




Going global



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Our vision

To become, for our patients, customers, employees and shareholders, a leader in the worldwide pursuit of trusted generic and specialty branded pharmaceuticals. Through the passion and commitment of our employees, we seek to leverage our technologies in drug development and delivery, as well as our operational expertise, allowing us to help others achieve a better quality of life.

Our mission

We dedicate ourselves daily to a singular mission, to improve the quality of life for patients around the world through the development and distribution of trusted generics and advanced, specialty branded pharmaceuticals.

Our values

- > Accountability
- > Collaboration
- > Commitment
- > Innovation
- > Leadership

Watson Pharmaceuticals, Inc. (NYSE:WPI) is a leading global specialty pharmaceutical company. The Company is engaged in the development and distribution of generic pharmaceuticals and specialized branded pharmaceutical products focused on Urology and Women's Health.

We are Watson.

With the acquisition and integration of Arrow, Watson enhances its ability to deliver distinctive generic and brand pharmaceuticals to consumers across the world's key established and emerging markets. We are guided by our shared mission to realize our place on the global stage.



Fellow shareholders, industry colleagues
and Watson team members:

Some people have described 2009 as a pivotal year for Watson. Some have used the word transformational. While we gratefully acknowledge these and other descriptions of our progress over the past year, I prefer to sum up our performance more directly: We said we would do it, *and we did*.

We told shareholders that we had a vision for expanding our global footprint, and that we would do it in a rational, financially sound manner. We did this with the Arrow Group acquisition.

We told you that we would continue to accelerate our product development activities, and we did with an increased investment in generic product development resulting in the filing of 36 generic product applications in the United States.

We told you that we would expand our brand pharmaceutical business, and we did with the launch of two exciting products: RAPAFLO® (silodosin) and Gelnique® (oxybutynin chloride).

We told you that we would deliver on the promise of increased profitability by focusing on our Global Supply Chain Initiative, and we have with significant contributions to our profitability.

Finally, we told you that we would continue to invest in the management expertise and intellectual capital necessary to support our growth as a global pharmaceutical company. During 2009, we added several experienced executives to our team and organized our business into a new global structure.

CEO letter

For Watson, 2009 was a year of sound execution that will provide the foundation for value creation in 2010 and beyond.

FINANCIAL RESULTS

During 2009, we continued to report exceptional revenue and earnings growth, driven by the strength of our current product portfolios, new generic and brand products, enhanced efficiencies in our supply chain, and strong contributions from our Anda distribution business. Full year 2009 results also include the effect of one-month's results from Arrow Group, which was acquired in December.

For the full year ended December 31, 2009, adjusted EBITDA was \$689 million, an increase of 22 percent from \$567 million in 2008. Net revenue was \$2.8 billion, an increase of \$258 million or 10 percent from the same period in 2008. Overall operating income for the year was \$384 million compared to \$358 million in the prior year. Cash flow from operations was \$377 million and cash and marketable securities were \$215 million as of December 31, 2009.

Generics revenue for the year was \$1.7 billion, a 13 percent increase from generics revenue of \$1.5 billion in 2008. Brand revenue was \$461 million, an increase of \$6 million when compared to the prior year. Our Anda distribution business had net revenues of \$664 million, an increase of 10 percent when compared to \$606 million in 2008.

We are very pleased with the overall financial results of the Company, particularly given our continued investment in those components of our business that will drive continued, long-term growth, including new product development; expansion and modification of our facilities; support of our brand products through sales and marketing activities; and our investment in recruiting and retaining the most talented people in the industry.

GOING GLOBAL – THE ARROW ACQUISITION

One of the most significant developments of 2009 was the acquisition of privately-held Arrow Group. The combination of Watson and Arrow resulted in a company with an expanded global commercial presence; a stronger portfolio of marketed products; an expanded, combined product pipeline with access to

substantial biopharmaceutical capabilities; and a geographically complementary manufacturing and distribution infrastructure.

As part of the Arrow acquisition, we reviewed our capital structure and put in place a prudent, flexible, long-term financing plan. This included the refinancing of our existing convertible debentures and replacing them with longer-term debt at very favorable interest rates. Our goal will be to maintain debt ratios and debt-to-capitalization at levels that ensure we have adequate access to additional capital. This will enable us to capitalize on future acquisitions, joint ventures and product licensing and development opportunities to support market, country and global growth initiatives. We have the financial capacity and wherewithal to do that, and we will continue to pursue business development initiatives as opportunities present themselves.

Since December, we have made substantial progress in bringing the two companies together. We have completed the financial integration; conducted country-by-country business reviews; assessed the combined development portfolio; and have set in place strategic plans for expanding our market reach. We are also working to take the successful results from our Global Supply Chain Initiative and apply them to our newly acquired international operations.

GLOBAL GENERICS

During 2009, we continued to expand our U.S. generic product portfolio with the launches of our Next Choice® (levonorgestrel) emergency contraceptive product, the 25- and 50-milligram strengths of Metoprolol Succinate ER, and three new flavors of our smoking cessation gum.

Within our generic patent challenge portfolio, we announced several additional cases during the year. Today, we have approximately two-dozen publicly disclosed patent challenge opportunities, of which more than half are first-to-file applications, and a strong pipeline of undisclosed projects.

As we began 2010, we undertook the integration of Arrow's marketing operations into our Global Generics business. We combined the U.S. operations of Watson and Arrow and began converting products previously marketed by Arrow under the

2009 Summary of Operating Results*

Twelve months ended December 31,

2009

2008

2007

(In millions, except per share amounts)

Summary of Operations

Net revenue	\$ 2,793	\$ 2,536	\$ 2,497
Operating income	\$ 384	\$ 358	\$ 256
Net income	\$ 222	\$ 238	\$ 141
Earnings per share (diluted)	\$ 1.96	\$ 2.09	\$ 1.27

Financial Position

Cash and cash equivalents	\$ 201	\$ 508	\$ 205
Total assets	\$ 5,992	\$ 3,678	\$ 3,472
Total debt	\$ 1,458	\$ 878	\$ 906
Total stockholders' equity	\$ 3,023	\$ 2,109	\$ 1,849
Cash flow from operations	\$ 377	\$ 417	\$ 427

2009 Business Highlights

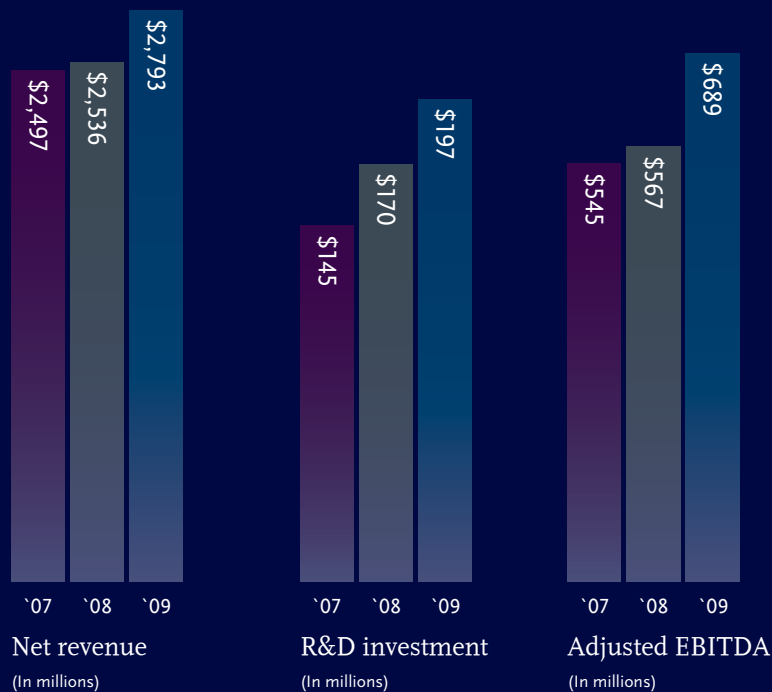
10% Annual growth in net revenue

22% Annual growth in adjusted EBITDA

16% Annual increase in R&D investment

100+ U.S. Generic applications on file;
38 potential first-to-file opportunities

Launched RAPAFLO® and Gelnique®
brand products



*Please refer to the reconciliation table on page 20 for reconciliation of GAAP to adjusted EBITDA.

Key product launches in 2009 supported generic and brand business growth.



Cobalt name to our Watson label. We have significant opportunities with existing product franchises and with anticipated product launches in 2010. We expect to continue to grow our Canada, United Kingdom, France and Australia operations. We also intend to continue to allocate the resources necessary to strengthen commercial operations in Scandinavia, New Zealand, Germany and Brazil, and to capitalize on product registrations and joint ventures in nearly one-dozen additional international markets.

GLOBAL BRANDS

In our Brand business, we took important steps to expand our position in the urology segment, strengthen our position within women's health care, and build a pipeline of near- and mid-term products through both internal development and business development activities.

The biggest news for Global Brands during the year was the launch of two new products: RAPAFLO®, for the signs and symptoms of benign prostatic hyperplasia (BPH), and Gelnique®, a treatment for overactive bladder (OAB).

On the new product development front, the Brand team continued to work toward the May 2010 launch of the six-month formulation of TRELSTAR® (triptorelin pamoate for injectable suspension). The product was approved by the U.S. Food & Drug Administration (FDA) on March 11, 2010.

To provide enhanced sales and marketing support for our current brand portfolio, and to better position us to launch new products, we realigned our sales and marketing organization in the latter part of 2009. Today, we can more effectively position Watson Brand products with urologists, obstetricians/gynecologists (OB/Gyns) and primary care physicians, and we can enhance our ability to serve the institutional customer within the U.S. marketplace.

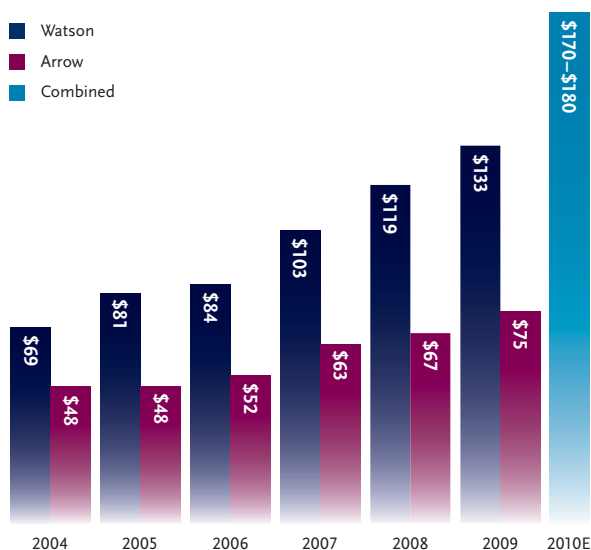
We also undertook the first steps in a targeted strategy to expand our Brand activities in key international markets by filing international product applications. We are well positioned to continue to drive growth in our Global Brands business in 2010 and beyond.

Biopharmaceuticals will represent a significant opportunity in the future, and Watson took strategic steps to ensure our ability to compete in this arena. As a result of the Arrow acquisition, Watson acquired a 36 percent ownership interest in Eden Biodesign, a biopharmaceutical development and contract manufacturing company located in Liverpool, U.K. In January 2010, we acquired the remaining outstanding shares of Eden and now have a strong foundation for expansion into biopharmaceuticals.

GLOBAL OPERATIONS

Prior to December, Watson's global supply chain included operational centers of excellence in California, Utah, Illinois, New York, Florida, Ireland and India. With the Arrow acquisition, we increased manufacturing capacity to 20 billion doses per year, through the addition of production facilities in Malta, Canada and Brazil, as well as biopharmaceutical production capability in the U.K.

Going forward, our Global Operations team will continue to focus on the management of end-to-end supply chain costs including materials, conversion and third-party costs. We believe that our 2009 results demonstrate the contribution that our Global Supply Chain Initiative made to our profitability, and we will continue these efforts in ways that create substantial financial benefits in the future.



Generics R&D investment

(In millions)

GLOBAL MANAGEMENT STRUCTURE

To drive success over the long-term we have restructured our management along our new global lines of business.

To lead our Global Generics division, we were pleased to promote Thomas R. Russillo to the position of Executive Vice President, Global Generics. Tom has responsibility for developing the strategies that will strengthen and grow Watson's product portfolios and market positions in the U.S. and around the world. He is also responsible for ensuring that our commercial needs are appropriately aligned with new product R&D and that we efficiently expand our generics position with key product introductions.

G. Frederick Wilkinson joined Watson in the fall in the newly created position of Executive Vice President, Global Brands. Fred is responsible for brand product development, global sales and marketing and coordinating brand product business development activities. In addition, he oversees Watson's biologic development efforts. Under Fred's leadership, we fully intend to build on our legacy strengths in urology and expand our portfolio of women's health care products in the near and mid-term, while also pursuing opportunities to launch products globally.

Just prior to year-end, we were pleased to recruit Robert A. Stewart to the newly created position of Senior Vice President, Global Operations. Bob's 20-year career in the pharmaceutical

industry includes all aspects of quality and manufacturing management, in addition to broad experience with Active Pharmaceutical Ingredients (APIs) and a wide variety of dosage forms. Bob brings a commitment to take our supply chain initiatives to the next level, and enhance our global network of facilities.

In addition to structuring our global organization, we have also accelerated the use of matrix reporting structures within the Company, under which employees will have cross-divisional and cross-functional reporting relationships that will strengthen communication, enhance decision-making, and enable us to respond more efficiently to opportunities across our global organization. We also continue to invest in training and development initiatives that will help prepare the next generation of senior management from within the Company.

In early 2009, we introduced a new vision for Watson supported by our five values of accountability, collaboration, commitment, innovation and leadership. It was through the demonstration of these values that we worked collaboratively across all functions and geographies.

HEALTH CARE REFORM

Health care reform dominated the news during the past year and while the ultimate outcome of this U.S. legislative initiative will only be known over time, it is clear that generic pharmaceuticals and biologics deserve to play a major role in any positive reform initiatives going forward.

Both as a Company, and as a member of the Generic Pharmaceutical Association (GPhA), Watson's government affairs and management teams have spent considerable effort in promoting increased access to and utilization of generic medicines as a critical component of affordable health care. We have worked hard to ensure that any pathway for biogenerics creates a truly competitive playing field, one that allows for the early introduction of competition for expensive biopharmaceuticals that are inflating health care costs. We also have been working to ensure that patent settlements, which provide substantial

savings for consumers and create a pro-competitive, pro-consumer environment, are not unnecessarily prohibited by legislative amendments to current law. These and other issues will continue to dominate the political environment in the near-term, and Watson will continue to play its appropriate role as an industry leader.

In addition, now that we have a greater position on the global stage, Watson will work with local country management to assume a leadership role in the Canadian, European, and Pacific Rim legislative and regulatory arenas.

SUMMARY

Watson began 2009 as a much different company than the one that will take us into 2010 and beyond. From a largely U.S.-centric company, we are now global, with a broader product line and operations in well-established and emerging markets. We also have a strong international foundation from which we will measure growth going forward.

Indeed, the Watson of today and tomorrow, continues to be a dominant force in the U.S., but we have grown beyond our North American borders. We now have additional assets and enhanced capabilities that need to be appropriately and efficiently balanced to serve our expanded marketing base. We will be counting on our larger employee base to ensure that we maximize global opportunities, tapping the country-specific knowledge of our teams to capitalize on local market conditions.

Earlier this year, we projected to deliver compound annual growth of more than 10 percent between now and 2012. To do this, we will remain committed to delivering strong financial performance as a result of building our commercial position in global generics and brands; continuing to improve our cost structure; focusing on the right products in generics, brands and biopharmaceuticals that will deliver long-term growth; and recruiting and retaining the most talented and committed employees in our industry.

I want to recognize the contribution of every employee, each committed to our vision and mission, and each focused on execution guided by our values. I want to recognize the guidance of our Board of Directors in affirming management's decisions on global growth and expansion. And I want to recognize the continued confidence of our shareholders and our customers who believe in our vision and have supported us with their continued investment and their continued business.

2010 represents a period of new opportunities and challenges. Our success will be demonstrated by our ability to combine two great companies into a single, more efficient organization, and in our ability to maximize opportunities — large and small — on a global stage.

I look forward to reporting on our growth and success in 2010, and in the years to come.

We are Watson, a global company, with a world of opportunities.



Paul M. Bisaro

PRESIDENT AND CHIEF EXECUTIVE OFFICER



PAUL M. BISARO with from left:

THOMAS R. RUSSILLO, Executive Vice President, Global Generics

ROBERT A. STEWART, Senior Vice President, Global Operations

G. FREDERICK WILKINSON, Executive Vice President, Global Brands

PHARMACIE

Global Generics

A generics leader in the U.S., with strong portfolios in key markets and growing portfolios in emerging markets.

Watson's generic pharmaceutical business was transformed during 2009 from a U.S.-based company to a company with a global footprint. We now have product portfolios in both well-established and emerging markets, a broader product pipeline, and enhanced opportunities for growth in 2010 and beyond.

Watson's U.S. generic pharmaceutical business ranked as the third largest in the industry in 2009 in terms of prescriptions. Marketing approximately 150 product families prior to the Arrow acquisition, Watson held the leading position in generic oral contraceptives, with 36 percent market share. During the year, Watson expanded its position in oral contraceptives with the introduction of the Next Choice® emergency contraceptive. Key pipeline products include generic versions of Yaz®, Yasmin®, Seasonique®, Lo Seasonique™ and Tri-Cyclen Lo®.

Watson also launched the 25- and 50-milligram strengths of Metoprolol ER treatment for angina and hypertension, and three new flavors of smoking cessation gum during the year. The Company also announced a number of patent challenges in 2009, including challenges of such well-known drugs as the Mucinex® expectorant products, the Rozerem® insomnia treatment, and Sanctura XR® and Enablex® which are indicated for the treatment of overactive bladder (OAB).

The acquisition of Arrow added approximately 20 U.S. products, including such key products as Ramipril, Isradipine, Ciprofloxacin and Acarbose. The products were transferred to Watson Sales/Marketing/Customer Service at the end of 2009,

the Arrow marketing operations in Florida were closed, and the Company initiated the transfer of Arrow products to the Watson label. Watson marketed over 170 generic prescription product families in the U.S. at year end.

GLOBAL GENERIC OPPORTUNITIES

The acquisition of Arrow provided a global commercial footprint that included positions in key established markets, as well as access to emerging markets. Following completion of the acquisition, management began to maximize these new global opportunities for the near-term, while putting in place the strategies that will deliver long-term results.

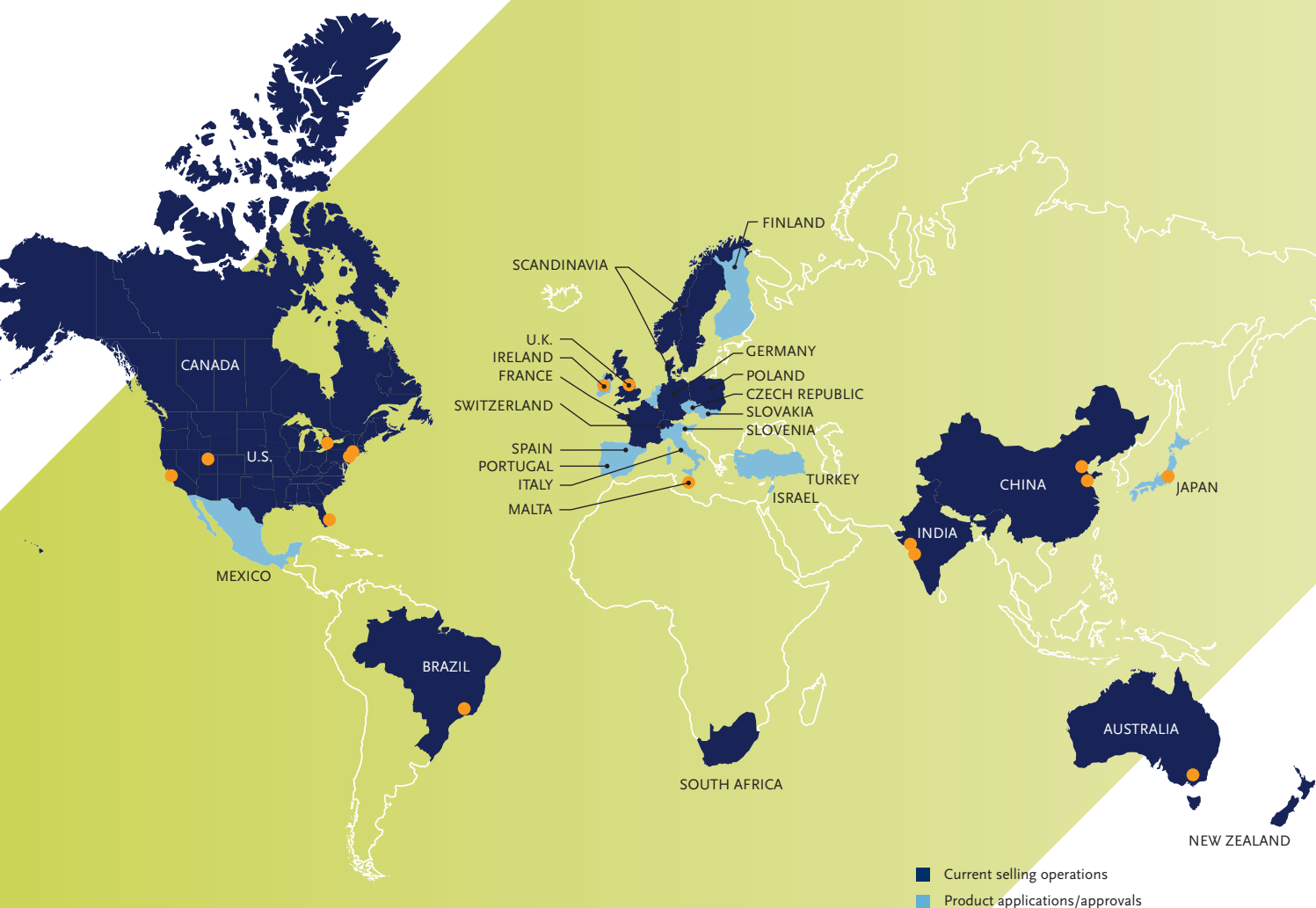
Among the key, established markets where Watson now has a presence are: Canada, the U.K., France and Australia.

Currently operating in the \$5.1 billion Canadian market under the Cobalt Pharmaceuticals name, Watson's generic business is ranked eighth with a four percent market share. The Company markets 49 products representing approximately 160 SKUs and its portfolio includes 15 of the top 20 molecules sold in the generic market. Five major product launches are anticipated in 2010, including atorvastatin, the generic version of the cholesterol treatment Lipitor®.

Operating as Arrow Generics in the \$4.0 billion U.K. market, Watson's operations are ranked fifth with five percent market share. Arrow Generics provides customers with more than 250 products, including oral solids, controlled substances, respiratory products, creams, drops, liquids, ointments and

Market highlights & global footprint

Generic market	Size	WPI position	Market share	Product portfolio
United States	\$ 31.0 billion	#3	10%	170+ products
Canada	\$ 5.1 billion	#8	4%	49 products
United Kingdom	\$ 4.0 billion	#5	5%	250+ products
France	\$ 3.5 billion	#7	5%	125+ products



suppositories. The Company expects to add new products to the portfolio in 2010.

Watson operates as Arrow Generiques in the \$3.5 billion French generic marketplace, where it ranks seventh with a five percent market share. The French portfolio includes 321 different product presentations of more than 125 different molecules. Due to the structure of the French market, more than 65 sales representatives sell products directly to individual pharmacies. Arrow Generiques expects to launch 17 new products in 2010, and given the large number of products losing exclusivity before the end of 2012, France represents a significant opportunity for Watson's Global Generics business going forward.

In Australia, where the Company currently operates as Spirit Pharmaceuticals, Watson supplies 19 products including oral solids, patches, injectables, creams and ointments, which are marketed through third parties. Approximately a dozen product applications are on file in this large and growing market.

In addition to these major international generic markets, Watson is the second largest generic pharmaceutical company in New Zealand, where it serves as the exclusive distributor of alendronate from Merck. Watson has approximately two percent share of the Scandinavian market, with approximately three percent from Sweden, and is forming a subsidiary in Finland. Watson's operations in Germany provide approximately 46 products to the niche doctors' union market. The Company also has manufacturing and commercial operations in Brazil, which serves as a platform for expansion into Latin America and South America. The Company has commercial joint ventures in place to serve Poland and Spain, and approximately 30 products registered in each of Belgium, the Czech Republic, Hungary, Ireland, Italy, Malta, the Netherlands and the Slovak Republic.

To support these and future markets, Global Generics management is structured into three geographic areas: the Americas, Asia/Pacific and International.

GLOBAL GENERICS R&D

During 2009, Watson filed approximately 36 Abbreviated New Drug Applications (ANDAs) in the U.S., and currently has more than 100 ANDAs on file, with 38 potential first-to-file or shared exclusivity products. Over the past several years, Watson has reshaped its R&D processes to focus on higher-value generic opportunities and to capitalize on ways to expand its international market presence to support enhanced commercial success.

The Company's global product development activities are supported by R&D centers in Corona, California; Salt Lake City, Utah; Davie, Florida; Mumbai, India and Melbourne, Australia. Global investment in new product development of generics in 2010 is expected to range between \$170 million and \$180 million, and the Global Generics R&D team expects to submit more than 100 product applications worldwide.

During 2010, the goals for the Global Generics team include completing the rationalization of the new product pipeline and integration of R&D strategies and resources. The Company will also seek opportunities to file key Watson U.S. products in the international markets; continue to strengthen existing international sales and local business structures; and focus on the near-term development opportunities in key markets.



United States
Leading U.S. products from a portfolio of more than 170 products.



Canada
Leading products in Canada, where Watson ranks 8th with 49 products.



United Kingdom
Among the top products in our U.K. portfolio of more than 250.



France
Key products in our French portfolio, which includes approximately 125 products.



Global Brands

Building an enviable brand product portfolio in urology and women's health.

The prescription for success for Watson's Global Brands business is simple: continue to build its leadership position in urology; build on its legacy strengths in women's health to re-establish its position as a leader with unique products; create a broad new product development portfolio; align sales and marketing to support sustainable success; and, strategically expand into biopharmaceuticals. In each of these areas, Watson's Brand business delivered measurable progress in 2009.

RAPAFLO® AND GELNIQUE®

Watson's Global Brands business expanded its product portfolio in urology and women's health care with the launch of two new products: RAPAFLO and Gelnique gel 10%.

Launched in April, RAPAFLO entered a growing \$3 billion a year market. Targeting the leading reason why patients visit urologists, RAPAFLO is indicated for rapid and sustained relief of the symptoms of benign prostatic hyperplasia (BPH). BPH is characterized by urination problems, including decreased urine flow, more frequent urination and nocturia. In clinical trials, RAPAFLO was proven to rapidly increase urine flow in just two to six hours following the initial dose. Noticeable relief of BPH symptoms was realized in just three to four days, with most patients achieving at least a three-point improvement in International Prostate Symptom Score (IPSS), regardless of age or severity of symptoms.

Approximately one month after the launch of RAPAFLO, the Global Brands division launched Gelnique, the first and only

topical gel for the treatment of overactive bladder (OAB) with symptoms of urinary incontinence, urgency, and frequency. OAB is the third most diagnosed condition in urology and products to treat this condition have annual sales of approximately \$2.2 billion. While approved for both men and women, Watson targets Gelnique to women, focusing on the convenience and control Gelnique offers rather than on the predictable embarrassment and stigma associated with OAB. While concentrating on urologists, Watson also brought Gelnique to the OB/Gyn community under the women's health care portfolio umbrella.

For both RAPAFLO and Gelnique, the sales team has focused on enhancing the position of both products within the managed care environment. At year end, significant inroads had been made in increasing reimbursement for these two products.

In urology, in 2009 Watson's sales team added RAPAFLO to its one and three month TRELSTAR® treatment for prostate cancer; OXYTROL® for OAB; and ANDROGEL® (which is co-promoted) and ANDRODERM® testosterone replacement therapies.

In women's health, Watson's Global Brands business added Gelnique to a portfolio that currently includes Femring® (estradiol acetate), a vaginal ring product co-promoted with Warner Chilcott, indicated for the relief of vasomotor and vaginal symptoms associated with menopause, including moderate to severe hot flashes, night sweats and vaginal dryness.

R&D pipeline

Product

U.S. UROLOGY

TRELSTAR® 6-Month Form (Approved March 11, 2010)

Gelnique® 2nd Generation

ANDRODERM® 2nd Generation

Uracyst®

RAPAFLO®

WOMEN'S HEALTH

Novel Oral Contraceptive

Novel Emergency Contraceptive

Long-Term Contraceptive Ring

CRINONE®*

Non-Oral Long Acting Estrogen-Free Contraceptive

*Watson signed an agreement to acquire the rights of CRINONE. The agreement is subject to the approval of Columbia shareholders and other customary closing conditions.



Key currently marketed U.S. brand products in urology and women's health.

PORTFOLIO FOR THE FUTURE

To ensure a strong position in urology, Global Brands had five products in development during 2009. A TRELSTAR 6-month formulation was approved in March 2010. Second generation presentations for Gelnique and ANDRODERM are in clinical trials. Longer term, Global Brands is developing Uracyst® for the treatment of interstitial cystitis, and new indications for RAPAFLO. If successful in these development activities, Watson Brand sales teams will have a portfolio that addresses five of the top ten disease states in urology.

Watson's commitment to women's health is clear from the broad number of products in its development portfolio. In February 2010, the Company announced an exclusive U.S. licensing agreement with HRA Pharma for ulipristal acetate (UPA), a novel next-generation emergency contraceptive. Also in February, Watson entered into an exclusive licensing agreement to commercialize The Population Council's investigational vaginal contraceptive ring in the U.S., Canada and Mexico. The ring is currently in late-stage clinical development for contraceptive use for up to one year.

In March, the Company announced an agreement to acquire the exclusive U.S. rights to Columbia Laboratories, Inc.'s bioadhesive progesterone gel products currently marketed under the trade names CRINONE® and PROCHIEVE® for the indications of infertility and secondary amenorrhea. The two companies will collaborate in the ongoing Phase 3 development



program toward a new indication for the prevention of pre-term birth in women with a short cervix, as well as a global development program for second-generation products for this indication and infertility. The acquisition is subject to customary closing conditions, including the approval of Columbia's shareholders, and is expected to occur in the second quarter of 2010.

TARGETED SALES AND MARKETING

Watson realigned its 350-member brand sales and marketing function at the end of 2009, creating sales teams focused on three market segments: urology and primary care; urology and OB/Gyn, and strategic accounts.

The urology/primary care teams are taking the lead on RAPAFLO and TRELSTAR with urologists. They also take RAPAFLO and Gelnique into the primary care physician environment. The urology and OB/Gyn representatives take the lead with Gelnique and ANDROGEL in urology and then Gelnique and Femring in the OB/Gyn environment. Approximately 40 strategic account specialists manage institutional environments, clinics and larger treatment groups and are responsible for TRELSTAR and for INFED® (iron dextran injection, USP). As product acquisitions and new product approvals and launches warrant, Global Brands is prepared to increase the size of its sales force to achieve its marketing objectives.

GOING GLOBAL

The Global Brands business is now expanding beyond U.S. markets. Registrations have been submitted in Canada for RAPAFLO and Gelnique. A submission to support the registration of Gelnique in the European Union is anticipated during 2010. The Brand division has globalized the business development function and is seeking, where possible, global rights to new product licensing and focusing on other business development ventures to expand our global brand presence.

EDEN PROVIDES ENTRÉ IN BIOPHARMACEUTICALS

As part of the Arrow transaction, Watson acquired 36 percent interest in Eden Biodesign, an integrated biopharmaceutical development and manufacturing organization that has provided strategic consultancy, world-class process development, cGMP manufacturing and analytical development services for every significant biopharmaceutical product technology. In early 2010, the Company acquired the remaining 64 percent interest in Eden, providing a significant core competency that will enable Watson to strategically pursue biologics, biogeneric and biobetter products.

With a growing product portfolio in urology and women's health, a realigned sales and marketing organization, and a strong pipeline of products, Watson's Global Brand division is positioned for long-term growth and value creation.



Global Operations

An industry-leading supply chain supports cost-efficient delivery of products to key markets around the world.

Watson's Global Operations team is the foundation that supports the growth and success of the Global Generics and Global Brands businesses. In 2009, prior to the acquisition of the Arrow Group, Watson supported its U.S.-based pharmaceutical business with a supply chain that included a team of more than 2,400 employees working at seven facilities that had the capacity to produce 17 billion doses per year.

Following the Arrow acquisition, Watson's Global Operations team, totaling more than 3,400 employees, supports products that compete in a global marketplace from 11 facilities that have annual capacity of 20 billion doses per year.

GLOBAL CAPABILITIES

The manufacturing components of Watson's combined global supply chain are located across six countries. In the U.S., Watson's Davie, Florida, facility focuses on controlled release and sustained release products; Corona, California, on controlled drugs, oral contraceptives and hormone products; Salt Lake City, Utah, on transdermals; Carmel, New York, produces oral solid dosage forms, and Copiague, New York, supports OTC smoking cessation gum manufacturing. Watson's facilities in Goa, India, manufacture immediate release products, and Ambernath, India, provides API development and manufacturing. Watson also has additional API capabilities in Ireland.

Arrow contributed several facilities to the Watson global supply chain network, including an immediate release, solid dosage facility in Malta; solid dosage and liquid capabilities in Canada; and immediate release and liquid manufacturing capability in Brazil. The location of the Malta facility provides a number of benefits for the Company. Malta has been a member of the European Union since 2004, has a relatively low labor cost when compared to the U.S. and other European countries and has a favorable corporate tax structure. The Malta facility was Arrow's largest in terms of capacity.

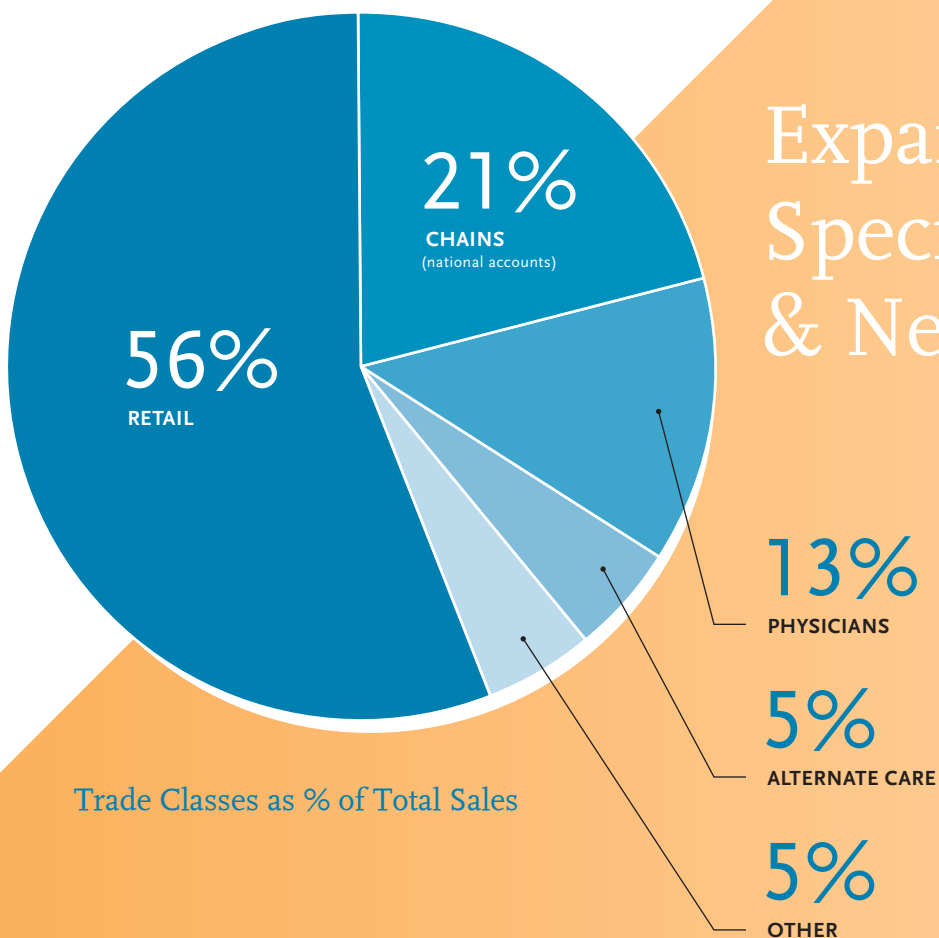
All of the Company's facilities, with the exception of Brazil, are FDA-approved. The Company's Florida and Canada facilities are additionally approved for distribution in Canada. Facilities in Goa, Malta, Florida, Copiague, Canada and Brazil are either pending European Medicines Agency (EMA) approval or have already received approval.

Finally, Eden Biodesign provides Watson with biologics production capabilities. Eden's state-of-the-art facility, located in Liverpool, U.K., is custom designed for multi-product operation and supports the development of biopharmaceuticals from proof-of-concept through to cGMP manufacture for clinical trials, market launch and commercial supply. The Eden facility provides a sound foundation for Watson's commitment to expand into biopharmaceuticals.

Anda distribution

Expansion into Specialty Brands & New Segments

Supports Watson's Generic
and Brand Businesses



Trade Classes as % of Total Sales



ANDA

A unique asset within the Global Supply Chain is Watson's Anda Division, which primarily distributes generic, select brand pharmaceutical products, vaccines, injectables and over-the-counter medicines from more than 150 suppliers to more than 52,000 locations, including 10,000 physician accounts, 15,000 independent pharmacies, and more than 22,000 chain locations. Anda also distributes products to alternate care providers (hospitals, nursing homes and mail order pharmacies), and provides direct-to-physician office distribution. Anda specializes in the distribution of controlled substances, and during 2009 the Company expanded narcotic product storage facilities which enhance this capability.

INVESTMENT IN FACILITIES

During 2009, Watson continued to invest in plant and equipment and process improvements that enhance its cost structure. Expansion of Watson's manufacturing facility in Goa, India was largely completed, bringing capacity to three billion doses annually. The Company expects to continue to increase total capacity to five billion doses in the future. The API facility in Ambernath, India, was also expanded during the year; a 100,000 square foot on-site warehouse in Salt Lake City, Utah was constructed; renovation of manufacturing and warehouse facilities at the Corona, California facility was completed; and packaging in Davie, Florida was relocated to the Marina West, Florida packaging center, a move which will increase overall capacity.

GLOBAL SUPPLY CHAIN INITIATIVE

The Global Supply Chain Initiative continues to be a transformational program for Watson. It has enabled the Company to dramatically reduce costs and improve efficiencies. A key component of this initiative ensures that the Company has adequate capacity to meet current and projected production needs, while maintaining the right mix of facilities appropriately balanced to maximize efficiency and costs.

Watson has transferred numerous products from U.S.-based facilities to Watson's Goa, India site, and additional transfers are underway. During 2010, with the addition of facilities in Malta and Canada, the process of balancing plant capacity, cost structure and efficiency will include these additional capabilities.

Maximizing opportunities to utilize internally developed API is also a significant component of Company initiatives. The vertical integration capability offered by Ambernath, India has already generated results, with 13 products that use the site's API drug master files or are already included in pending applications. The Company is committed to vertically integrating products where it creates either a technical barrier to competition or improves the overall cost position.

During 2010, the Global Supply Chain Initiative will build on this strong foundation of savings already created over the past several years. New initiatives will recognize the expanded capabilities and product portfolio that resulted from the Arrow acquisition, and will seek to utilize the most efficient processes and capabilities. Supply chain initiatives will focus on maximizing end-to-end supply chain costs, and identifying all opportunities to leverage the global operations network to maximize capacity, tax, API and material synergy and distribution costs. In addition, the Global Supply Chain team will also be analyzing opportunities to reduce third-party product manufacturing, where such changes can offer a cost or strategic advantage for the Company.

The focus of the Global Operations team is to build technical competency, maintain good compliance, and ensure delivery of the highest quality products for customers around the globe. Global Operations is structured to better support the Company's generic and brand products with expanded capabilities and expertise, new tools to help make production more cost-efficient, and a global team committed to the highest levels of quality and efficiency in providing products that help the people of the world live better.



Eden's state-of-the-art facility is custom designed for multi-product operation and supports the development of biopharmaceuticals from proof-of-concept through to cGMP manufacture for clinical trials, market launch and commercial supply.

CFO report

In addition to delivering strong financial performance in 2009, Watson recorded a number of other financial accomplishments. We refinanced our debt at favorable rates during what was a difficult year for accessing the capital markets. We also made smart, strategic investments. Our efforts enabled Watson to finish the year in a very strong financial position.

As we reshape Watson, we have also undertaken important financial reporting changes following the Arrow acquisition. Watson reports results in three separate segments — Global Generics, Global Brands, and Distribution. The existing Arrow businesses are combined with our Global Generics results and Watson provides an international sales result within the Global Generics business. Within our Global Brands business, we combine specialty and nephrology sales as a single result. Finally, we continue to report our Distribution segment as we have in the past. It is important to note that results in this segment reflect only third-party sales and do not include results from any Watson products.

Watson remains committed to preserving a strong balance sheet and healthy leverage ratios. Maintaining these financial ratios will provide the Company with sufficient capacity to continue to invest strategically in the growth of the business, including appropriate acquisitions and product development opportunities. We will continue to target both strategic and synergistic acquisitions and look for international commercial expansion such as in-licensing of late-stage development projects, as well as biologic product development.

In terms of tax rate expectations, the Arrow acquisition provides a presence in low tax jurisdictions. Longer term, our global footprint will give us the opportunity to fund global product development offshore. Manufacturing operations in Malta will also provide a tax rate advantage that Watson may be able to capitalize on.

As the focus shifts to 2010 and beyond, Watson is a global company that is financially sound and ready to invest in growth, capitalize on opportunities, and enhance the future performance of the business.

Adjusted EBITDA

Twelve months ended December 31,

(In millions)

	2009	2008	2007
GAAP net income	\$ 222.0	\$ 238.4	\$ 141.0
Plus:			
Interest expense	34.2	28.2	44.5
Interest income	(5.0)	(9.1)	(8.9)
Provision for income taxes	140.6	119.9	83.2
Depreciation	96.4	90.1	77.2
Amortization	92.6	80.7	176.4
EBITDA	580.8	548.2	513.4
Adjusted for:			
Global Supply Chain Initiative	25.2	23.0	—
Acquisition and licensing charges	34.2	6.5	12.8
Loss (gain) on sale of assets	1.1	(9.6)	(13.1)
Loss on asset sales and impairments	2.2	0.3	4.6
Favorable settlement of tax related liability	—	(5.9)	—
Loss on early extinguishment of debt	2.0	1.1	5.6
Legal settlements	24.7	(15.0)	7.9
Share-based compensation	19.1	18.5	14.2
Adjusted EBITDA	\$ 689.3	\$ 567.1	\$ 545.4

Management team

BOARD OF DIRECTORS

Paul M. Bisaro
President and
Chief Executive Officer

Christopher W. Bodine
Former President, Health Care
Services for CVS Caremark

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

Anthony Tabatznick
Founder, Arrow Group

Ronald R. Taylor
President, Tamarack Bay LLC

Andrew L. Turner
Chairman of the Board
Chairman of the Board, EnduraCare
Therapy Management, Inc.

Fred G. Weiss
Managing Director,
FGW Associates, Inc.

SENIOR MANAGEMENT

Paul M. Bisaro
President and
Chief Executive Officer

David A. Buchen
Senior Vice President,
General Counsel and Secretary

Clare A. Carmichael
Senior Vice President,
Human Resources

R. Todd Joyce
Senior Vice President and
Chief Financial Officer

Charles D. Ebert, Ph.D.
Senior Vice President,
Research and Development

Thomas R. Giordano
Senior Vice President,
Chief Information Officer

Edward F. Heimers, Jr.
Executive Vice President, and
President, Brand Division

Francois A. Menard, Ph.D.
Senior Vice President, Generics
Research and Development

Gordon Munro
Senior Vice President,
Quality Assurance

Albert Paonessa III
Executive Vice President,
Chief Operating Officer
Anda Distribution Division

Thomas R. Russillo
Executive Vice President,
Global Generics

Robert A. Stewart
Senior Vice President,
Global Operations

G. Frederick Wilkinson
Executive Vice President,
Global Brands

Corporate information

CORPORATE HEADQUARTERS

311 Bonnie Circle
Corona, California 92880
951-493-5300

COMMON STOCK

Stock Symbol: WPI
Listed: New York Stock Exchange

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
Orange County, California

STOCKHOLDER INFORMATION

Questions concerning stock
ownership may be directed to
Investor Relations at Executive
Offices in Morristown, NJ,
E-mail: info@watson.com

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:
Sheraton Parsippany Hotel
199 Smith Road
Parsippany, NJ 07054
on Friday, May 7, 2010,
at 9:00 a.m.

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 Executive Offices
address: 360 Mt. Kemble Ave.,
Morristown, NJ 07960. We have
also filed with the New York Stock
Exchange the most recent Annual
CEO Certification as required
by Section 303A.12(a) of the
New York Stock Exchange Listed
Company Manual.

TRADEMARKS

The following Watson
Pharmaceuticals, Inc. trademarks
appear in this report:
ANDRODERM, Gelnique, INFED,
Next Choice, Oxytrol, RAPAFLO,
TRELSTAR, Uracyst. All other
trademarks are the property of their
registered owners.

FORWARD-LOOKING STATEMENT

Statements contained in this Annual Report that refer to non-historical facts are forward-looking statements that reflect Watson's current perspective of existing information as of the date of this Annual Report. It is important to note that Watson's goals and expectations are not predictions of actual performance. 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 impact of competitive products and pricing; timely and successful integration of strategic transactions and the ability to realize the anticipated synergies and benefits of such transactions; the timing and success of product launches; difficulties or delays in manufacturing; the availability and pricing of third party sourced products and materials; successful compliance with FDA and other governmental regulations applicable to Watson and its third party manufacturers' facilities; products and/or businesses; changes in the laws and regulations, including Medicare and Medicaid, affecting among other things, pricing and reimbursement of pharmaceutical products; and such other uncertainties detailed in Watson's period public filings with Securities and Exchange Commission, including but not limited to Watson's Annual Report on Form 10-K for the year ended December 31, 2009. Except as expressly required by law, Watson disclaims any intent or obligation to update these forward-looking statements.



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Helping People Live Better™

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