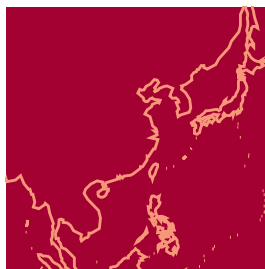


*Focused on Global Growth*



Watson Pharmaceuticals, Inc. is a leading integrated global pharmaceutical company engaged in the development, manufacture, marketing, sale and distribution of generic, brand and biologic pharmaceutical products.

We operate and manage our business as three operating segments: Global Generics, Global Brands and Anda Distribution. Our largest commercial market is the United States, followed by our key international markets including Western Europe, Canada, Asia/Pacific, South America and South Africa.

As of December 31, 2010 we marketed approximately 160 generic prescription pharmaceutical product families and approximately 30 brand pharmaceutical product families in the U.S., and a significant number of product families internationally. Our Anda Distribution Division distributes products for over 200 suppliers and is focused on providing next-day delivery and responsive service to its customers.

#### **Our vision**

To become, for our patients, customers, employees and shareholders, a leader in the worldwide pursuit of trusted generic and specialty branded and biologic 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.

1	2	6	10	15	19
Summary of Operating Results	CEO Letter	Global Generics	Global Brands	Global Operations	CFO Report

The Watson logo is displayed on a dark, illuminated sign. The word "Watson" is written in a large, bold, blue sans-serif font. To the right of the word is a circular emblem containing a stylized white "W" with a horizontal bar across its middle. Below the sign, a row of small, glowing lights is visible.

## 2010 Business Highlights

Net revenues **grew 28%** over 2009

Adjusted EBITDA **increased 22%** year-over-year

Increased R&D spending by nearly **\$100 million** compared to 2009

Anda Distribution was **a significant contributor** to overall Company profitability

**Over 120** generic applications on file in the U.S. and a significant number of applications filed in approximately 20 countries

Announced the filing of **17 new patent challenge products** including gx Lidoderm®

**Launched 3 new brand products** in key therapeutic areas of Urology and Women's Health during 2010: Trelstar® 22.5mg, ella® and Crinone®

**Licensed first biologic product** – recombinant Follicle-Stimulating Hormone (rFSH)

**Expanded into Brazil and Mexico** through our agreement with Moksha8

Signed an agreement with Ortho-McNeil-Janssen to **launch authorized generic version of CONCERTA®** in May 2011

## 2010 Summary of Operating Results\*

Twelve months ended December 31,

(In millions, except per share amounts)

### Summary of Operations

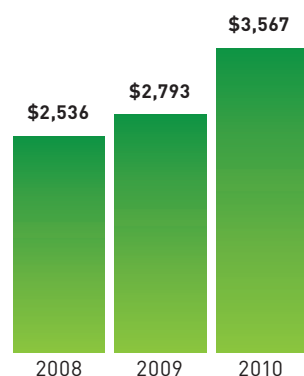
	2010	2009	2008
Net revenue	\$ 3,567	\$ 2,793	\$ 2,536
Operating income	\$ 305	\$ 384	\$ 358
Net income	\$ 184	\$ 222	\$ 238
GAAP earnings per share (diluted)	\$ 1.48	\$ 1.96	\$ 2.09
Weighted average shares outstanding (diluted)	124	116	118

### Financial Position

Cash and marketable securities	\$ 294	\$ 215	\$ 521
Total assets	\$ 5,827	\$ 5,904	\$ 3,678
Total debt	\$ 1,016	\$ 1,458	\$ 878
Total stockholder's equity	\$ 3,283	\$ 3,023	\$ 2,109
Cash from operations	\$ 571	\$ 377	\$ 417

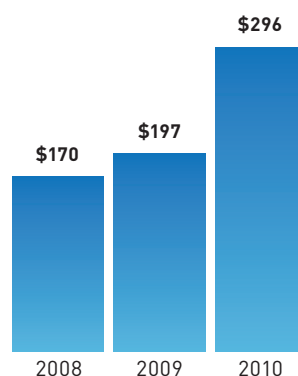
### Net Revenue

(In millions)



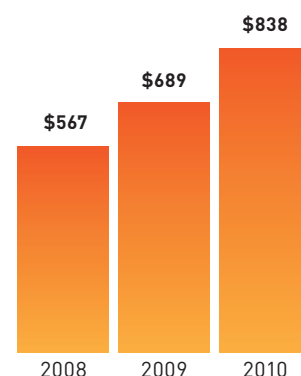
### R&D Investment

(In millions)



### Adjusted EBITDA

(In millions)



\* Please refer to the reconciliation tables on page 20.

Fellow Shareholders, Employees  
and Industry Colleagues:



## At Watson,

2010 was a year of exceptional achievements. We built on the capabilities that transformed us from a U.S.-centric to a global player in 2009, and took many steps to maximize the physical and intellectual assets that comprise our expanded, integrated pharmaceutical company.

Powered by double-digit sales and earnings growth, we continued to:

- invest in expanding our Global Generics and Global Brands product portfolios and pipelines;
- integrate effectively our international Global Operations capabilities; and
- accelerate repayment of our debt obligations to ensure that Watson can capitalize on opportunities to invest in future growth.

We have implemented strategies to further expand our Global Generics commercial position through internal growth and acquisitions; to build our Global Brands to an enviable billion dollar position within the next five years; and to accelerate our ability to manufacture and launch generic, brand and ultimately biologic products across global markets to support sustainable growth through the middle of this decade and beyond.

### Strong 2010 Financial Results

For the full year 2010, net revenue increased 28% to \$3.6 billion, compared to net revenue of \$2.8 billion for full year 2009. On a non-GAAP basis, net income increased 22% to \$425.4 million, or \$3.42 per share for the full year 2010. This compares to 2009 net income of \$354.3 million, or \$3.04 per share.

During 2010, we continued to successfully integrate our assets in key international markets, invested in the new and exciting high growth markets of Brazil and Mexico through our joint venture with Moksha8, and continued to report substantial achievements in our global supply chain through our expanded Global Operational Excellence Initiative.

We repaid over \$450 million in debt during 2010, eliminating debt obligations for 2011, and generated over \$570 million in cash from operations, giving us the flexibility to continue to invest in our businesses.

### Management Structured for Global Success

During the year, we were pleased to recruit Sigurdur Oli Olafsson to the position of Executive Vice President, Global Generics. Siggí joined us from Actavis Group, where he had been Chief Executive Officer. He succeeded Thomas R. Russillo who retired at the end of 2010. We are delighted to have an executive with Siggí's global experience join our team. Siggí is shaping the strategies built on the foundation that Tom and his team established, as well as identifying opportunities that will enable Watson to leap to the next level of global competition.

In August, I was pleased to announce the promotion of Robert Stewart from Senior Vice President of Global Operations to Executive Vice President, appropriately recognizing that Global Operations is the third pillar of our global business structure.

In addition to recognizing Bob's leadership in integrating the assets, technologies and resources acquired from Arrow and in continuing to maximize the potential of our global supply

chain, Bob assumed additional responsibilities for leading our Global Generics Research and Development function.

In early March 2011, we were pleased to announce the promotion of David A. Buchen to Executive Vice President, General Counsel and Secretary, and R. Todd Joyce to Executive Vice President, Chief Financial Officer. Both promotions were well deserved and reflect the importance of these functions and the role of these two leaders in our global expansion and in our continued success.

### Global Generics Highlights

We reported solid achievements across our Global Generics business during 2010. Global Generics net revenue increased 40% to \$2.34 billion, with revenues from product sales driven by increased sales of extended-release products, oral contraceptives and the launch of new products. International net revenues for 2010 were \$472 million. We increased our Global Generics adjusted gross margin to 49.9% in 2010.

We invested approximately \$195 million in 2010 in research and development of new generic products. Our product development activities resulted in the submission of over 30 Abbreviated New Drug Applications (ANDAs) in the U.S. and more than 145 applications globally. At year-end, we had more than 120 ANDAs on file in the U.S. and a significant number of applications on file internationally. During the year, we launched 7 products in the U.S., our largest market, and disclosed 17 new U.S. patent challenges. Outside of the U.S., we received approximately 115 product approvals during the year.

Close coordination between R&D and operations is critical and, during the year, Global Generics Research and Development was integrated into the Global Operations organization, ensuring that the process from product development to approval and distribution is seamless and efficient. In November 2010, we created a new Global Strategic Operations function with the goal of accelerating the execution of product launches for both internally-manufactured and in-licensed products across global markets.

### Global Brands Highlights

Net revenue for our Global Brands segment was \$397.8 million for the year, and our adjusted gross margin for the full year 2010 was 77.8%. Behind these results was a year of extraordinary accomplishments.

Our Global Brands team launched three new products in the U.S. in 2010: a 6-month formulation of Trelstar® for prostate cancer treatment, ella®, an emergency contraceptive and Crinone® for infertility and secondary amenorrhea, acquired from Columbia Laboratories, Inc. In December, the U.S. FDA approved a new oral contraceptive that we plan to launch during the second quarter 2011. Additionally, in 2010 we announced initiation of our first biologic development candidate, recombinant Follicle-Stimulating Hormone or rFSH, which we licensed from Itero Biopharmaceuticals.

Perhaps the most exciting development, which will continue during 2011, was related to Prochieve® 8% for prevention of preterm birth in women with a short cervix. Working closely with our partner Columbia Laboratories, we announced the completion of the Phase III PREGNANT clinical study in December. The results were statistically significant for reduction of preterm birth at multiple time points in the study. There was also evidence of improvement in infant outcomes and the side effect rates were low. Columbia plans to file a New Drug Application (NDA) in the second quarter of 2011, and if accelerated review is granted by FDA, the product could be approved for use in the United States in the fourth quarter of 2011.





During the year, we invested approximately \$102 million in research and development for Global Brands and executed several business development initiatives to strengthen our pipeline. At present, our Global Brands team has nearly a dozen products in various stages of clinical development for the U.S. and other key markets.

### Global Operations Highlights

Our Global Operations team includes not only our global supply chain network (R&D, manufacturing and distribution facilities) but also our Anda Distribution business. Net revenues for Anda in 2010 increased 25% to \$830.7 million. This compares to net revenue of \$663.8 million in 2009.

We continue to maximize the global supply chain through a variety of initiatives, including the consolidation of facilities and capacity expansion in lower cost and tax favorable locations. During 2010 we completed the previously announced

closure of our Carmel, NY facility on schedule. We also announced plans to close our Australian R&D facility and our Toronto R&D and manufacturing facilities. More recently, we announced plans to phase-out and ultimately end generic R&D activities at our Corona,

CA, facility by the end of 2011. R&D at the site will be reassigned to our other global R&D sites.

We are committed to delivering the highest quality products, and continue to make significant investments in quality systems and facilities. Integrating R&D with operations allows us to effectively scale-up our development program and build applications with the mindset of Quality by Design.

During 2010, we transitioned our successful Global Supply Chain Initiative into a Global Operational Excellence Initiative, designed to continue to reduce costs and increase efficiencies. The results of these initiatives were evident in the reduction of inventories, continuous improvement

in customer service and gross-margin expansion. The results of the Global Operational Excellence Initiative, which include the Global Supply Chain Initiative of the past several years, continue to be demonstrated in reductions in plant conversion costs and total cost of goods produced.

### Significant U.S. Opportunities in 2011

In addition to continuing to drive for organic growth across our global businesses, our 2011 performance will benefit from two significant commercial opportunities in the U.S. In November, we entered into an agreement with Ortho-McNeil-Janssen Pharmaceuticals, Inc., to market the authorized generic version of CONCERTA® (methylphenidate hydrochloride extended-release tablets) on May 1, 2011. CONCERTA, which had 2010 sales of approximately \$1.4 billion, according to IMS Health data, is indicated for the treatment of attention deficit hyperactivity disorder (ADHD). This agreement ensures that consumers will benefit from a high quality, cost-effective product beginning in May 2011, removing any uncertainty of when a generic product could be approved.

When we acquired the Arrow Group in 2009, we also acquired interest in all of Arrow's pipeline products, including the exclusive rights to launch an authorized generic version of the blockbuster cholesterol drug Lipitor® (atorvastatin calcium) on or before November of 2011. At the end of 2010, U.S. sales of Lipitor were approximately \$7.2 billion according to IMS. Regardless of competitive landscape, we anticipate that this will be an opportunity for Watson.

### Meeting the Challenges of a Global Marketplace

As an integrated global pharmaceutical company, Watson faces many regulatory, governmental and competitive issues. In the United States, the generic pharmaceutical industry enters 2011 focused on promoting the increased utilization of generic medicines to help lower America's health care bill. We are also focused on ensuring that

...we have a strong pipeline;  
an industry leading  
operational organization  
and supply chain; and  
an exceptional management  
team with engaged  
and energized employees  
around the globe.

legislative or regulatory actions do not diminish the pro-consumer and pro-competitive aspects of patent challenge settlements, and we are committed to supporting an industry-wide, holistic approach to generic drug user fees that will provide the U.S. Food and Drug Administration with resources necessary to review generic product applications in a timely manner. We are also working with industry and regulators to ensure that the development of a regulatory approval process for biogeneric products provides a level playing field with defined processes for application submission and approval.

Outside of the United States, we must also be vigilant of changing pricing dynamics and governmental intervention and regulatory activities. We are focused on developing high-value products and commercializing them as rapidly as possible to capitalize on market opportunities, while having the best possible cost of goods structure to ensure our competitiveness. In addition, we are constantly evaluating opportunities to strengthen our presence in key markets, and expand into new and emerging markets where we can drive growth.

### **Watson in 2011 and Beyond**

In January of this year, we outlined our growth objectives for Wall Street and investors. Excluding potential business development opportunities that may arise, we expect to achieve solid earnings per share growth in 2011.

To achieve our growth objectives in 2011 and beyond, our priorities are clear. We must:

- maintain our strong financial performance;
- execute on the Global Generics, Global Brands and Biologic strategies;
- maximize the potential of our R&D capabilities by continuing to focus on high value product opportunities and accelerating our speed to market; and
- pursue appropriate business development activities, including mergers and acquisitions and in-licensing opportunities that expand our global commercial presence, bring us new products and technologies, and complement our organic growth.



Paul M. Bisaro, with from left:

Sigurdur Oli Olafsson, Executive Vice President, Global Generics

G. Frederick Wilkinson, Executive Vice President, Global Brands

Robert A. Stewart, Executive Vice President, Global Operations

I am confident in our ability to deliver on our commitments because we have a strong pipeline; an industry-leading operational organization and supply chain; and an exceptional management team with an engaged and energized employee base around the globe. We have recorded many achievements in 2010, and I want to thank all Watson employees for their individual and team contributions to our results. I also want to thank our shareholders for their continued confidence in our ability to deliver on our commitments and thank our Board of Directors for their support of our management team and our strategies.

We are committed to building on our development and commercial strengths, maximizing our ability to invest in opportunities, and recruiting and retaining the best talent in the pharmaceutical industry. I am confident Watson will continue to excel in 2011 and beyond.

Paul M. Bisaro  
President and CEO

# Global Generics



Having established a global footprint in 2009 with the acquisition of the Arrow Group, Watson's Global Generics division focused on maintaining a leading position within the U.S. generics market, growing existing markets and expanding into new and emerging markets during 2010.

With 2010 revenue of \$2.34 billion, approximately 80% was generated by the U.S. business, with approximately 20% generated internationally. Outside the U.S., the Global Generics division focuses on key markets including Canada, the United Kingdom and France, as well as Latin America and Asia/Pacific. Of total international generics revenue, approximately 59% came from Europe; 19% from

Canada; 20% from operations in Asia/Pacific and South Africa; and approximately 2% from other markets.

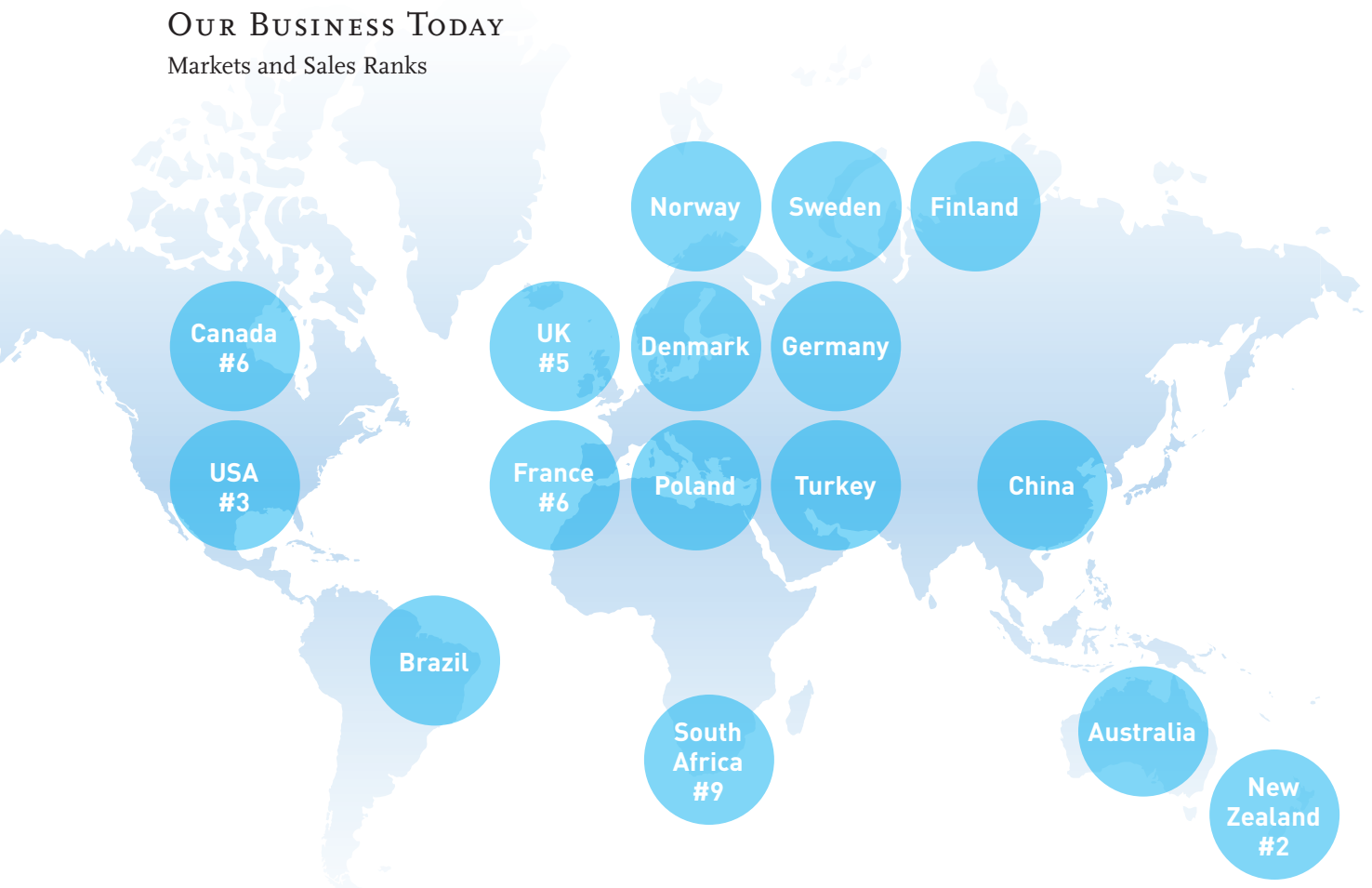
## Competing in Global Markets

### North America

Watson is the third largest generic company in the U.S., based on number of prescriptions dispensed, with a portfolio of more than 160 generic pharmaceutical product families. Watson's U.S. generic business holds an approximate 7.5% market share and in 2010 approximately 57 of the product families held the number one position in the market and 54 products held the number two position. The Company's business saw overall growth both in dollars and units during the year.

## OUR BUSINESS TODAY

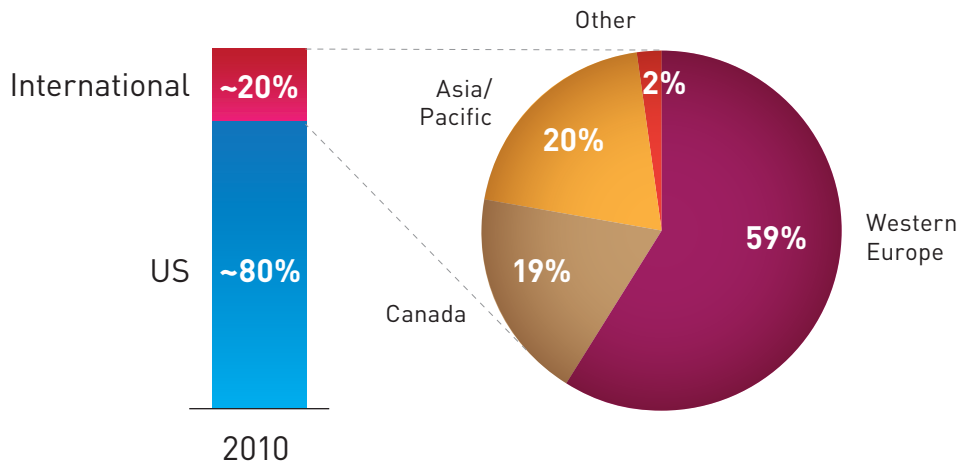
Markets and Sales Ranks







## 2010 GLOBAL GENERICS REVENUES OF ~\$2.34 BILLION



*Western Europe is the largest component of our international business*

Watson currently has a leading U.S. market position in generic oral contraceptives with over 25 products and a 36% market share. The Company's top five oral contraceptives include NextChoice™, Microgestin®, TriNessa®, Necon® and Lutera®. Key oral contraceptive products in the pipeline including generic versions of Yaz®, Seasonique®, LoSeasonique® and Tri-Cyclen Lo®.

Watson operates in Canada as Cobalt Pharmaceuticals where it actively markets 54 products through approximately 40 sales representatives who promote products to pharmacies. Cobalt anticipates launching approximately 5 new products in Canada by the end of 2011. Cobalt ranks sixth in the marketplace.

### Europe

The Company has approximately 350 products commercialized across the European Union and Eastern Europe.

Operating as Arrow Generics, Watson currently markets approximately 100 different products in the \$3.6 billion U.K. generics market and anticipates launching approximately 15 new products in 2011. Ranked number five, the Company

increased volume by approximately 30% in 2010 compared to the prior year.

Arrow Generics competes in the \$3.5 billion French generics market with approximately 138 different products sold by more than 65 sales representatives calling on the individual pharmacies. France is a branded generics market where substitution at the pharmacy level is limited.

Watson's operations in other European countries represent platforms for additional growth supported by a strong and expanding pipeline of products. To strengthen its overall commercial presence, the Company appointed a new management team for its European operations with extensive international experience, and named new general managers for its U.K. and France operations.

The Company has operations in the Nordics, including Sweden and Denmark. In Germany, the Company competes in the tender business.



United States



Canada



France



United Kingdom





During the year, Watson established an office in Finland, and increased its sales presence and is aggressively registering products in Poland. Turkey is another market with significant potential, and Watson is building a commercial presence in anticipation of a number of product approvals during 2011. Opportunities to expand into select markets in Eastern Europe are also being actively pursued.

### Asia/Pacific

Watson's Global Generics footprint in the Asia/Pacific region includes operations in New Zealand, Australia and South Africa.

In Australia, products are marketed through Sigma Pharmaceuticals, which was acquired in 2010 by Aspen Pharmaceuticals. Watson is exploring opportunities to establish its own commercial business in Australia to support the strong pipeline of products in development, including products from its U.S. portfolio.

Watson is the second largest pharmaceutical company in New Zealand and continues to focus on increasing its presence in this established and profitable market.

In South Africa, Watson's subsidiary Scriptpharm holds the number nine position with a business that focuses on the managed health market. The company anticipates launching a significant number of new products in South Africa during 2011 and further expanding its commercial presence.

### Latin America

In Latin America, Watson operates a manufacturing and commercial business in Brazil. The Brazilian market includes brand products, branded generics and unbranded generics. Watson's business currently competes in the unbranded market with tender products. The venture announced in 2010 with Moksha8 will enable Watson to compete in the branded generic and brand markets, and expand its reach into Mexico.

## Research and Development Drives Growth

During 2010, the Global Generics business invested approximately \$195 million in generic R&D with approximately 41% of that investment supporting the international business. Going forward, the Company is focusing its R&D investment on balancing the development of products for global markets.

In defining its pipeline, the Company reviews approximately 300 to 400 product opportunities annually, selecting a portfolio that permits it to maximize value for customers and shareholders. The Company continues to pursue products with significant barriers to



entry, including patent challenges, as well as inhalation, gel and topical products in addition to traditional and complex oral solid dosage products.

Growth in the Global Generics business will be driven by its solid pipeline and one of the industry's leading global supply chains. The Company's long-term goal is to be among the top five players in key markets and expand its global footprint into additional markets across Europe, Latin America and Asia/Pacific. ●



Australia



New Zealand



Brazil

# Global Brands

Watson's Global Brands business continued to gain momentum in 2010, growing sales of currently marketed products while launching three new products in its Urology and Women's Health portfolios. The Global Brands business also made significant progress in expanding its pipeline; took steps to extend its commercial position internationally; and initiated its first development project in biologics.

With approximately 30 brand products, the Global Brands sales force focuses on products that are marketed to urologists, gynecologists, targeted primary care physicians and certain institutions including clinics and hospitals. As 2010 began, the business actively promoted RAPAFLO®, Gelnique®, Trelstar®, and INFeD®, as well as copromoted AndroGel® on behalf of Abbott Laboratories and Femring® on behalf of Warner Chilcott Ltd.



## 2010 Portfolio Expansion

In the spring, Global Brands launched TRELSTAR® 22.5 mg (triptorelin pamoate for injectable suspension), a six-month formulation of TRELSTAR, a proven, simple and effective palliative treatment of advanced prostate cancer.

In July, Watson completed the acquisition of the U.S. rights to Columbia Laboratories, Inc.'s progesterone gel assets and began marketing Crinone® in the U.S. to reproductive endocrinologists and Ob/Gyns. Crinone is currently used for progesterone supplementation or replacement as part of an Assisted Reproductive Technology (ART) treatment for infertile women with a progesterone deficiency and secondary amenorrhea. Competing in a marketplace of approximately \$60 million in annual sales, studies have demonstrated an overwhelming preference by patients to use a self-administered daily gel as opposed to painful weekly or daily injections. Watson is focused on growing to a leadership position in the vaginal progesterone gel category.

In August, the U.S. FDA approved the prescription-only ella® (ulipristal acetate), 30 mg novel oral emergency contraceptive, which Watson is distributing under an agreement with HRA Pharma.

Although Watson's sales team will begin marketing ella to physicians and healthcare providers in mid 2011, stocking efforts ensured the product was available in December at most retail pharmacies, clinics, as well as online through [www.KwikMed.com](http://www.KwikMed.com), a licensed online pharmacy.

## Expanding Our Brand Pipeline

As part of the acquisition of the progesterone gel products from Columbia, Watson also acquired Prochieve 8% progesterone vaginal gel currently in late-stage clinical development for the prevention of preterm birth in women with a short cervix. In the United States, preterm birth is a significant medical need, with more than \$26 billion spent annually on infant prematurity.

## KEY UROLOGY PRODUCTS

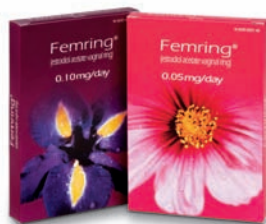








## KEY WOMEN'S HEALTH PRODUCTS



Preterm birth occurs in one of every eight live births, and short cervix is an important predictor of preterm birth.

In December, positive top-line results from the Phase III PREGNANT (PROCHIEVE Extending Gestation A New Therapy) Study were announced. The administration of Prochieve 8% vaginal progesterone gel demonstrated a statistically significant reduction in the rate of preterm birth at less than or equal to 32 6/7 weeks gestation, the primary endpoint of the study, compared to placebo gel. There was also evidence of improvement in infant outcomes. The Watson and Columbia teams are working to file the NDA in second quarter of 2011.

In addition to Prochieve, the Global Brands division has approximately a dozen key products in various stages of development, with three products in the Women's Health category; four products in Urology; three contraceptives; and one biopharmaceutical at the preclinical development phase.

The Company has an application pending for a new second generation of the Androderm® testosterone product, which has a targeted FDA action date in the third quarter of 2011.



The Global Brands business has three products in Phase III, including a new version of its Gelnique therapy, a progestin-only contraceptive patch product, and a vaginal ring contraceptive product.

In December, the Company announced that it had entered into an exclusive licensing agreement with



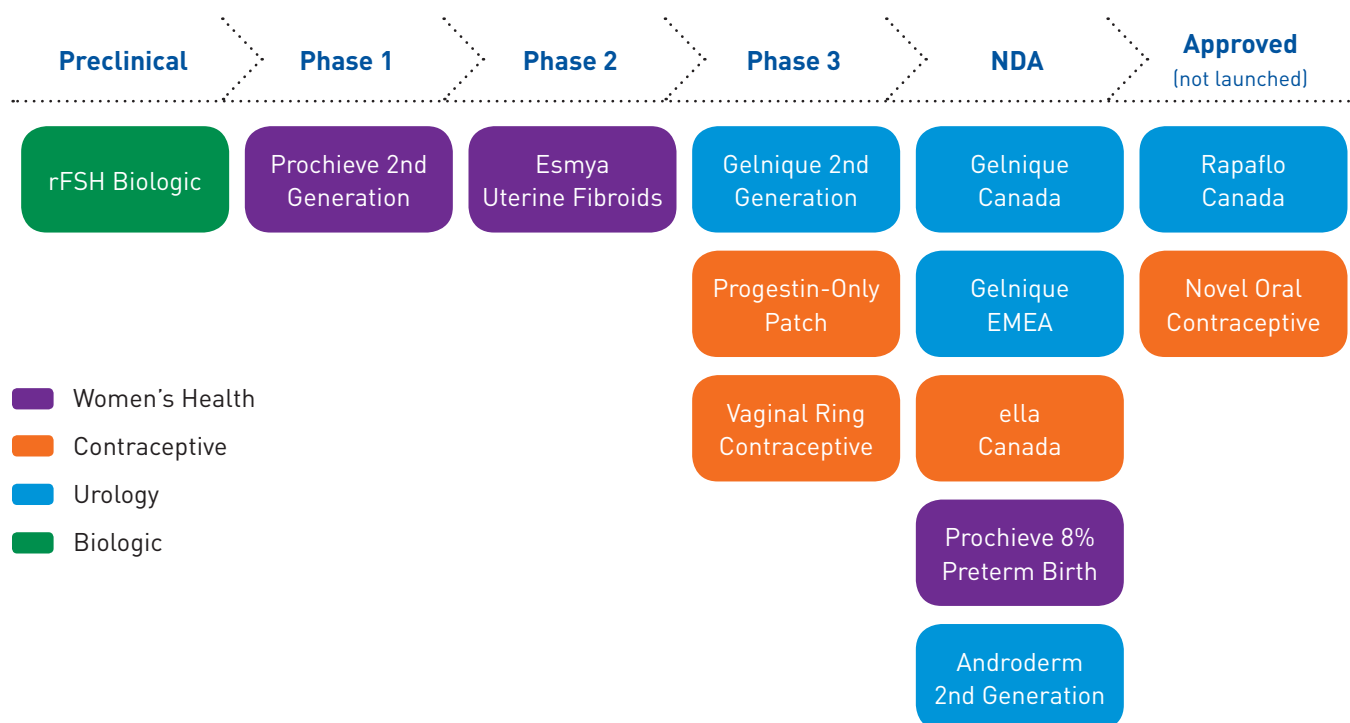
Gedeon Richter Plc to develop and market Esmya™ (ulipristal acetate) in the U.S. and Canada. In European studies, Esmya has been shown to be an effective and safe treatment for uterine fibroids (myoma), a condition that affects millions of women worldwide. The product is currently in late-stage development in Europe and Watson expects to initiate U.S. Phase III clinical studies in 2011.

### Expanding Our Biologics Presence

Early in 2010, Watson completed the acquisition of Eden Biodesign, based in Liverpool, England. A biopharmaceutical development company, 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.

Watson's biopharmaceuticals strategy, which is managed as part of the Global Brands business, will be focused on product development that matches Eden's capacities and capabilities which include high potency, low volume monoclonals, small volume recombinant products, as well as select vaccines.

## GLOBAL BRANDS R&D PIPELINE



In July, Watson announced an exclusive, worldwide licensing agreement with Itero Biopharmaceuticals, Inc., to develop and commercialize Itero's recombinant Follicle-Stimulating Hormone (rFSH), which is currently in preclinical development as a biosimilar molecule for the treatment of female infertility. At year-end, the parties had completed the majority of the technology transfer to Eden and had established a clinical development program for global registration of the product.

### Expanding Internationally

The Global Brands business accelerated its plans to expand beyond the U.S. in 2010.

Focusing on expansion into Canada, Global Brands filed applications for its RAPAFLO product in Canada with an anticipated launch in mid-2011, an application for Gelnique in February and an application for the emergency contraceptive ella late in 2010, with potential launch in 2012.

An application for the Gelnique product for European Union markets was filed in mid-year, with action on that

application expected in mid-2011. Efforts to expand the Company's presence in Brazil and Mexico culminated in an agreement with Moksha 8, based in São Paulo, Brazil. Watson will manufacture and supply select products to Moksha8, which will have exclusive rights to sell and distribute these products in Brazil and Mexico. Watson has a significant minority ownership position in Moksha8.

For 2011, the Global Brands division will continue to pursue additional products to expand in its key therapeutic areas of Women's Health and Urology and strengthen its global presence internationally. •









# Global Operations

Optimizing Watson's expanded global supply chain assets; implementing organizational strategies to more fully integrate product development, manufacturing and distribution; and enhancing customer service while reducing costs and inventories were among the key achievements for the Company's Global Operations team in 2010.

## Optimizing Global Assets

The engine that supports Watson's Global Generics and Global Brands businesses is its best-in-class, global supply chain. During 2010, the Company manufactured



many of its own finished products at plants in Corona, California; Davie, Florida; Goa, India; Birzebbuga, Malta; Mississauga, Canada; Rio de Janeiro, Brazil; Copiague, New York and Salt Lake City, Utah.

During the year, the Global Operations team completed the previously announced closing of its Carmel, New York, site and announced plans to cease manufacturing at its Toronto facility in 2012, initiating programs to transfer products to other facilities including Malta and Goa, India. The Company also invested in the expansion of other key production assets, particularly in Malta, Goa and Salt Lake City. Expansion in Malta will result in doubling the capacity to approximately three billion doses annually, and expansion at Watson's Goa facilities will



increase capacity to approximately six billion doses per year. In addition, plans call for enhancing the Goa plant for production of sustained-release products.

At Watson's Salt Lake City facility, which supports hydrogel and transdermal patch products, the Company is planning for expansion that will support the introduction of the generic version of the Lidoderm® transdermal pain management product.

## Optimizing R&D and Commercialization

During 2010, the Company conducted research and development in Corona, California; Davie and Weston, Florida; Copiague, New York; Salt Lake City, Utah; Ambernath and Mumbai, India; Mississauga, Canada and Melbourne, Australia. In March 2010, the Company announced plans to close R&D facilities in Melbourne, Australia and Mississauga, Canada. The transfer of development activities from Melbourne to other R&D sites was completed in the first quarter of 2011. In January 2011, the Company also announced plans to close R&D facilities in Corona, California by the end of 2011.



## OUR OPERATIONS NETWORK



*Salt Lake City, UT*

*Corona, CA*



*Birzebbuga, Malta*

*Davie, FL*



*Ambernath, India*

*Goa, India*







Close coordination between R&D and operations is critical to accelerating speed to market and during the year Global Generics Research and Development was integrated into the Global Operations organization. This will help ensure that product development, approval and distribution is seamless and efficient.

### **Sustainability Initiative**

Watson is committed to good stewardship of the environment and implemented a number of sustainability initiatives at all of its locations. The efforts are focused on reducing waste and carbon emissions by using recycled materials, reducing solvent use, and making investments in alternative energy and energy conservation projects.

### **API and Clinical Assets**

Watson is also well-positioned in the development of Active Pharmaceutical Ingredients (APIs) to support current product development activities. The

Company's principal API asset, the Ambernath, India facility, is focused on hard-to-manufacture niche APIs that use more complicated chemical synthesis. This asset also provides important intellectual property development capabilities that can be leveraged with API supplier partners.

Also located in India is the Company's clinical research organization (CRO), which conducts biostudies to support generic drug applications for the U.S. and other markets. In late 2010, the Company completed a major expansion of the CRO to approximately 108 beds with the ability to dose 3,600 subjects per year. The facility could potentially support clinical endpoint testing and studies that may ultimately be required for more complex products in the Company's future, such as dermatology, respiratory and biologic products.

### **Anda Distribution**

A unique asset within Watson's Global Supply Chain is the Anda Distribution division. Headquartered in Florida, Anda is the fourth largest distributor of generic products in the United States. Watson is the only U.S. pharmaceutical company that has meaningful distribution operations with direct access to independent pharmacies.

Anda's success is supported by three critical elements that enable it to effectively compete in the distribution market, and therefore optimize market share. These elements are competitive pricing; responsive customer service that includes, among other things, next day delivery to the entire U.S.; and well





established telemarketing relationships with customers, supplemented by Anda's electronic ordering capabilities.

Anda primarily distributes generic and select brand pharmaceutical products, vaccines, injectables and over-the-counter medicines from more than 200 suppliers to more than 65,000 ship-to locations, including physician accounts, independent pharmacies, and chain locations. Anda also distributes products to alternate care providers (hospitals, nursing homes and mail order pharmacies) and specializes in the distribution of controlled substances. Anda has the ability to deliver launch quantities of products to more than 35,000 store locations within a single day.

Anda's distribution is supported by an exceptional inside sales force and a regional and national accounts support function. The inside tele-sales force includes approximately 180 tele-sales representatives. This team can make more than 18,000 sales calls every day.

## Global Operational Excellence

During 2010, the Company transitioned its proven Global Supply Chain Initiative into a Global Operational Excellence Initiative, designed to continue to reduce costs and increase efficiencies in the internal supply chain, as well as accelerate realization of efficiencies with suppliers of raw materials and third-party manufactured or in-licensed products.

Throughout the year, Global Operations continued to focus on reduction of inventory levels by approximately 10% as the result of better decisions around inventory investments, as well as improved synchronization between supply and demand. ●

# CFO Report



Watson had solid financial performance in 2010, with the Global Generics, Global Brands and Distribution businesses all performing well during the year. Total Net Revenues grew by 28% and non-GAAP earnings and Adjusted EBITDA grew 22%.

The growth was supported by Watson's Global Supply Chain Initiative resulting in manufacturing cost savings through plant consolidation in the United States and expansion of manufacturing capacity offshore. These initiatives produced sustainable improvement in the gross profit contribution for the Company's Global Generics business and helped fund increased investment in R&D for both its Global Brands and Global Generics businesses.

R&D spending has increased nearly \$100 million as Watson continued to invest heavily in the strengthening of its Global Generics and Global Brands pipeline. As a result, the Company has experienced a significant increase in the value of these pipelines throughout the year. Additionally, Watson generated

strong cash flow from operations which was used to pay down over \$450 million in debt obligations.

Watson concluded 2010 with over \$290 million of cash and marketable securities, an undrawn revolving credit facility of \$500 million and just over \$1 billion in long-term debt outstanding. As a result of the commitment to delevering quickly following an acquisition, the Company's leverage ratio declined to 1.2 times, debt to capital ratio was 23.6% and the year ended with no debt maturities for 2011. Watson's balance sheet provides the company with tremendous flexibility as it looks to invest in global growth.

A handwritten signature in black ink, appearing to read 'R. Todd Joyce'.

R. Todd Joyce  
Executive Vice President and  
Chief Financial Officer



## Adjusted EBITDA

Twelve months ended December 31,	2010	2009	2008
(in millions)			
GAAP net income	\$184.4	\$222.0	\$238.4
Plus:			
Interest expense	84.1	34.2	28.2
Interest income	(1.6)	(5.0)	(9.1)
Provision for income taxes	67.3	140.6	119.9
Depreciation (2008 includes accelerated depreciation)	101.9	96.4	90.1
Amortization	180.0	92.6	80.7
EBITDA	616.1	580.8	548.2
Adjusted for:			
Global supply chain initiative	29.7	25.2	23.0
Acquisition and licensing charges	28.5	34.2	6.5
Loss on asset sales and impairment	32.6	2.2	0.3
Loss (gain) on sale of assets	(25.6)	1.1	(9.6)
Favorable settlement of tax related liability	—	—	(5.9)
Loss on early extinguishment of debt	0.5	2.0	1.1
Legal settlements	132.9	24.7	(15.0)
Share-based compensation	23.5	19.1	18.5
Adjusted EBITDA	\$838.2	\$689.3	\$567.1

## Non-GAAP Net Income

Twelve months ended December 31,	2010	2009	2008
(in millions)			
<b>GAAP to Non-GAAP net income calculation</b>			
Reported GAAP net income	\$184.4	\$222.0	\$238.4
Adjusted for:			
Global supply chain initiative	41.5	32.5	30.4
Acquisition and licensing charges	58.4	36.4	6.5
(Loss) gain on securities and impairment	(25.6)	1.1	(9.6)
Loss on asset sales and impairment	32.6	2.2	0.3
Favorable settlement of tax related liability	-	-	(5.9)
Loss on early extinguishment of debt	0.5	2.0	1.1
Legal settlements	132.9	24.7	(15.0)
Amortization	180.0	92.6	80.7
Income taxes	(179.3)	(64.7)	(44.6)
Non-GAAP net income	425.4	348.8	282.3
Add: Interest expense on CODES, net of tax	—	5.5	7.9
Non-GAAP net income, adjusted for interest on CODES	\$425.4	\$354.3	\$290.2
<b>Diluted earnings per share</b>			
Diluted earnings per share – GAAP	\$1.48	\$1.96	\$2.09
Diluted earnings per share – Non-GAAP	\$3.42	\$3.04	\$2.47
Basic weighted average common shares outstanding	122.4	105.0	102.8
Effect of dilutive securities:			
Conversion of CODES	—	10.1	14.4
Dilutive share-based compensation arrangements	1.8	1.2	0.5
Diluted weighted average common shares outstanding	124.2	116.4	117.7



## Management Team

### Board of Directors

**Paul M. Bisaro**  
President and  
Chief Executive Officer

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

**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.  
Partner, Affordable Residential  
Communities

**Catherine M. Klema**  
President, Nettleton Advisors LLC

**Jack Michelson**  
Retired Corporate Vice President  
And President, Technical  
Operations, G.D. Searle

**Anthony Tabatznick**  
Co-Founder Arrow Group and  
Director, Robin Hood Holdings

**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

**Sigurdur Oli Olafsson**  
Executive Vice President,  
Global Generics

**G. Frederick Wilkinson**  
Executive Vice President,  
Global Brands

**Robert A. Stewart**  
Executive Vice President,  
Global Operations

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

**R. Todd Joyce**  
Executive Vice President and  
Chief Financial Officer

**David A. Buchen**  
Executive Vice President,  
General Counsel and Secretary

**Charles M. Mayr**  
Senior Vice President,  
Corporate Affairs

## Corporate Information

### Corporate Headquarters

Morris Corporate Center III  
400 Interpace Parkway  
Parsippany, NJ 07054

### 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  
Corporate Headquarters.  
E-mail: [info@watson.com](mailto: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](http://www.amstock.com)

### Annual Meeting of Stockholders

The Annual Meeting of  
Stockholders of Watson  
Pharmaceuticals, Inc.  
will be held at the  
Sheraton Parsippany Hotel  
on Friday, May 13, 2011  
at 9:00 a.m.

### Press Release Information

Press releases and other informa-  
tion are available on Watson's  
web site at [www.watson.com](http://www.watson.com)

### Additional Information

Watson files periodic reports  
with the Securities and Exchange  
Commission that contain ad-  
ditional information about the  
company, including Watson  
Pharmaceuticals, Inc.'s An-  
nual 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](http://www.watson.com)  
within the Investors section,  
or at [www.sec.gov](http://www.sec.gov), or upon written  
request to Investor Relations at the  
Corporate Headquarters address.  
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 Pharma-  
ceuticals, Inc. trademarks appear  
in this report: Androderm, ella,  
Crinone, Gelnique, INFeD,  
Prochieve, RAPAFLO, Trelstar.  
All other trademarks are the prop-  
erty of their registered owners.

## Forward-Looking Statement

Any statement contained in this report that refers to Watson's estimated or anticipated future results, product development efforts, regulatory strategies, strategic initiatives, product launches, prospects for regulatory approval of its products or other non-historical facts are forward-looking statements that reflect Watson's current analysis of existing trends and information. Watson disclaims any intent or obligation to update these forward-looking statements. Watson disclaims any intent or obligation to update these statements. Actual results may differ materially from current expectations depending upon a number of factors affecting Watson's business or estimates. These factors include, among others, the inherent uncertainty associated

with financial estimates; variability of revenue mix between the Company's Brand, Generic and Distribution business units; periodic dependence on a small number of products for a material source of net revenue or income; variability of trade buying patterns; changes in generally accepted accounting principles; risks that the carrying values of assets may be negatively impacted by future events and circumstances; the inherent uncertainty associated with financial projections; timely and successful implementation of strategic initiatives; successful integration of strategic transactions; the difficulty of predicting the timing or outcome of product development efforts and FDA or other regulatory agency approvals or actions, if any; successful compliance with FDA and other governmental regulations applicable to Watson and its third party manufacturer's facilities, prod-

ucts and businesses; market acceptance of and continued demand for Watson's products; the impact of competitive products and pricing; fluctuations in foreign currency exchange rates; the availability and pricing of third party sourced products and materials; uncertainties related to the timing and outcome of litigation; changes in laws and regulations, including Medicare and Medicaid and similar laws in foreign countries affecting, among other things, pricing and reimbursement of pharmaceutical products; and such other risks and uncertainties detailed in Watson's Annual Report on Form 10-K for the year ending December 31, 2010, and other company filings with the Securities and Exchange Commission.



# Watson Pharmaceuticals

Morris Corporate Center III  
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Parsippany, NJ 07054

[www.watson.com](http://www.watson.com)

