maintain proper iron balance and to ensure optimal therapeutic response to epoetin alfa.

FERRLECIT® sales increased 8% year-over-year to \$145 million in 2005, further strengthening our position in nephrology.

ACCOMPLISHMENTS THIS YEAR

- :: Strengthened our management team with the hiring of Ed Heimers, Jr. as division president.
- :: Continued to raise productivity in this business.
- :: Successfully launched TRELSTAR® DEPOT/ TRELSTAR® LA for the palliative treatment of advanced prostate cancer.
- :: Completed the MATRIX study in over 2,800 patients which evaluated safety and effectiveness of OXYTROL® in a large real-world setting. Data from this study may provide insight into aspects of overactive bladder that are not well understood.

LOOKING AHEAD

- :: In early 2006, we plan to initiate Phase III clinical trials for a new, patented gel formulation of our OXYTROL® product, for the treatment of overactive bladder.

Watson Brands R&D Pipeline		Market	Phase I	Phase II	Phase III	Submitted	Approved	Launched	A new pipeline of brand products is expected to produce results in 2008 and 2009.
	Indication/Therapeutic Target								
Oxybutynin Gel	Overactive bladder	U.S.	██████████						
SILODOSIN	Benign prostatic hyperplasia	U.S.	██████████						

Products in the Watson Brands portfolio are marketed under the “Watson Pharma” and the “Oclassen Dermatologics” labels.

Watson Brands Product Line	Therapeutic Classification	Watson Brands Product Line	Therapeutic Classification
ACTIGALL® (ursodiol capsules, USP)	Dissolution of gallstones	INFED® (iron dextran injection, USP)	Hematinic
ALORA® (estradiol transdermal system)	Female hormone replacement	LOXITANE® (loxapine succinate) capsules	Antipsychotic
ANDRODERM® C-III (testosterone transdermal system)	Male hormone replacement	MAXIDONE® C-III (hydrocodone bitartrate and acetaminophen tablets, USP)	Analgesic
BREVICON® (norethindrone and ethinyl estradiol tablets, USP)	Oral contraceptive	MICROZIDE® capsules (hydrochlorothiazide 12.5 mg)	Anti-hypertensive
CONDYLOX® (podofilox)	Genital warts	NEPHRO-VITE® RX (vitamin B complex/vitamin C supplement/ 1 mg folic acid tablets)	Nutritional supplement
CORDRAN® TAPE (flurandrenolide tape, USP)	Topical steroid	NORCO® 5/325 C-III (hydrocodone bitartrate and acetaminophen tablets, USP)	Analgesic
CORMAX® (clobetasol propionate, USP)	Topical steroid	NORINYL® 1+35 (norethindrone and ethinyl estradiol tablets, USP)	Oral contraceptive
DILACOR XR® (diltiazem HCl) extended-release capsules, USP	Anti-hypertensive, anti-anginal	NORINYL® 1+50 (norethindrone and mestranol tablets, USP)	Oral contraceptive
FERRLECIT® (sodium ferric gluconate complex in sucrose injection)	Hematinic	NOR-QD® (norethindrone tablets, USP)	Oral contraceptive
FIORICET® (butalbital, acetaminophen and caffeine tablets, USP)	Analgesic w/Barbituate	OXYTROL® (oxybutynin transdermal system)	Overactive bladder
FIORICET® with Codeine C-III (butalbital, acetaminophen, caffeine and codeine phosphate) capsules	Analgesic w/Barbituate	TRELSTAR® DEPOT CLIP 'N' JECT VIAL (triptorelin pamoate for injectible suspension)	Prostate cancer
FIORINAL® C-III (butalbital, aspirin and caffeine) capsules, USP	Analgesic w/Barbituate	TRELSTAR® LA CLIP 'N' JECT VIAL (triptorelin pamoate for injectible suspension)	Prostate cancer
FIORINAL® with Codeine C-III (butalbital, aspirin, caffeine and codeine phosphate) capsules, USP	Analgesic w/Barbituate	TRI-NORINYL® (norethindrone and ethinyl estradiol tablets, USP)	Oral contraceptive



“Maintaining the balance between the brand and generic businesses is like driving a car. You’re constantly keeping your eyes on the road and always looking ahead.”

—Allen Chao, Ph.D., Founder

We are a diversified specialty pharmaceutical company with a twenty-year track record of keeping our promises and delivering quality products that make life better for people. From our early days as a small company with big hopes and dreams, to our present day status as an industry leader and an increasingly global concern, we have been guided by the belief that doing the right thing is key to our success.

We try to work harder and smarter than our competitors. And that commitment has inspired us to break new ground and emboldened us to take on tough challenges. We helped pioneer the generic pharmaceutical industry and followed up by launching and growing a successful brand business. As we look to the future, we will continue to be inspired by the principles that have guided us thus far, and enabled us to achieve so much.

Board of Directors

Allen Chao, Ph.D.

Chairman, President and Chief Executive Officer

Michael J. Fedida

Registered Pharmacist Consultant and Owner of Several Retail Pharmacies

Michel J. Feldman

Member, Seyfarth Shaw LLP

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President, Pentech Pharmaceuticals, Inc.

Catherine M. Klema

President, Nettleton Advisors LLC

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Retired Corporate Vice President and President, Technical Operations, G.D. Searle

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Andrew L. Turner

Chairman, Enduracare Therapy Management, Inc.

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Managing Director, FGW Associates, Inc.

Executive Officers

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Senior Vice President, General Counsel and Secretary

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Chairman, President and Chief Executive Officer

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Senior Vice President, Quality Assurance

James A. Nash

Executive Vice President, Technical Operations

Susan K. Skara

Senior Vice President, Human Resources

Charles P. Slacik

Executive Vice President, Chief Financial Officer

Corporate Information

Corporate Headquarters

311 Bonnie Circle
Corona, California 92880
951.493.5300

Common Stock

Stock symbol: WPI
Listed: New York Stock Exchange

Stockholder Information

Questions concerning stock ownership may be directed to Investor Relations at Corporate Headquarters.

Stock Transfer Agent

American Stock Transfer and Trust Company
59 Maiden Lane
New York, New York 10007
800.937.5449
www.amstock.com

Annual Meeting of Stockholders

The Annual Meeting of Stockholders of Watson Pharmaceuticals, Inc. will be held at The Westin South Coast Plaza, 686 Anton Boulevard, Costa Mesa, California 92626 on Friday, May 5, 2006 at 9:00 a.m.

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Orange County, California

Press Release Information

Press releases and other information are available on Watson's Web site at www.watsonpharm.com.

Additional Information

Watson files periodic reports with the Securities and Exchange Commission that contain additional information about the Company, including Watson Pharmaceuticals, Inc.'s Annual Report on Form 10-K and its Quarterly Reports on Form 10-Q. Copies are available on Watson's corporate Web site at www.watsonpharm.com, within the Investors section, or at www.sec.gov, or upon written request to Investor Relations at the Corporate Headquarters address.

Trademarks

The following Watson Pharmaceuticals, Inc. trademarks appear in this report: ACTIGALL, ALORA, ANDRODERM, BREVICON, CONDYLOX, CORDRAN, CORMAX, FERRLECIT, FIORICET, FIORINAL, JOLIVETTE, LEVORA, LOW-OGESTREL, LOXAPINE, MAXIDONE, MICROGESTIN, MICROZIDE, MONODOX, MONONESSA, NECON, NECON 7/7/7, NORCO, NORINYL, NOR-QD, NORA-BE, OGESTREL, OXYTROL, PROGESTERONE, TRELSTAR, TRI-NORINYL, TRINESSA, TRIVORA, URSODIOL, ZOVIA. All other trademarks are the property of their registered owners.

Forward-looking Statement

Any statements contained in this report that refer to future events or other nonhistorical facts are forward-looking statements that reflect Watson's current perspective of existing trends and information as of the date of this report. Except as expressly required by law, Watson disclaims any intent or obligation to update these forward-looking statements. Actual results may differ materially from Watson's current expectations depending upon a number of factors affecting Watson's business. These factors include, among others, the receipt of required regulatory approvals, timely access to available and feasible financing, the ability to realize anticipated benefits and synergies, and other inherent uncertainties associated with strategic transactions; the impact of competitive products and pricing; market acceptance of and continued demand for Watson's products; difficulties or delays in manufacturing; and other risks and uncertainties detailed in Watson's periodic public filings with the Securities and Exchange Commission, including but not limited to Watson's Annual Report on Form 10-K for the year ended December 31, 2005.



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