

Growth in progress

Putting our strategy into action

Making strategic investments :: Forming win-win partnerships :: Growing our product portfolios

Maintained a strong base business

During 2006, we launched 13 new generic products including new contraceptives, cholesterol treatments and pain medications.

Streamlined manufacturing operations

In early 2006, we announced our plan to close or divest our manufacturing facilities in Phoenix, Arizona and Humacao, Puerto Rico as part of our ongoing effort to optimize manufacturing operations.

Watson Brands achieves major milestones

During 2006, we conducted pivotal Phase 3 clinical trials for two promising urology products: silodosin, an investigational treatment for benign prostatic hyperplasia (BPH) and oxybutynin gel, a promising new addition to our overactive bladder (OAB) product portfolio. In January 2007, the Brand R&D team announced positive results on the silodosin study.

Additionally, we recently announced an agreement with Solvay Pharmaceuticals to promote its male hormone replacement therapy product AndroGel® to urologists through our Urology sales force.

Acquired new offshore API, product development and manufacturing capabilities

In March, we completed the acquisition of Sekhsaria Chemicals Ltd. of Mumbai, India, fulfilling a key objective in our long-term Asian strategy.

Strengthened our leadership team

In September, we welcomed Thomas R. Russillo as Executive Vice President and President of our rapidly growing U.S. Generics division.

Completed a major strategic acquisition

In November, we completed the acquisition of Andrx Corporation, adding distribution capabilities to our business model, and expanding our product portfolio, pipeline and drug delivery technology base for both Brands and Generics.

Expanded our pipeline

Through internal development, alliances and the addition of Andrx, we significantly expanded our generic product pipeline. Today we have over 70 Abbreviated New Drug Applications (ANDAs) pending with FDA, making our pipeline one of the strongest in the industry.

ABOUT WATSON

Watson Pharmaceuticals, Inc., headquartered in Corona, California, is a leading specialty pharmaceutical company that develops, manufactures, markets and distributes brand and generic pharmaceutical products. With one of the broadest product offerings in the U.S. generics industry and a track record of service excellence, Watson has earned a solid reputation as a reliable and low-cost provider of quality pharmaceutical products.

2006 was a building year at Watson

We are executing on a multi-year strategic plan designed to position our company for long-term success. This year we made significant progress in strengthening our base and preparing our business for the next phase of growth. With the acquisition of Andrx, we have become one of the largest suppliers of generic pharmaceuticals in the U.S. today and have added distribution capabilities to the Watson value proposition.

We are expanding our global infrastructure and world-class supply chain capabilities through offshore investments and other key initiatives. And to diversify our offerings and help balance risks longer term, we are nurturing a portfolio of specialty brand drugs through smart investments in select high-growth markets.

We see enormous opportunities ahead. We have the talent, the will and the commitment to build lasting value and create a meaningful legacy.



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

To Our Shareholders

2006 was a year of building for the future at Watson as we continue to implement our strategic plan. We made significant progress on the key initiatives we've implemented to ensure the long-term growth of our company and to support our vision of delivering cost-effective pharmaceuticals that improve the health and quality of people's lives worldwide.

A STRONG AND GROWING BUSINESS MODEL

For more than two decades, we have earned distinction as a leader in the rapidly changing and highly competitive specialty pharmaceutical industry we serve. As we entered 2006, we already had a strong business and a solid pipeline for the future. Upon reflection, 2006 was a tipping point for our company, as we laid the groundwork for transforming Watson into a larger, and truly world-class, competitor.

Tempered by experience, our business model is one part defense, rising to meet industry challenges; and one part offense, seizing opportunities when appropriate. Over time, we have gained expertise at balancing both sides of the equation.

Since our founding in 1984, we have pursued a multi-layered growth strategy that is fueled by a combination of internal product development, strategic alliances and collaborations, and synergistic acquisitions of products and businesses. We made advances on all of these strategic fronts this year, most notably by concluding the largest acquisition in the history of our company when we invested approximately \$1.9 billion to acquire Andrx Corporation.

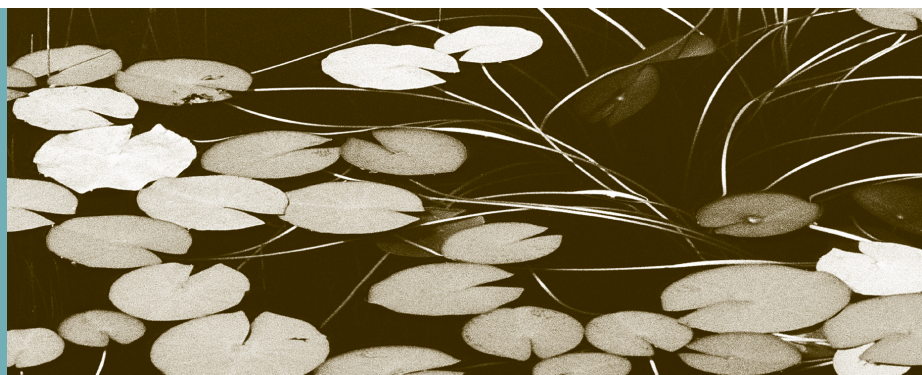
Our strategy brings together a broad portfolio of products, a strong commitment to research and development, a comprehensive and innovative array of drug delivery technologies and a fully integrated and customer-focused global supply chain operation. And now with Andrx, our business model includes a powerful new distribution arm.

ACHIEVING CRITICAL MASS IN WATSON GENERICS

This acquisition benefits Watson on many levels beginning with the expansion of our product portfolio, our pipeline and our drug delivery technology base. A 14 year-old company at the time of the acquisition, Andrx, like Watson, used its talent and technology to achieve leadership in developing difficult-to-replicate products. This strategy presents formidable market entrance barriers to potential competitors. With our combined pipelines, Watson now has over 70 Abbreviated New Drug Applications (ANDAs) on file with the U.S. Food and Drug Administration (FDA), creating exciting opportunities for growth in future years.

Andrx products have already been integrated into our portfolio, and we are executing on our detailed plans for rationalizing the respective pipelines of our two companies into a unified asset.

WE BELIEVE THAT OUR NEWLY
EXPANDED COMPANY WILL
BE A MORE VIBRANT, EFFECTIVE
COMPETITOR IN THE U.S.
GENERICS MARKETPLACE.



Additionally, we gain new sustained-release drug delivery technologies that complement our own capabilities. Andrx technology has resulted in at least one potentially significant partnership, namely our alliance with Takeda Pharmaceutical Company Limited (Takeda) on ACTOplus met™ XR, a promising product for treating diabetes. Longer term, we expect this alliance will provide a significant contribution to our business and a solid return to shareholders.

Another benefit of the acquisition is Anda, a stand-alone distribution business which offers over 7,000 quality pharmaceutical products from manufacturers around the world, directly serving retailers, hospitals and physicians. Anda becomes a new division within Watson, providing us with new service capabilities that will further extend our relationships into the healthcare community.

It is no small task to combine two companies. Given the fact that Andrx's assets are highly complementary to our own, the overall integration process has run smoothly and we have already made significant progress on integrating our businesses. Clearly there are some compliance issues to work through with FDA relating to the operation of Andrx's facilities in Davie, Florida, but we believe we have the resources and capabilities to resolve these issues.

We are delighted to welcome the 1,700 Andrx, Anda and VIP employees to Watson and look forward to continued growth in progress, made possible by our newly enhanced operations.

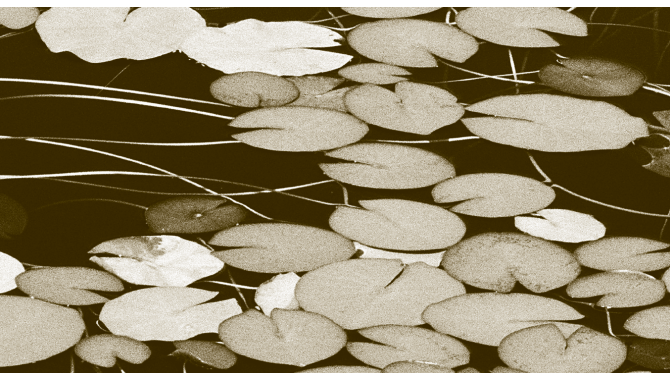
CREATING A COMPETITIVE COST STRUCTURE

After an extensive evaluation of our operations dating back to 2004, we implemented a continuous improvement program aimed at reducing our overall cost structure and improving our operating efficiencies. As part of that ongoing process, we made the decision to close our Puerto Rico solid dosage manufacturing facility and to divest or close our injectable drug manufacturing facility in Phoenix, Arizona. We expect these facilities will be closed or sold by mid 2007. These cost-cutting measures should provide us with an estimated savings of approximately \$30 million per year.

ESTABLISHING AN OFFSHORE INFRASTRUCTURE IN ASIA

Additional reductions in operating costs are expected to result from our ongoing effort to build an offshore infrastructure. Launching this initiative in 2005, we first acquired a solid dosage manufacturing facility in Goa, India. We are currently in the process of transferring several products to this site and will begin supplying products to the U.S. following FDA approval. Building on that strategy, this year we acquired Sekhsaria Chemicals, Ltd. in Mumbai, India, providing us with additional manufacturing capabilities, and adding the development of select active pharmaceutical ingredients (API) to our capabilities. Longer term, we expect to recognize savings from our offshore building efforts beginning in 2008, as new products made possible through this initiative start coming to market.

The initiatives we are executing on today are not only strengthening the foundation of our business, but will enhance our financial returns in the future through increased revenues



STRATEGIC INITIATIVES

- :: MAINTAIN OUR STRONG BASE BUSINESS
- :: BUILD THE PIPELINE
- :: IMPROVE OUR COST OF GOODS
- :: ESTABLISH AN OFF-SHORE INFRASTRUCTURE
- :: EXPAND OUR HIGH BARRIER-TO-ENTRY PRODUCT PORTFOLIO

and improved cost of goods. Looking at our product offering, we have established a strong portfolio and with our expanded R&D pipeline, we now expect to launch more than a dozen new products in 2007.

Our financial position is on equally sound footing. With additional revenue streams coming into the mix, we expect the Andrx acquisition to be accretive to Watson earnings beginning in mid 2007. And on the cost side, we expect to realize \$30 million in annualized synergies, with the majority of savings coming from corporate and administrative overhead.

ON TARGET WITH WATSON BRANDS

We have set ambitious goals for our Brand business and have invested heavily in our Brand R&D pipeline because we believe this division is one of the cornerstones for growing our overall business in the long-term. We are mindful of this investment, continually seeking ways to increase profitability, while nurturing a promising pipeline for the future.

We remain solidly on track with our ongoing R&D for Watson Brands and we are building a focused and strategic urology pipeline and portfolio. As the fiscal year drew to a close, we were pleased to report very successful results from our pivotal studies on silodosin as a potential treatment for symptoms associated with benign prostatic hyperplasia (BPH), a condition characterized by a non-cancerous enlargement of the prostate. Significant results were seen in both studies. Our remaining

one-year safety evaluation is on schedule for completion late this summer, and we anticipate filing an NDA for silodosin in the first half of 2008. Market potential for this treatment is results. As the number one condition treated by urologists in the U.S., BPH accounts for six million physician visits per year.

Another segment of the Watson Brands pipeline is focused on extending our oxybutynin product franchise. This year we initiated Phase 3 studies on a gel formulation of oxybutynin for overactive bladder and we expect that study to be completed in mid 2007. We believe that our co-promotion of AndroGel® will strengthen our existing relationships with urologists and pave the way for a successful launch of silodosin and our oxybutynin gel product in 2009.

In addition to discovery and formulation research, we enter into license agreements with others as a business development strategy for growing our product offerings and increasing our market reach. One key example this year was our recent license agreement for the development of Uracyst®, for the treatment of interstitial cystitis (IC), a bladder ailment affecting adult women.

Our ongoing investment in R&D combined with our strong commitment to business development is positioning Watson Brands as a key partner to urologists in the U.S. Factoring in anticipated approvals, we have the potential to market products that provide effective treatments for five out of the top ten conditions seen by urologists in the U.S.

WE ARE THE **3rd** LARGEST SUPPLIER OF
GENERIC PHARMACEUTICAL PRODUCTS IN THE
U.S., BASED ON PRESCRIPTIONS DISPENSED.¹

Overall, Watson achieved solid financial results this year. Net revenue for 2006 increased 20 percent to \$1.98 billion, compared to \$1.65 billion in 2005.

Watson Generics launched 13 new products this year, contributing to a majority of the growth in total revenue. This growth was offset by lower brand revenue due primarily to a decline in non-promoted products.

Our business continues to generate strong operating cash flow. For 2006 we reported \$471 million in operating cash flow, significant enough to allow us to close the Andrx acquisition with lower than expected borrowings.

DOING THE RIGHT THING

We made significant progress this year in our effort to build for the future, largely led by the strategic initiatives we have underway to reduce our overall cost structure, enhance operating efficiencies and expand our pipeline. We have a strong base business and a solid pipeline. With the addition of Andrx, we have expanded our product portfolio, pipeline and technology capabilities. From carefully nurturing our focused and high-potential Watson Brands business, to strengthening our offshore R&D and manufacturing capabilities, we are determined to make smart investments that will return the greatest value to our shareholders and ensure our long-term growth and leadership.

We enter 2007 a much stronger company with many opportunities ahead of us. Our strategic initiatives have strengthened our base business and leave us poised for significant growth.

We have coined the term “Doing The Right Thing™” to capture the essence of the Watson spirit. We are determined to conduct our business with integrity, never losing sight of the people who use our products. We are also determined to provide a rewarding and respectful work environment for the many people around the world who work so hard to deliver on the promise of Watson. On behalf of all of us, I’d like to thank you for your continued support of our company. With your confidence and the dedication of the Watson worldwide team, we look forward to an exciting 2007 and beyond.



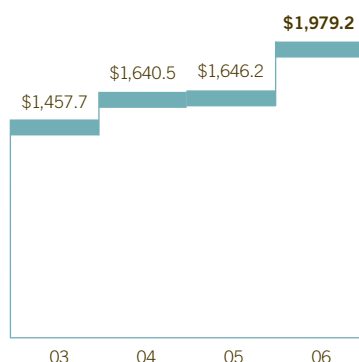
Allen Chao, Ph.D.
Chairman, President and Chief Executive Officer
March 16, 2007

¹Source: IMS Health, December 2006

Our company is well-positioned for growth.

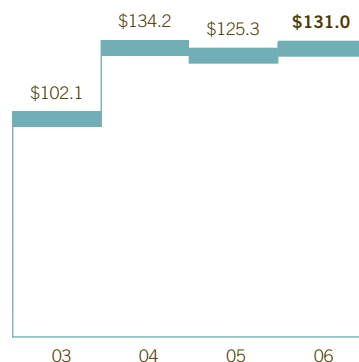
Total Annual Revenue

In millions



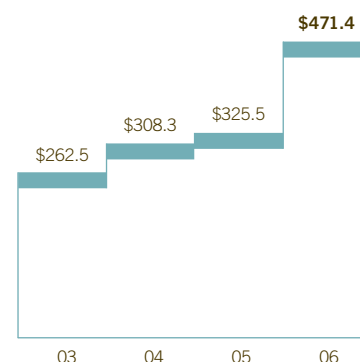
R&D Investment¹

In millions



Cash Flow from Operations

In millions



Years ended December 31

2006

2005²

2004²

2003

(In thousands, except per share amounts)

Operations

Net revenue	\$1,979,244	\$1,646,203	\$1,640,551	\$1,457,722
Gross profit (excluding amortization)	745,761	793,789	819,757	833,071
Operating (loss) income	(422,096)	218,512	265,940	338,913
Net (loss) income ³	(445,005)	138,557	150,018	201,728
Diluted (loss) earnings per share ³	(4.37)	1.22	1.26	1.74
Diluted weighted average shares outstanding	101,761	120,021	124,727	120,727

Years ended December 31

2006

2005

2004

2003

(In thousands)

Financial Position

Cash flow from operations	\$ 471,365	\$ 325,503	\$ 308,269	\$ 262,517
Working capital ²	571,747	1,107,873	1,105,507	971,019
Total assets ²	3,760,577	3,077,187	3,231,956	3,268,134
Total debt	1,231,204	587,935	587,653	722,535
Stockholders' equity ²	1,680,388	2,100,469	2,230,690	2,042,146

¹ 2006 R&D investment excludes \$497.8 million in in-process research and development charges associated with the Andrx acquisition.

² Prior to the Andrx Acquisition the Company held common shares in Andrx, which were previously classified as available-for-sale securities and recorded at fair value based upon quoted market prices with temporary differences between cost and fair value presented as accumulated other comprehensive income within stockholders' equity, net of any related tax effect. As required by Accounting Research Bulletin No. 51, "Consolidated Financial Statements", earnings (loss) on equity method investments has been restated for all periods presented to account for our investment in common shares of Andrx prior to the Andrx Acquisition using the equity method of accounting in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". Accumulated other comprehensive income (loss) has also been restated for all periods presented to reflect these changes. Accordingly, the selected consolidated financial data for all periods prior to the Andrx Acquisition has been prepared as if this investment had been accounted for using the equity method since our initial investment. The restatement increased (decreased) net income from 2005 to 2002 by \$324, (\$5), (\$351) and (\$1,246), respectively.

³ Net (loss) for 2006 includes \$557.9 million in Andrx acquisition-related and other charges, net of tax.



Our growing **generics** portfolio features many new difficult-to-replicate products this year. Our **offshore investments** in Asia are enhancing our ability to compete in today's marketplace. Our highly focused **brand** business continues to build bridges into physician specialty communities. And our new **Anda distribution** business adds a whole new capability to the Watson service offering.

We are one of the largest suppliers of generic pharmaceuticals in the U.S.¹

Our Watson Generics division develops, manufactures and markets products that are the therapeutic equivalent to their brand name counterparts, but are usually sold at lower prices. Our portfolio for this business includes products we have internally developed, products we have licensed and products we distribute for third parties.



- :: More than **150** pharmaceutical product families in the portfolio
- :: **13** new products launched this year
- :: Generated **\$1.5** billion in generic revenue during 2006
- :: Accounted for **77%** of total annual revenue at Watson



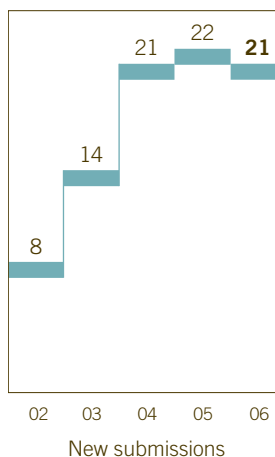
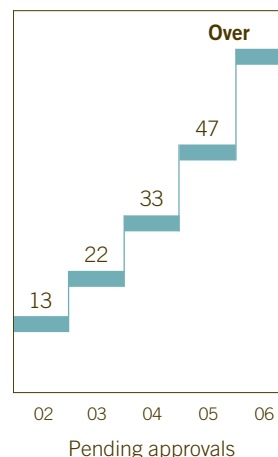
Key therapeutic areas

- :: Antibiotics
- :: Anti-inflammatories
- :: Depression
- :: Hypertension
- :: Oral contraceptives
- :: Pain management
- :: Smoking cessation

Competitive advantages

- :: Portfolio of difficult-to-replicate products
- :: Excellent reputation for customer service
- :: Strong relationships with trade customers

R&D pipeline



Growth in progress

Strengthening our portfolio and pipeline

Through internal development, alliances and the addition of Andrx, we have significantly expanded our generic product portfolio and pipeline. Today we offer one of the broadest product lines in the U.S., and with over 70 ANDAs pending with FDA, have one of the strongest pipelines in the industry.



Thomas R. Russillo
Executive V.P. and President, U.S. Generics



Growth drivers

- :: Healthcare gatekeepers (employers, managed care providers, etc.) favor generic substitution
- :: The Medicare Rx Drug Benefit in the U.S. favors generics
- :: A large wave of patent expirations for blockbuster drugs is underway
- :: Aging baby boomers use more medications, including quality-of-life enhancing pharmaceutical products, increasing the size of the overall market

Key initiatives for Watson Generics

- :: Build an offshore operations infrastructure for those generic products where a lower cost of goods could enhance our competitive position
- :: Expand our portfolio of difficult-to-replicate products—Watson's heritage

We are making progress in our effort to build an offshore infrastructure.

To create operating efficiencies and enhance our competitive position in the pharmaceutical marketplace, we continue to build our offshore presence in Asia. As part of this strategic initiative, we have established technical operations in India that will allow us to become vertically integrated on certain key products.



Expanding our capabilities

- ⌘ Development and manufacture of cGMP API (active pharmaceutical ingredient) and related intermediates
- ⌘ Product formulation
- ⌘ Solid dosage manufacturing



Gary Holloway
Vice President, Corporate Development

Increasing our capacity

We launched our offshore initiative in 2005 when we acquired a solid dosage form manufacturing facility in Goa, India. Adding further momentum in this important region, in early 2006 we acquired Sekhsaria Chemicals, Ltd. in Mumbai, India.

Fulfilling a key objective in our long-term Asian strategy, Sekhsaria provides process R&D and manufacturing capabilities, including the development and manufacture of active

pharmaceutical ingredients (API) and related intermediates. This operation currently has over 15 U.S. Drug Master Files (DMFs) on file or approved.

Today, we have over 800 employees based in India, and our operations are spread across two regions in Mumbai and Goa. The expansion of our operations is on track, and senior management is in place for critical functions.



Watson Brands is integral to our company's long-term strategy for "balanced" growth.

The Watson Brands division brings diversification to our business mix through a portfolio of patented and off-patented trademarked products. This business develops, manufactures and markets its products through two core areas: our Specialty Products product line includes urology and a number of other non-promoted products, and our nephrology product line, which is primarily marketed to nephrologists and dialysis centers, features products for the treatment of iron deficiency anemia.



:: Focused on specialty physicians (urology and nephrology)

:: **25** pharmaceutical product families in the portfolio

:: Generated **\$369** million in brand revenue during 2006

:: Accounted for **19%** of total 2006 annual revenue at Watson



Growth in progress

Building a urology portfolio

The Watson Brands R&D team achieved positive results this year in its Phase 3 trials involving silodosin, an investigational treatment for BPH (a non-cancerous enlarged prostate that leads to obstructive and irritative urinary symptoms). We expect to complete our safety trials in 2007 and plan to submit an NDA to the U.S. FDA in 2008. The market for this treatment is substantial. BPH is one of the most commonly treated disorders by urologists and more than \$1.8 billion is spent annually on BPH prescription drug treatment.

Forging significant alliances

Additional growth in Watson Brands will come from key alliances we have recently forged. As a result of an agreement with Solvay Pharmaceuticals, our Specialty Products sales force now promotes AndroGel® to urologists, the number one prescribed form of testosterone therapy in the U.S. The market is substantial. As many as 13 million American men aged 45 and

older are estimated to suffer from low levels of testosterone, a hormone which affects many parts of the body. Watson already has a strong reputation with urologists, and AndroGel® has the potential to enhance relationships with these physicians as we continue to build our presence in this important specialty area.

Our acquisition of Andrx this year added products to the Watson Generics portfolio and provided us with added resources and capabilities. These added resources and capabilities will also provide Watson Brands with additional revenue streams. One key example of Andrx's formulation expertise is a promising diabetes treatment being co-developed with Takeda. ACTOplus met™ XR combines Takeda's Actos® (pioglitazone) with Andrx's Fortamet® (metformin extended-release). When approved, this product will offer a once-a-day therapy to lower blood glucose in patients with type 2 diabetes (also known as non-insulin-dependent diabetes mellitus). Takeda's Actos® product is currently responsible for more than \$2 billion in annual U.S. sales.¹

¹Source: IMS Health, December 2006

Key initiatives for Watson Brands

- Strengthen our focus on therapeutic areas where we have deep experience
- Continue to build our portfolio of differentiated specialty products that address market opportunity and meet medical needs

Key brands

In Urology

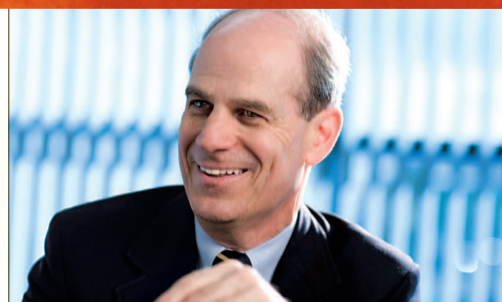
- OXYTROL®**
(**KENTERA™** in Europe)
A treatment for overactive bladder symptoms
- TRELSTAR® LA / TRELSTAR® DEPOT**
A treatment for advanced prostate cancer symptoms
- ANDRODERM®**
A male hormone replacement therapy

In Nephrology

- FERRLECIT®/INFED®**
IV iron replacement therapies for certain patients with iron deficiency anemia

R&D pipeline

	Indication/Therapeutic Target	Market	Phase I	Phase II	Phase III	Submitted	Approved	Launched
Oxybutynin Gel	Overactive bladder (OAB)	U.S.						
Silodosin	Benign-prostatic hyperplasia (BPH)	U.S.						
URACYST®	Interstitial cystitis	U.S.						



Edward F. Heimers, Jr.
Executive V.P. and President, Brand Division

Product Line	Therapeutic Classification
Nephrology	
FERRLECIT® (sodium ferric gluconate complex in sucrose injection)	Hematinic
INFED® (iron dextran injection, USP)	Hematinic
CALCI-CHEW® (calcium carbonate, USP)	Calcium supplement
CALCI-MIX® (powdered calcium carbonate, USP)	Calcium supplement
L-CARNITINE (acetyl-L-carnitine)	Dietary supplement
NEPHRO-CALCI® (calcium carbonate, USP)	Calcium supplement
NEPHRO-FER (ferrous fumarate, USP)	Iron supplement
NEPHRO-VITE® RX (vitamin B complex/ vitamin C supplement/1 mg folic acid tablets)	Nutritional supplement
Urology	
ANDRODERM® C-III (testosterone transdermal system)	Male hormone replacement
OXYTROL® (oxybutynin transdermal system)	Overactive bladder
TRELSTAR® DEPOT and TRELSTAR® LA (triptorelin pamoate)	LHRH agonist
Pain	
ANEXSIA® (hydrocodone bitartrate and acetaminophen, USP)	Analgesic
FIORICET® (butalbital/acetaminophen/caffeine, USP)	Analgesic w/Barbituate
FIORICET® with codeine C-III (butalbital/acetaminophen/caffeine/codeine phosphate)	Analgesic w/Barbituate
FIORINAL® C-III (butalbital/aspirin/caffeine)	Analgesic w/Barbituate
FIORINAL® with codeine C-III (butalbital/aspirin/caffeine/codeinephosphate, USP)	Analgesic w/Barbituate

Product Line	Therapeutic Classification
Pain (continued)	
MAXIDONE® C-III (hydrocodone bitartrate and acetaminophen, USP)	Analgesic
NORCO® C-III (hydrocodone bitartrate and acetaminophen, USP)	Analgesic
Women's Health	
ALORA® (estradiol transdermal system)	Female hormone replacement
BREVICON® (norethindrone and ethinyl estradiol tablets, USP)	Oral contraceptive
NORINYL® 1+35 (norethindrone and ethinyl estradiol tablets, USP)	Oral contraceptive
NORINYL® 1+50 (norethindrone and mestranol tablets, USP)	Oral contraceptive
NOR-QD® (norethindrone tablets, USP)	Oral contraceptive
TRI-NORINYL® (norethindrone and ethinyl estradiol tablets, USP)	Oral contraceptive
Other Speciality	
ACTIGALL® (ursodiol capsules, USP)	Dissolution of gallstones
CONDYLOX® (podofilox)	Genital warts
CORDRAN® (flurandrenolide, USP)	Topical steroid
CORDRAN® TAPE (flurandrenolide, USP)	Topical steroid
CORMAX® (clobetasol propionate)	Topical steroid
DILACOR XR® (diltiazem HCL extended-release capsules, USP)	Anti-hypertensive, anti-anginal
LOXITANE® (loxapine succinate)	Antipsychotic
MICROZIDE® (hydrochlorothiazide)	Anti-hypertensive
MONODOX® (doxycycline monohydrate)	Antibiotic

Our new Anda **distribution** business broadens our reach into the healthcare community.

As the newest division of Watson, Anda Distribution purchases primarily generic pharmaceuticals manufactured by third parties and sells them to independent pharmacies, pharmacy chains, pharmacy buying groups, alternative care facilities including long-term care pharmacies and physician offices.



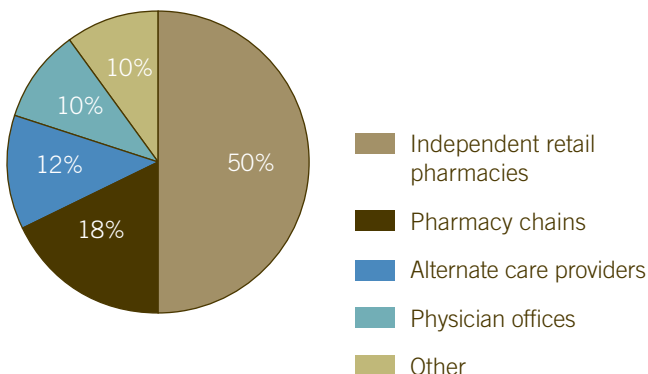
Albert Paonessa III
Executive V.P. and C.O.O.,
Distribution Division

- :: Over **30,000** ship-to locations serviced in 2006
- :: Over **7,000** products
- :: Projected to generate **\$600** million in sales in 2007
- :: Projected to account for **20%** of total revenue at Watson in 2007



Customer segments

This business serviced 30,000 active accounts in 2006, including:



Competitive advantages

- :: Competitive pricing
- :: Reliable inventory levels on top revenue products
- :: Responsive customer service (next day delivery service nationwide)
- :: Superior customer relations from 200 tele-sales professionals; Over 60,000 phone calls a week
- :: Internally developed, proprietary ordering systems (including Internet-based services and support for Palm®-ordering devices for remote electronic ordering)

Major suppliers

Our risk profile is reduced by the fact that only two suppliers account for >10% of net sales

Operating subsidiaries

- :: Anda
- :: Valmed (also known as VIP)

Telemarketing facilities

- :: Weston, Florida
- :: Grand Island, New York

Distribution facilities

- :: Weston, Florida
- :: Groveport, Ohio



Growth in progress

Putting technology to work for our customers

In 2005, Anda launched an electronic Controlled Substance Ordering System (CSOS) designed to reduce complexity for our customers. Using the system, Anda distributes Schedule II controlled substances (C-II) via electronic orders to approved pharmacies, distributors and manufacturers. This adds value to our pharmacy customers by eliminating the need for them to use paper DEA 222 forms traditionally required to order this category of brand and generic products.

MEETING THE CHALLENGE

As we look to 2007 and beyond, our company is well-positioned to meet our mission of bringing innovative brand and generic pharmaceutical products to market in a cost-effective manner.

We continue to invest heavily in R&D and to form external alliances and acquisitions to increase our pipeline strength and pave the way for long-term leadership and growth.

We are determined to become a major competitor in the global pharmaceutical industry. And we are resolved to conduct our business in a manner that creates **lasting value** and makes a **positive impact** on people everywhere.

Leadership

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

Albert F. Hummel

President, Pentech
Pharmaceuticals, Inc.

Catherine M. Klema

President, Nettleton
Advisors LLC

Jack Michelson

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

Ronald R. Taylor

President, Tamarack Bay LLC

Andrew L. Turner

Chairman, Enduracare Therapy
Management, Inc.

Fred G. Weiss

Managing Director,
FGW Associates, Inc.

Senior Management

Allen Chao, Ph.D.

Chairman, President and
Chief Executive Officer

David A. Buchen

Senior Vice President,
General Counsel and Secretary

Charles D. Ebert, Ph.D.

Senior Vice President,
Research and Development

Thomas R. Giordano

Senior Vice President and
Chief Information Officer

Edward F. Heimers, Jr.

Executive Vice President
and President, Brand Division

David C. Hsia, Ph.D.

Senior Vice President,
Scientific Affairs

Gordon Munro, Ph.D.

Senior Vice President,
Quality Assurance

Albert Paonessa III

Executive Vice President and
Chief Operating Officer,
Anda Distribution Division

Thomas R. Russillo

Executive Vice President
and President, Watson U.S.
Generics Division

Susan K. Skara

Senior Vice President,
Human Resources

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, NY 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 Blvd., Costa
Mesa, CA 92626 on Friday,
May 4, 2007 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.watson.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.
watson.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. trade-
marks appear in this report:
ACTIGALL, ALORA,
ANDRODERM, BREVICON,
CALCI-CHEW, CALCI-MIX,
CONDYLOX, CORDRAN,
CORMAX, DILACOR XR, INFED,
FERRLECIT, FIORICET, FIORI-
NAL, MAXIDONE, MICROZIDE,
MONODOX, NEPHRO-CALCI,
NEPHRO-FER, NEPHRO-VITE,
NORCO, NORINYL, NOR-QD,
OXYTROL, TRELSTAR, TRI-
NORINYL. All other trademarks
are the property of their
registered owners.

Forward-looking Statement

Any statements contained in this annual report that refer to future events or other non-historical facts are forward-looking statements that reflect Watson's current perspective of existing trends and information as of the date of this publication. 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, successful integration of strategic transactions, including the Company's March 16, 2006 acquisition of Sekhsaria Chemicals, Ltd. and its November 3, 2006 acquisition of Andrx Corporation; the ability to timely resolve with FDA the pending Official Action Indicated status of the Davie, Florida manufacturing facility; the ability to timely and cost effectively integrate Watson's and Andrx's operations; the ability to recognize the anticipated synergies and benefits of strategic transactions, including the Andrx acquisition; 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, 2006.



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