

ENDO PHARMACEUTICALS HOLDINGS INC
Form DEF 14A
April 28, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

ENDO PHARMACEUTICALS HOLDINGS INC.

(Name of Registrant as Specified in Its Charter)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

100 Endo Blvd.

Chadds Ford, PA 19317

610.558.9800

www.endo.com

April 28, 2006

Dear Endo Pharmaceuticals Holdings Inc. Stockholder:

It is my pleasure to invite you to the Annual Meeting of Stockholders of Endo Pharmaceuticals Holdings Inc.

We will hold the Annual Meeting on Tuesday, May 30, 2006 at 2:00 p.m., local time, at our corporate headquarters located at 100 Endo Boulevard, Chadds Ford, Pennsylvania 19317. In addition to the formal items of business, we will report on our past performance and future prospects.

We hope you will attend the Annual Meeting in person. If you plan to do so, please bring the enclosed Stockholder Admission Ticket with you.

Your vote is important. Whether you plan to attend the meeting or not, we encourage you to read this Proxy Statement and vote your shares. Please sign, date and return the enclosed proxy card as soon as possible in the postage-paid envelope provided. You may revoke your proxy at any time before it is exercised as explained in this Proxy Statement.

Thank you for your continued interest in Endo Pharmaceuticals Holdings Inc., and we look forward to seeing you at the Annual Meeting.

Very truly yours,

CAROL A. AMMON

Chairman of the Board

April 28, 2006

This Proxy Statement and the accompanying proxy card are being mailed to stockholders on or about

April 28, 2006.

100 Endo Blvd.

Chadds Ford, PA 19317

610.558.9800

www.endo.com

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 30, 2006

Notice is hereby given that the 2006 Annual Meeting of Stockholders of Endo Pharmaceuticals Holdings Inc., a Delaware corporation (the Company), will be held on Tuesday, May 30, 2006 at 2:00 p.m., local time, at our corporate headquarters located at 100 Endo Boulevard, Chadds Ford, Pennsylvania 19317.

The purposes of the meeting are:

- (1) To elect eight directors, representing all of the members of the Board of Directors of the Company, to serve until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified;
- (2) To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006; and
- (3) To act upon such other matters as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only stockholders of record at the close of business on April 19, 2006 are entitled to notice of and to vote at the 2006 Annual Meeting and any adjournment thereof.

It is important that your shares be represented and voted at the Annual Meeting. Please vote by MARKING, SIGNING, DATING AND PROMPTLY RETURNING the enclosed proxy card as promptly as possible in the postage-paid envelope provided so that, whether you intend to be present at the Annual Meeting or not, your shares can be voted. Returning your proxy card will not limit your rights to attend or vote at the Annual Meeting.

By order of the Board of Directors,

CAROLINE B. MANOGUE

Secretary

Chadds Ford, Pennsylvania

April 28, 2006

ENDO PHARMACEUTICALS HOLDINGS INC.

100 Endo Boulevard

Chadds Ford, Pennsylvania 19317

PROXY STATEMENT

For the Annual Meeting of Stockholders to be held on May 30, 2006

GENERAL INFORMATION

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Endo Pharmaceuticals Holdings Inc. (Endo, the Company, we, or us), a Delaware corporation, of proxies to be voted at our 2006 Annual Meeting of Stockholders to be held on May 30, 2006, beginning at 2:00 p.m., Eastern Standard Time. The Meeting will be held at our corporate headquarters located at 100 Endo Boulevard, Chadds Ford, Pennsylvania 19317.

This Proxy Statement and the enclosed proxy card are being mailed to stockholders on or about April 28, 2006.

ANNUAL MEETING ADMISSION

A Stockholder Admission Ticket is attached to your proxy card if you hold shares directly in your name as a stockholder of record. If you plan to attend the Annual Meeting, please vote your proxy but keep the Stockholder Admission Ticket and bring it with you to the Annual Meeting.

If your shares are held beneficially in the name of a bank, broker or other holder of record and you plan to attend the Annual Meeting, you must present proof of your ownership of Endo stock, such as a bank or brokerage account statement, to be admitted to the Annual Meeting. If you would rather have a Stockholder Admission Ticket, you can obtain one in advance by mailing a written request, along with proof of your ownership of Endo stock, to:

Endo Investor Relations

100 Endo Boulevard

Chadds Ford, PA 19317

Stockholders also must present a form of personal identification in order to be admitted to the Annual Meeting.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Meeting.

STOCKHOLDERS ENTITLED TO VOTE

Holders of shares of Endo common stock at the close of business on April 19, 2006 (the record date), are entitled to receive this notice and to vote their shares at the Annual Meeting. As of that date, there were 132,964,275 shares of Endo common stock outstanding and entitled to vote.

Each share of common stock is entitled to one vote on each matter properly brought before the Annual Meeting. Your proxy card indicates the number of votes you have.

HOW TO VOTE IF YOU ARE A STOCKHOLDER OF RECORD

Your vote is important. Stockholders of record can vote by mail or by attending the Annual Meeting and voting by ballot as described below.

Vote by Mail

If you choose to vote by mail, simply mark your proxy card, date and sign it, and return it in the postage-paid envelope provided.

Voting at the Annual Meeting

Voting by mail will not limit your right to vote at the Annual Meeting if you decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Annual Meeting.

All shares that have been properly voted and not revoked will be voted at the Annual Meeting. If you sign and return your proxy card but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board of Directors.

GENERAL INFORMATION ON VOTING AND REQUIRED VOTE

You are entitled to cast one vote for each share of Endo common stock you own on the record date. Each proposal must be approved by a majority of shares entitled to vote and represented at the Annual Meeting in person or by proxy.

The presence of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, is necessary to constitute a quorum. Shares represented by a proxy marked `abstain` on any matter, or that provide that a vote be withheld with respect to the election of any one or more of the nominees for election as directors, will be considered present at the Annual Meeting for purposes of determining a quorum and for purposes of calculating the vote, but will not be considered to have voted in favor of the proposal or nominee. Therefore, any proxy marked `abstain` will have the effect of a vote against the proposal or nominee. Shares represented by a proxy as to which there is a `broker non-vote` (for example, where a broker does not have the discretionary authority to vote the shares), will be considered present for the Annual Meeting for purposes of determining a quorum, but will have no effect on the vote.

All shares of common stock that have been properly voted and not revoked, will be voted at the Annual Meeting in accordance with your instructions. If you sign the enclosed proxy card but do not give voting instructions, the shares of common stock represented by that proxy will be voted as recommended by the Board of Directors.

VOTING ON OTHER MATTERS

If other matters are properly presented at the Annual Meeting for consideration, the persons named in the enclosed proxy card will have the discretion to vote on those matters for you. At the date this Proxy Statement went to press, no other matters had been raised for consideration at the Annual Meeting.

HOW YOU MAY REVOKE OR CHANGE YOUR VOTE

You can revoke your proxy at any time before it is voted at the Annual Meeting by:

sending written notice of revocation to the Secretary of the Company;

timely delivering of a valid, later-dated proxy; or

attending the Annual Meeting and voting in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor from the holder of record, to be able to vote at the meeting.

LIST OF STOCKHOLDERS

The names of stockholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and for ten days prior to the Annual Meeting for any purpose germane to the meeting, between the hours of 8:45 a.m. and 4:30 p.m., at our principal executive offices at 100 Endo Boulevard, Chadds Ford, Pennsylvania, by contacting the Secretary of the Company.

COST OF PROXY SOLICITATION

The Company will pay for preparing, printing and mailing this Proxy Statement. We will pay the cost of soliciting proxies. Proxies may be solicited on our behalf by Directors, officers or employees in person or by telephone, electronic transmission and facsimile transmission. The Company will reimburse banks, brokers and other custodians, nominees and fiduciaries for their out-of-pocket costs of sending the proxy materials to our beneficial owners.

ITEM 1

ELECTION OF DIRECTORS

The Board of Directors

The Amended and Restated Certificate of Incorporation of the Company provides that the number of directors of the Company shall be not less than seven nor more than eleven as shall be fixed by the By-laws of the Company. On April 19, 2006, the Board of Directors fixed the number of directors at eight.

Directors need not be stockholders of the Company or residents of the State of Delaware. Directors are elected for a one-year term and generally hold office until the next directors have been duly elected and qualified. Directors may receive compensation for their services as determined by the Board of Directors. See 2005 Compensation of Directors. A vacancy on the Board, or a newly created directorship resulting from any increase in the authorized number of directors, may be filled by a majority of the directors then in office, even though less than a quorum remains. A director appointed to fill a vacancy remains a director until his or her successor is elected by the stockholders at the next annual meeting or until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal.

Currently the Board of Directors consists of eight members. Currently serving as directors are Carol A. Ammon, John J. Delucca, Michel de Rosen, Michael Hyatt, Roger H. Kimmel, Peter A. Lankau, Clive A. Meanwell, M.D., Ph.D. and Joseph T. O'Donnell, Jr. The Board of Directors has affirmatively determined that six of its eight members are independent directors under the NASDAQ rules and regulations. The six independent directors under the NASDAQ rules and regulations are Messrs. Delucca, de Rosen, Hyatt, Kimmel, O'Donnell and Dr. Meanwell.

On April 20, 2006, Endo announced the appointment of Michel de Rosen to its Board of Directors. An independent, outside director, Mr. de Rosen is also a member of the Nominating Committee of the Board of Directors. Mr. de Rosen was appointed following the resignations of Brian T. Clingen, Michael B. Goldberg, Michael W. Mitchell and David I. Wahrhaftig effective March 15, 2006. Mr. Clingen was the chair of the Audit Committee of the Board of Directors; Mr. Wahrhaftig was a member of the Compensation Committee of the Board of Directors; and Messrs. Clingen, Goldberg, Mitchell and Wahrhaftig were each members of the Nominating Committee of the Board of Directors.

On January 6, 2006, Endo announced the appointment of John J. Delucca to its Board of Directors. An independent, outside director, Mr. Delucca is also the chair of the Audit Committee of the Board of Directors. Mr. Delucca replaced Frank J. Loverro, a partner of Kelso & Company, who had been a member of the Board since July 2000 and who resigned effective January 6, 2006. Mr. Loverro was also a member of the Compensation and Nominating Committees of the Board of Directors.

In March 2005, Endo announced the appointment of Peter A. Lankau to the Board of Directors. With effect from May 20, 2005, Mr. Lankau has served as the Company's President and Chief Executive Officer.

As of the date of this Proxy Statement, there are no material proceedings to which any director or executive officer of the Company, or any associate thereof, is a party that are adverse to the Company or any of its subsidiaries.

Between January 1, 2005 and December 31, 2005, the Board of Directors as a whole met 14 times and acted by written consent on two occasions. All members of the Board of Directors attended more than 75% of the aggregate of all meetings of the Board of Directors and of the Committees of the Board of Directors on which they served in 2005.

Nominees

The following table sets forth the age and position currently held with the Company of persons nominated by the Board of Directors of the Company for the election as directors of the Company:

Name	Age (as of May 30, 2006)	Position Currently Held with the Company
Carol A. Ammon	55	Chairman of the Board
John J. Delucca	62	Director
Michel de Rosen	55	Director
Michael Hyatt	60	Director
Roger H. Kimmel	59	Director
Peter A. Lankau	53	President and Chief Executive Officer and Director
Clive A. Meanwell, M.D., Ph.D.	49	Director
Joseph T. O'Donnell, Jr.	58	Director

The proposed nominees for election as directors are willing to be reelected as directors of the Company. If, as a result of circumstances not now known or foreseen, a nominee shall be unavailable or unwilling to serve as a director, an alternate nominee shall be designated by the present Board of Directors to fill the vacancy, unless the Board chooses to reduce the number of directors serving on the Board.

If elected, all nominees are expected to serve until the 2007 Annual Meeting of Stockholders of the Company or until their successors are duly elected and qualified or until his or her earlier death, resignation or removal.

Nominees for Directors

Set forth below are the principal occupation and certain other information about each of the Company's current directors (all of whom are current nominees for election as directors):

Carol A. Ammon, 55, is currently Chairman of the Board of Endo. Effective May 20, 2005, Ms. Ammon retired from the position of Chief Executive Officer and remains as Chairman of the Board of Endo. In February 2002, Ms. Ammon was appointed Chairman of the Board in addition to her then current roles of President and

Chief Executive Officer. Prior to April 2003, Ms. Ammon also served as the President of Endo. Prior to joining Endo in August 1997, Ms. Ammon was the President of DuPont Merck's U.S. Pharmaceuticals Division from 1996 through 1997, and from 1993 through 1995 she was the President of Endo Laboratories, L.L.C. She also serves as a director on the boards of the Christiana Care Health System in Newark, Delaware, and Drexel University, and as Trustee for the University of Adelphi. She also serves as a director of Pharmacoepia Drug Discovery Inc.

John J. Delucca, 62, is currently a Director of Endo. Mr. Delucca was executive vice president and chief financial officer of the REL Consultancy Group until his retirement in 2004. Prior to that, he served as chief financial officer and executive vice president, finance & administration, of Coty, Inc., from 1999 to 2002. From 1993 to 1999, he was senior vice president and treasurer of RJR Nabisco, Inc. During his career, he also served in executive positions for Hascoe Associates, Inc., The Lexington Group, the Trump Group, International Controls Corp., and Textron, Inc. Mr. Delucca is currently a non-executive director and chairs the audit committees of Deltacom, Enzo Biochem, Inc. and The Elliot Company. He also serves as a non-executive director and deputy chairman of the audit committee of British Energy PLC.

Michel de Rosen, 55, is currently a Director of Endo. Mr. de Rosen has served as the chairman of the board of directors of ViroPharma Incorporated since September 2002, president and chief executive officer since August 2000, and as a director since May 2000. From 1993 to 1999, Mr. de Rosen held several key positions in Rhone-Poulenc Pharma and Rhone-Poulenc Rorer (now Sanofi-Aventis), including chairman and chief executive officer from May 1995 until December 1999. Mr. de Rosen began his career at the French Ministry of Finance and subsequently served in several leading government positions. Mr. de Rosen also served in various executive roles in industry prior to 1993. Mr. de Rosen also is a director of ABB Ltd.

Michael Hyatt, 60, is currently a Director of Endo. Mr. Hyatt had been a director of Algos Pharmaceutical Corporation since November 1996 and became a director of Endo following its merger with Algos in July 2000. For more than five years, Mr. Hyatt has been a Senior Managing Director of Bear Stearns & Co., Inc.

Roger H. Kimmel, 59, is currently a Director of Endo. Mr. Kimmel had been a Director of Algos Pharmaceutical Corporation since July 1996 and became a Director of Endo following its merger with Algos in July 2000. Mr. Kimmel has been Vice-Chairman of Rothschild Inc., an investment banking firm, since January 2001. Previously, Mr. Kimmel was a partner of the law firm of Latham & Watkins for more than five years. Mr. Kimmel is also a director of Weider Nutrition International, Inc.

Peter A. Lankau, 53, is President and Chief Executive Officer and currently a Director of Endo. Prior to May 2005, Mr. Lankau was President and Chief Operating Officer of Endo. Prior to April 2003, Mr. Lankau was Senior Vice President, U.S. Business of Endo. Prior to joining Endo in June 2000, Mr. Lankau was Vice President, Sales and Marketing for Alpharma USPD, Inc. in Baltimore, Maryland. He was Vice President, Sales-U.S. Pharmaceuticals for Rhone Poulenc Rorer, Inc. (now known as Sanofi-Aventis) from 1996 to 1999, based in Collegeville, Pennsylvania. Mr. Lankau was Executive Director, Strategy and Development for Aventis from 1995 to 1996. Prior to 1995, he held various management positions at Rhone Poulenc Rorer including business unit management, and had responsibility for Rhone Poulenc Rorer's generics business as well as managed care.

Clive A. Meanwell, M.D., Ph.D., 49, is currently a Director of Endo. Since August 2004, Dr. Meanwell has been the chairman and chief executive officer of The Medicines Company, a pharmaceutical company based in Parsippany, New Jersey. From September 2001 through August 2004, Dr. Meanwell was the Executive Chairman of The Medicines Company. Previously, he served as chairman, chief executive officer and president since the inception of The Medicines Company in 1996. From 1995 to 1996, Dr. Meanwell was a partner and managing director at MPM Capital L.P., a venture capital firm. Prior to that, he held various positions of increasing scope and responsibility at Hoffman-La Roche, Inc. from 1986 to 1995, most recently as senior vice president.

Joseph T. O'Donnell, Jr., 58, is currently a Director of Endo. Mr. O'Donnell is a founding partner of Briscoe Capital Management, LLC, an investment management firm that specializes in senior secured debt. He is

currently a director of Metzler North America Corp. and is the President of Van Beuren Capital, L.L.C., a private merchant banking and advisory firm. Until December 31, 2002, Mr. O'Donnell was President of Metzler Corporation, New York City, the U.S.-based corporate finance affiliate of B. Metzler seel, Sohn & Co., Frankfurt, Germany. Prior to joining Metzler, Mr. O'Donnell spent 26 years at various affiliates of Bankers Trust Corporation. From 1986 to 2000, he was involved in the acquisition and leveraged finance business. Prior to 1986, he was involved in Bankers Trust's global Airline and Aerospace Division and in middle-market financing activities in the New York Metropolitan area.

Vote Required

The affirmative vote of a majority of the outstanding shares of common stock entitled to vote and represented in person or by proxy is required for the election of each director.

The Board of Directors recommends a vote FOR the election of these nominees for election as directors.

2005 Compensation of Directors

2005 Cash Retainer and Meeting Fees*

Director	Annual		Board and		Total
	Board/Committee	Retainer	Business	Committee	
		Meeting Fees	Meeting Fees	Meeting Fees	
Ms. Ammon**	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Mr. Clingen***	35,000	24,000	6,000		65,000
Mr. Goldberg**	0	0	0		0
Mr. Hyatt	25,000	28,000	3,000		56,000
Mr. Kimmel	25,000	28,000	7,000		60,000
Mr. Frank J. Loverro**	0	0	0		0
Mr. Lankau**	0	0	0		0
Dr. Meanwell	25,000	24,000	0		49,000
Mr. Mitchell	25,000	28,000	0		53,000
Mr. O'Donnell	25,000	26,000	6,000		57,000
Mr. Wahrhaftig**	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

* Does not include Mr. Delucca who was appointed to the Board in March 2006 or Mr. de Rosen who was appointed to the Board in April 2006.

** Ms. Ammon and Mr. Lankau are not, and Messrs. Goldberg, Loverro and Wahrhaftig were not, compensated for their service as Directors.

*** Annual/ Board Committee Retainer for Mr. Clingen included an additional \$10,000 relating to his service as committee chair of the Audit Committee.

Annual Cash Retainer Fees. Each non-employee director who is not affiliated with the Company (a Non-Affiliated Director) receives \$6,250 cash per fiscal quarter of service. In addition, any Non-Affiliated Director who serves as the Chair of the Audit Committee receives an additional fee of \$10,000 cash per year, and any Non-Affiliated Director who serves as the chair of the Compensation Committee receives an additional fee of \$5,000 cash per year.

Meeting Fees. Non-Affiliated Directors also receive a fee of \$2,000 cash for attending each Board meeting and \$1,000 cash for attending each committee meeting on which such individual serves.

Stock Option Awards. Each fiscal year, Non-Affiliated Directors also receive a grant of options to purchase 10,000 shares of the Company's common stock (which are granted within the first quarter of each year)

under the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans. For fiscal 2005, Non-Affiliated Directors each received options to purchase 10,000 shares of the Company's common stock at an exercise price of \$22.06, the market price of the common stock on March 11, 2005 (the date of grant). The options granted to the Non-Affiliated Directors vest 25% per year over a four-year period. For fiscal 2006, Non-Affiliated Directors (other than Mr. de Rosen who did not join the Board until April 19, 2006) each received options to purchase 10,000 shares of the Company's common stock at an exercise price of \$31.43, the market price of the common stock on March 13, 2006 (the date of grant). These options also vest 25% per year over a four-year period. Mr. de Rosen received options to purchase 10,000 shares of the Company's common stock at an exercise price of \$32.60, the market price of the common stock on April 19, 2006 (the date of grant). These options also vest 25% per year over a four-year period.

Stockholder Communications with Directors

The Board has established a process to receive communications from stockholders. Stockholders may contact any member or all members of the Board, any Board committee, or any chair of any such committee by mail. To communicate with the Board of Directors, any individual director or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual director or group or committee of directors by either name or title. All such correspondence should be sent c/o Corporate Secretary at Endo Pharmaceuticals Holdings Inc., 100 Endo Boulevard, Chadds Ford, Pennsylvania 19317.

All communications received as set forth in the preceding paragraph will be opened by the office of our Secretary for the sole purpose of determining whether the contents represent a message to our directors. Any contents that are not in the nature of advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee. In the case of communications to the Board or any group or committee of directors, the Secretary's office will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the envelope or e-mail is addressed.

The Company does not have a policy on director attendance at Annual Meetings. No directors, other than Ms. Ammon and Mr. Lankau, attended the 2005 Annual Meeting.

Code of Conduct

The Board of Directors has adopted a Code of Conduct that applies to the Company's directors, executives and employees. The Code is posted on the Company's website at www.endo.com, under Investors-Corporate Governance.

Committees of the Board of Directors and Related Reports

The Board of Directors has a standing Audit Committee, Compensation Committee and Nominating Committee, the respective members and functions of which are described below.

Audit Committee

The Audit Committee is responsible for overseeing the Company's financial reporting process on behalf of the Board of Directors. In addition, the Audit Committee reviews, acts on and reports to the Board of Directors with respect to various auditing and accounting matters, including the selection of the Company's independent registered public accounting firm, the scope of the annual audits, fees to be paid to the independent registered public accounting firm, the performance of the Company's independent registered public accounting firm and the accounting practices of the Company and the Company's internal controls and legal compliance functions. The Audit Committee operates pursuant to a written charter adopted by the Board of Directors, which is available on the Company's website at www.endo.com, under Investors-Corporate Governance. In addition, a copy of the Audit Committee Charter is included as Exhibit A to this Proxy Statement. The charter describes the nature and scope of responsibilities of the Audit Committee.

Management of the Company has the primary responsibility for the Company's financial reporting process, principles and internal controls as well as preparation of its financial statements. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's financial statements and expressing an opinion as to the conformity of such financial statements with accounting principles generally accepted in the United States.

On January 6, 2006, Mr. Delucca was appointed as a member of the Audit Committee. Messrs. Delucca, Kimmel and O'Donnell currently serve as members of the Audit Committee. Between January 1, 2005 and December 31, 2005, the Audit Committee met six times, including periodic meetings held separately with management, the Company's internal auditors and the independent registered public accounting firm. The Board has elected Mr. Delucca as chair of the Audit Committee. The Board has determined that Mr. Delucca is a financial expert, as defined by the U.S. Securities and Exchange Commission (the "SEC") regulations, and he has the related financial management expertise within the meaning of the NASDAQ rules. The Board of Directors has determined that Messrs. Delucca, Kimmel and O'Donnell are independent and financially literate in accordance with the criteria established by the SEC and the NASDAQ.

Audit Committee Report

The Audit Committee has reviewed and discussed the Company's audited consolidated financial statements as of and for the year ended December 31, 2005 with the management of the Company and Deloitte & Touche LLP, the Company's independent registered public accounting firm. Further, the Audit Committee has discussed with Deloitte & Touche LLP the matters required to be discussed under auditing standards generally accepted in the United States, including those matters set forth in the Statement of Auditing Standards No. 61, as amended, other standards of the Public Company Accounting Oversight Board (United States), rules of the SEC, and other applicable regulations, relating to the firm's judgment about the quality, not just the acceptability, of the Company's accounting principles, the reasonableness of significant judgments and estimates, and the clarity of disclosures in the consolidated financial statements.

The Audit Committee also has received the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), as currently in effect, that relate to Deloitte & Touche LLP's independence from the Company, and has discussed with Deloitte & Touche LLP their independence from the Company. The Audit Committee has also considered whether the independent registered public accounting firm's provision of non-audit services to the Company is compatible with maintaining the firm's independence. The Audit Committee has concluded that the independent registered public accounting firm is independent from the Company and its management. The Audit Committee has also discussed with management of the Company and Deloitte & Touche LLP such other matters and received such assurances from them as it has deemed appropriate.

The Committee also reviewed management's report on its assessment of the effectiveness of the Company's internal control over financial reporting and the independent registered public accounting firm's report on management's assessment and the effectiveness of the Company's internal control over financial reporting. In addition, the Audit Committee reviewed key initiatives and programs aimed at strengthening the effectiveness of the Company's internal and disclosure control structure. As part of this process, the Audit Committee continued to monitor the scope and adequacy of the Company's internal auditing program.

Based on the reviews, reports and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board approved, that the Company's audited consolidated financial statements for the year ended December 31, 2005 and management's assessment of the effectiveness of the Company's internal control over financial reporting be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the SEC. The Audit Committee has selected, and the Board of Directors has ratified, subject to stockholder approval, the selection of the Company's independent registered public accounting firm for the year ended December 31, 2006.

Submitted by the Audit Committee of the Company's Board of Directors.

Members of the Audit Committee:

John J. Delucca (from January 6, 2006)

Roger H. Kimmel

Joseph T. O'Donnell, Jr.

The above Audit Committee Report does not constitute soliciting material, and shall not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates the Audit Committee Report by reference therein.

Compensation Committee

The Compensation Committee of the Board of Directors determines the salaries and incentive compensation of the executive officers of the Company and provides recommendations for the salaries and incentive compensation of the other employees and consultants of the Company. The Compensation Committee also reviews and acts on any recommendations of the Company's management for awards granted under the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan and the Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan. The current members of the Compensation Committee are Messrs. Hyatt, Delucca and O'Donnell, each of whom is independent in accordance with the criteria established by the SEC and NASDAQ. Messrs. Loverro and Wahrhaftig were members of the Compensation Committee until their resignations from the Company's Board of Directors on January 6, 2006 and March 15, 2006, respectively. Between January 1, 2005 and December 31, 2005, the Compensation Committee met two times. A report of the Compensation Committee appears in this Proxy Statement under EXECUTIVE COMPENSATION Compensation Committee Report on Executive Compensation.

Nominating Committee

Until February 9, 2005, the Board of Directors did not have a Nominating Committee because the Board of Directors as a whole functioned in such capacity. The Board of Directors believed that the full Board of Directors best represented the interests of all of the Company's stockholders and that it was appropriate for all matters that would be considered by a Nominating Committee to be considered and acted upon by the full Board of Directors.

When Endo Pharma LLC (an affiliate of Kelso & Company in which certain members of management have an interest) sold some of its shares of Endo common stock in November 2004, its ownership in the Company fell below 50%, thus causing the Company to no longer be considered a controlled company under the NASDAQ rules. Accordingly, the Board of Directors determined that a Nominating Committee comprised of independent directors would be beneficial to the Company, and chartered such committee on February 9, 2005. The Nominating Committee of the Board of Directors identifies and recommends to the Board individuals qualified to serve as directors of the Company, recommends to the Board directors to serve on committees of the Board and advises the Board with respect to matters of Board composition and procedures.

The Nominating Committee will consider director candidates recommended by stockholders. In considering candidates submitted by stockholders, the Nominating Committee will take into consideration the needs of the Board and the qualifications of the candidate. The Nominating Committee may also take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held. To have a candidate considered by the Nominating Committee, a stockholder must submit the recommendation in writing and must include the following information:

The name of the stockholder and evidence of the person's ownership of Company stock, including the number of shares owned and the length of time of ownership; and

The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of the Company and the person's consent to be named as a director if selected by the Nominating Committee and nominated by the Board.

The stockholder recommendation and information described above must be sent to the Secretary at Endo Pharmaceutical Holdings Inc., 100 Endo Boulevard, Chadds Ford, PA 19317, and must be received by the Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of shareholders.

Among the qualifications considered in the selection of nominees, the Nominating Committee looks at the following attributes and criteria of nominees: experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating Committee considers appropriate in the context of the needs of the Board of Directors. The Nominating Committee identifies potential nominees by asking current directors and executive officers to notify the Nominating Committee if they become aware of persons meeting the criteria described above, who have had a change in circumstances that might make them available to serve on the Board—for example, retirement as a CEO or CFO of a public company or exiting government or military service. The Nominating Committee also, from time to time, may engage firms that specialize in identifying director candidates. As described above, the Nominating Committee will also consider candidates recommended by stockholders.

Once a person has been identified by the Nominating Committee as a potential candidate, the Nominating Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Nominating Committee determines that the candidate warrants further consideration, the chairman or another member of the Nominating Committee contacts the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Nominating Committee requests information from the candidate, reviews the person's accomplishments and qualifications, including in light of any other candidates that the Nominating Committee might be considering, and conducts one or more interviews with the candidate. In certain instances, Nominating Committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate's accomplishments. The Nominating Committee's evaluation process does not vary based on whether or not a candidate is recommended by a stockholder, although, as stated above, the Board may take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held.

The current members of the Nominating Committee are Messrs. Delucca, de Rosen, Hyatt, Kimmel, O'Donnell and Dr. Meanwell. The Board of Directors has determined that all of the members of the Nominating Committee are independent in accordance with the criteria established by the SEC and NASDAQ. The Charter of the Nominating Committee has been posted on the Company's website at www.endo.com, under Investors-Corporate Governance.

ITEM 2

RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP, an independent registered accounting firm, to audit the books and financial records of the Company for the year ending December 31, 2006. The Company is asking its stockholders to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for fiscal 2006.

It is not expected that a representative from Deloitte & Touche LLP will be present at the Annual Meeting.

Vote Required

The affirmative vote of a majority of the outstanding shares of common stock entitled to vote and represented in person or by proxy is required for the approval of this item.

The Audit Committee and the Board of Directors recommend a vote FOR the ratification of the Board's appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2006.

Fees Paid to the Independent Registered Public Accounting Firm

Deloitte & Touche LLP, the member firms of Deloitte, Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities) served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2005. The following table summarizes the aggregate fees for services the Deloitte Entities provided during fiscal years 2005 and 2004:

	2005	2004
Audit Fees(a)	\$ 1,038,745	\$ 1,294,707
Audit-Related Fees(b)	18,275	15,800
Tax Fees(c)	146,500	154,980
All Other Fees	0	0
Total	\$ 1,203,520	\$ 1,465,487

(a) Fees for audit services billed in 2005 and 2004 consisted of:

Audit of the Company's annual financial statements

Evaluate and report on the effectiveness of the Company's internal controls over financial reporting

Reviews of the Company's quarterly financial statements

Comfort letters, consents and other services related to SEC matters

(b) Fees for audit-related services billed in 2005 and 2004 consisted of:

Employee benefit plan audits

(c) Fees for tax services billed in 2005 and 2004 consisted of tax compliance and tax planning and advice:

Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings and consisted of:

i. Federal, state and local income tax return assistance

- ii. Sales and use, property and other tax return assistance

- iii. Assistance with tax return filings in certain foreign jurisdictions

The Company generally does not engage the Deloitte Entities for other services. In considering the nature of the services provided by the Deloitte Entities, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the Deloitte Entities and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

Pre-Approval Policy

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm.

Prior to the engagement of the independent registered public accounting firm for the next year's audit, management will submit a list of services and related fees expected to be rendered during that year within each of the four categories of services to the Audit Committee for approval.

1. *Audit services* include audit work performed on the financial statements and related to the evaluation and reporting on the effectiveness of the Company's internal control over financial reporting, as well as work that generally only the independent registered public accounting firm can reasonably be expected to provide, including comfort letters, consents and other services related to SEC matters, and discussion surrounding the proper application of financial accounting and/or reporting standards.
2. *Audit-Related services* are for assurance and related services that are traditionally performed by the independent registered public accounting firm, including due diligence related to mergers and acquisitions and employee benefit plan audits.
3. *Tax services* include all services, except those services specifically related to the audit of the financial statements, performed by the independent registered public accounting firm's tax personnel, including tax analysis; assisting with the coordination of execution of tax related activities, primarily in the area of corporate developments; supporting other tax related regulatory requirements; and tax compliance and reporting.
4. *Other Fees* are those associated with services not captured in the other categories. The Company generally does not request such services from the independent registered public accounting firm.

Prior to engagement, the Audit Committee pre-approves the independent registered public accounting firm's services within each category. The fees are budgeted and the Audit Committee requires the independent registered public accounting firm and management to report actual fees versus budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval categories. In those instances, the Audit Committee requires specific pre-approval before engaging the independent registered public accounting firm.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

OTHER INFORMATION REGARDING THE COMPANY

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of April 19, 2006, the name, address and holdings of each person, including any group as defined in Section 13(d)(3) of the Exchange Act, known by Endo to be the beneficial owner of more than 5% of common stock. Footnote (a) below provides a brief explanation of what is meant by the term beneficial ownership. The following table also sets forth, as of April 19, 2006, the number of shares of common stock beneficially owned by each of the Company's current directors and the chief executive officer and the other three most highly compensated executive officers of the Company for the year ended December 31, 2005 (collectively, the Named Executive Officers). The following table also sets forth, as of April 19, 2006, the number of shares of common stock beneficially owned by all current directors and executive officers of the Company as a group.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(a)	Percentage of Class(a)
Directors and Executive Officers:		
Carol A. Ammon(b)(c)	703,614	*
John J. Delucca(d)	10,000	*
Michel de Rosen(e)	10,000	*
Michael Hyatt(f)	295,750	*
Roger H. Kimmel(g)	198,741	*
Clive A. Meanwell, M.D., Ph.D(h)	35,000	*
Joseph T. O'Donnell, Jr.(i)	35,000	*
Peter A. Lankau(b)(j)	1,332,131	*
David A. H. Lee, M.D., Ph.D.(b)(k)	185,754	*
Jeffrey R. Black(b)(l)	593,800	*
Caroline B. Manogue(b)(m)	311,083	*
All current directors and executive officers of Endo Pharmaceuticals Holdings Inc. as a group (11 persons)	3,710,873	2.8%
Other Stockholders:		
Royce & Associates, LLC(n)	7,631,450	5.75%

* The percentage of the class to be owned by such security holder represents less than 1%.

- (a) Beneficial ownership is a term broadly defined by the SEC in Rule 13d-3 under the Exchange Act, and includes more than the typical form of stock ownership, that is, stock held in the person's name. The term also includes what is referred to as indirect ownership, meaning ownership of shares as to which a person has or shares investment power. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares as of a given date that such person has the right to acquire within 60 days after such date.
- (b) The business address for this person is c/o Endo Pharmaceuticals Holdings Inc., 100 Endo Boulevard, Chadds Ford, Pennsylvania 19317.
- (c) Ms. Ammon is our Chairman. Ms. Ammon owns 0.36% of Endo Pharma LLC and may be deemed to share beneficial ownership of shares of common stock owned of record by Endo Pharma LLC by virtue of her status as a member of Endo Pharma LLC. Ms. Ammon shares voting power along with the other members of Endo Pharma LLC with respect to shares of common stock owned by Endo Pharma LLC, but disclaims beneficial ownership of such securities except to the extent of her pecuniary interest. Ms. Ammon's beneficial ownership includes 703,614 shares of Endo common stock.
- (d) Mr. Delucca is a director of our company. The business address for Mr. Delucca is 314 Ardmore Road, Ho-Ho-Kus, NJ 07423. Mr. Delucca's beneficial ownership represents options to purchase 10,000 shares of common stock granted under the Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan, none of which are exercisable within 60 days.

- (e) The business address for this person is c/o ViroPharma Incorporated, 397 Eagleview Boulevard, Exton, PA 19341. Mr. de Rosen's beneficial ownership represents options to purchase 10,000 shares of common stock under the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan, none of which are exercisable within 60 days.
- (f) Mr. Hyatt is a director of Endo. The business address for Mr. Hyatt is c/o Bear, Stearns & Co. Inc., 383 Madison Avenue, New York, New York 10179. Mr. Hyatt's beneficial ownership includes (i) 225,000 shares of common stock owned directly by Mr. Hyatt, (ii) 20,750 shares held in trusts for which Mr. Hyatt serves as trustee and as to which shares Mr. Hyatt holds either the sole or the shared power of disposition or the power to vote and (iii) options to purchase 50,000 shares of common stock granted under the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans, 26,250 of which are exercisable within 60 days. Mr. Hyatt's beneficial ownership excludes 25,000 shares of common stock held in a trust for the benefit of the children of Mr. Hyatt, as to which shares Mr. Hyatt has neither the power of disposition nor the power to vote.
- (g) Mr. Kimmel is a director of Endo. The business address for Mr. Kimmel is c/o Rothschild, Inc., 1251 Avenue of the Americas, New York, New York 10022. Mr. Kimmel's beneficial ownership includes (i) 165,000 shares of common stock held in trusts for which Mr. Kimmel serves as trustee and as to which shares Mr. Kimmel holds either the sole or the shared power of disposition and power to vote and (ii) options to purchase 33,741 shares of common stock granted under the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans, 9,991 of which are exercisable within 60 days. Mr. Kimmel's beneficial ownership excludes a total of 15,000 shares of common stock held in trusts for the benefit of Mr. Kimmel's adult children, as to which shares Mr. Kimmel has neither the power of disposition nor the power to vote. In 2005, Mr. Kimmel placed 177,865 shares of common stock that had been held in a trust in a 10b5-1 pre-set selling program for a period of six months which began on November 1, 2005. On November 23, 2005, Mr. Kimmel sold 43,684 shares pursuant to this 10b5-1 pre-set selling program. On January 4, 2006, Mr. Kimmel sold 26,128 shares pursuant to this 10b5-1 pre-set selling program. As of April 19, 2006, 108,053 shares remain in this 10b5-1 pre-set selling program.
- (h) Dr. Meanwell is a director of Endo. The business address for Dr. Meanwell is c/o The Medicines Company, 5 Sylvan Way, Parsippany, New Jersey 07054. Dr. Meanwell's beneficial ownership represents options to purchase 35,000 shares of our common stock granted under the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans, 11,250 of which are exercisable within 60 days.
- (i) Mr. O'Donnell is a director of Endo. The business address for Mr. O'Donnell is Briscoe Capital Management, L.L.C., 295 Madison Avenue, 31st Floor, New York, New York 10017. Mr. O'Donnell's beneficial ownership represents options to purchase 35,000 shares of our common stock granted under the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans, 11,250 of which are exercisable within 60 days.
- (j) Mr. Lankau is our President and Chief Executive Officer and is a director of Endo. Mr. Lankau's beneficial ownership includes 23,747 shares of Endo common stock and 1,308,384 shares underlying options granted under the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans, 611,747 of which are exercisable within 60 days. Of Mr. Lankau's options, 436,520 have been placed in a 10b5-1 pre-set selling program for a period of approximately 24 months which began on March 1, 2006. On March 1, 2006, Mr. Lankau sold 43,652 shares pursuant to the exercise of options under his 10b5-1 pre-set selling program. As of April 19, 2006, 392,868 shares underlying options remain in this 10b5-1 pre-set selling program.
- (k) Dr. Lee is our Executive Vice President and Chief Scientific Officer. Dr. Lee owns 0.02% of Endo Pharma LLC and may be deemed to share beneficial ownership of shares of common stock owned of record by Endo Pharma LLC by virtue of his status as a member of Endo Pharma LLC. Dr. Lee shares voting power along with the other members of Endo Pharma LLC with respect to shares of common stock owned by Endo Pharma LLC, but disclaims beneficial ownership of such securities except to the extent of his pecuniary interest. Dr. Lee's beneficial ownership includes 185,754 shares of Endo common stock.
- (l) Mr. Black is our Executive Vice President, Chief Financial Officer and Treasurer. Mr. Black owns 0.05% of Endo Pharma LLC and may be deemed to share beneficial ownership of shares of common stock owned of record by Endo Pharma LLC by virtue of his status as a member of Endo Pharma LLC. Mr. Black shares voting power along with the other members of Endo Pharma LLC with respect to shares of common stock.

owned by Endo Pharma LLC, but disclaims beneficial ownership of such securities except to the extent of his pecuniary interest.

Mr. Black's beneficial ownership includes 358,518 shares of Endo common stock and 235,282 shares underlying options granted under the Endo Pharma LLC 1997 Stock Option Plans and the Endo Pharma LLC 2000 Supplemental Stock Option Plans, all of which are currently exercisable.

- (m) Ms. Manogue is our Executive Vice President, Chief Legal Officer and Secretary. Ms. Manogue's beneficial ownership includes 30,835 shares of Endo common stock and 280,248 shares underlying options granted under the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan, 91,740 of which are exercisable within 60 days.
- (n) The business address for this entity is 1414 Avenue of the Americas, New York, New York 10019. This ownership information is based on a written statement from the stockholder received by the Company on March 14, 2006, which disclaims any beneficial economic interest in any of the shares, and states that it holds the voting power and/or investment discretion solely in a fiduciary capacity as an investment advisor for its clients, none of which individually owns more than 5% of the Company's common stock. Of the total shares beneficially owned, the stockholder has voting and investment powers as follows: sole voting 7,631,450 shares; shared voting 0 shares; sole dispositive 7,631,450 shares; and shared dispositive 0 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors and greater-than-ten-percent stockholders (collectively, Reporting Persons) to file an initial report of ownership (Form 3) and reports of changes of ownership (Forms 4 and 5) of Endo securities with the SEC and the NASDAQ. These persons are also required to furnish the Company with copies of all Section 16(a) reports that they file with respect to Endo securities. Based solely upon a review of Section 16(a) reports furnished to the Company for the fiscal year ended December 31, 2005 and written representations from certain Reporting Persons that no other reports were required, the Company believes that, all the Reporting Persons, other than Endo Pharma LLC, complied with all applicable filing requirements for the fiscal year ended December 31, 2005.

EQUITY COMPENSATION PLAN INFORMATION

The following information relates to plans in effect as of December 31, 2005 under which equity securities of Endo may be issued to employees and directors. Although the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan and the Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan each provide that stock options may be granted thereunder to non-employee consultants, Endo has never granted any such options to any such consultants.

Plan Category	Column A Number of securities to be issued upon exercise of outstanding options, warrants and rights	Column B Weighted-average exercise price of outstanding options, warrants and rights	Column C Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A)
Equity compensation plans approved by security holders			
Endo Pharma LLC Amended and Restated 1997 Executive Stock Option Plan	2,644,525(a)	\$ 2.42	809,711(b)
Endo Pharma LLC Amended and Restated 1997 Employee Stock Option Plan	164,740(a)	\$ 2.42	809,711(b)
Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan	2,786,583	\$ 13.54	171,277
Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan	512,847	\$ 21.51	3,480,472
Equity compensation plans not approved by security holders			
Not Applicable			

- (a) All of the stock options granted under these plans are exercisable solely for shares currently held by Endo Pharma LLC (an affiliate of Kelso & Company in which certain members of management have an interest), and their exercise will not dilute the ownership of our other common stockholders.
- (b) These shares are available for future issuance under either the Endo Pharma LLC Amended and Restated 1997 Executive Stock Option Plan or the Endo Pharma LLC Amended and Restated 1997 Employee Stock Option Plan, but not both.

EXECUTIVE COMPENSATION

Compensation Committee Report on Executive Compensation

The Board of Directors of the Company traditionally performed the functions of a compensation committee, including the review and approval of compensation and terms of employment for all officers of the Company and its subsidiaries. In August 2000, a Compensation Committee, consisting of Messrs. Hyatt, Loverro (until his resignation from the Endo Board of Directors on January 6, 2006) and Wahrhaftig (until his resignation from the Endo Board of Directors on March 15, 2006), was formed to perform these functions. The Compensation Committee is currently comprised of Messrs. Hyatt, Delucca and O'Donnell. The disinterested members of the Board of Managers of Endo Pharma LLC, namely Messrs. Goldberg and Wahrhaftig, review and act on any recommendations of the Company's management for awards granted under the Endo Pharma LLC stock option plans.

The Company's executive compensation is intended to attract high-caliber executives and to reward, retain and motivate management based on corporate and individual annual and long-term business performance. The primary component of compensation is base salary; however, all of the employees of the Company participate in

the Company's incentive compensation program, which provides cash bonuses in the event that (i) the Company achieves one or more targets based on the Company's Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) as defined by the Company's credit facility and (ii) the individual achieves specified goals. The Company also awards stock options to certain Named Executive Officers and other employees pursuant to the Company's 2000 Stock Incentive Plan (the "2000 Option Plan") and the Company's 2004 Stock Incentive Plan (the "2004 Option Plan"). Such awards are designed to provide incentives to participating employees that are linked directly to increases in stockholder value and that will therefore inure to the benefit of all stockholders of the Company. The Compensation Committee believes that the Company's executive compensation arrangements are reasonable in light of the Company's needs, competitive compensation levels, the Company's retention goals and management motivation. In determining salary and other compensation levels for executive officers, primary consideration is given to each executive's level of responsibility and individual performance.

Prior to the beginning of each fiscal year, the Compensation Committee reviews the Company's near- and long-term strategies and objectives with the Company's Chief Executive Officer. Such review forms the basis for adopting or modifying the corporate annual financial goals recommended by the Company's Chief Executive Officer. Based on this review, the Company's total compensation structure for fiscal year 2005, including the elements and level of compensation opportunities and the variable portion of "at risk" pay for performance and equity participation was established. Consideration was given to, among other matters, marketplace pay levels and practices, as well as the Company's need to continue to attract, retain and motivate employees. The Company's Chief Executive Officer reviewed such compensation structure with the Compensation Committee and asked it to ratify base salary amounts and bonuses for the Company's executive officers.

At fiscal 2005 year-end, the Compensation Committee, in consultation with the Chief Executive Officer, assessed results achieved and strategic progress relative to previously approved goals, taking into consideration the Company's Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) as defined by the Company's credit facility, prevailing economic and business conditions and opportunities, performance by comparable organizations' Chief Executive Officers, and stockholder value. No particular weightings were assigned to any such factors.

Ms. Ammon, Chief Executive Officer of the Company until May 20, 2005, received a pro-rated base salary of \$258,939 in fiscal 2005. Determination of Ms. Ammon's overall compensation in fiscal 2005 was based upon the performance criteria established by the Board of Directors of the Company at the beginning of fiscal 2005. The Compensation Committee believes that Ms. Ammon's overall compensation was competitive with that of Chief Executive Officers of comparable companies and deemed such compensation to be fair and appropriate. Mr. Lankau, Chief Executive Officer of the Company beginning on May 20, 2005, received a base salary of \$477,243 in fiscal 2005 and was awarded a cash bonus for fiscal 2005 of \$275,000. Determination of Mr. Lankau's overall compensation in fiscal 2005 was based upon the performance criteria established by the Board of Directors of the Company at the beginning of fiscal 2005. The Compensation Committee believes that Mr. Lankau's overall compensation is competitive with that of Chief Executive Officers of comparable companies and deems such compensation to be fair and appropriate.

The federal income tax laws limit the deductibility of certain compensation paid to the Chief Executive Officers and the four most highly compensated executives (the "covered employees") in excess of the statutory maximum of \$1 million per covered employee. The Committee's general policy is, where feasible, to structure compensation paid to the covered employees so as to maximize the deductibility of such compensation for federal income tax purposes; however, there may be circumstances where portions of such compensation will not be deductible.

Submitted by the Compensation Committee of the Company's Board of Directors.

Members of the Compensation Committee:

Michael Hyatt

John J. Delucca (from April 19, 2006)

Joseph T. O'Donnell, Jr. (from April 19, 2006)

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Hyatt, Delucca and O'Donnell, none of whom is an officer or employee or former officer or employee of the Company or any of its subsidiaries. In August 2000, the Board of Directors appointed Messrs. Hyatt, Loverro (who resigned from the Board of Directors on January 6, 2006) and Wahrhaftig (who resigned from the Board of Directors on March 15, 2006) to constitute the Compensation Committee, none of whom is or was an officer or employee or former officer or employee of the Company or any of its subsidiaries. Prior to that time, the Board of Directors as a whole performed the functions of the Compensation Committee. With the exception of Ms. Ammon and Mr. Lankau, who serve on the Company's Board of Directors, no executive officer of the Company serves or served during the last fiscal year, as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee. There are no family relationships between any directors or executive officers of the Company.

Compensation of Executive Officers

The following table sets forth, for the Company's last three fiscal years, the compensation paid or accrued to each of those persons who were, during the year ended December 31, 2005, the chief executive officer and the other four most highly compensated executive officers of the Company (collectively, the Named Executive Officers).

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	All Other Compensation(2)
		Salary	Bonus	Other Annual Compensation(1)	Securities Underlying Options	
Carol A. Ammon Chairman of the Board and Chief Executive Officer until May 20, 2005	2005	\$ 258,939	\$ 0	\$ 70,154		\$ 12,600
	2004	\$ 480,000	\$ 204,000	\$ 51,698		\$ 14,242
	2003	\$ 480,000	\$ 420,000	\$ 50,617	3,773,584	\$ 12,690
Peter A. Lankau(3) President and Chief Executive Officer Beginning May 20, 2005	2005	\$ 477,243	\$ 275,000	\$ 46,709	250,000	\$ 14,402
	2004	\$ 415,200	\$ 205,524	\$ 29,734	25,517	\$ 15,332
	2003	\$ 388,333	\$ 315,000	\$ 18,444	372,469	\$ 13,780
David A. H. Lee, M.D., Ph.D. Executive Vice President and Chief Scientific Officer	2005	\$ 389,250	\$ 171,270	\$ 42,476		\$ 15,874
	2004	\$ 389,250	\$ 132,345	\$ 51,541		\$ 16,222
	2003	\$ 375,000	\$ 262,500	\$ 48,785	1,285,995	\$ 14,670
Caroline B. Manogue Executive Vice President, Chief Legal Officer & Secretary	2005	\$ 351,750	\$ 154,770	\$ 139,698		\$ 13,030
	2004	\$ 335,000	\$ 147,400	\$ 121,191	20,588	\$ 13,746
	2003	\$ 295,000	\$ 206,500	\$ 96,790	142,469	\$ 12,270
Jeffrey R. Black Executive Vice President, Chief Financial Officer and Treasurer	2005	\$ 350,000	\$ 154,000	\$ 42,487		\$ 13,873
	2004	\$ 350,000	\$ 154,000	\$ 27,775		\$ 14,310
	2003	\$ 300,000	\$ 210,000	\$ 27,733	1,146,073	\$ 13,040

- (1) Other Annual Compensation in 2005 for Ms. Ammon includes personal use of a Company automobile and a tax gross-up benefit totaling \$51,825 and the cost of financial counseling services of \$18,329. Other Annual Compensation for Ms. Manogue in 2005 includes the rental of a house near the corporate facility in Chadds Ford, Pennsylvania, which together with the related tax gross-up benefit, is equal to \$105,238.

- (2) All Other Compensation for Ms. Ammon in 2005 is matching contributions made under the Company's 401(k) Plan in 2005. All Other Compensation for each of Mr. Lankau, Dr. Lee, Mr. Black and Ms. Manogue in 2005 is comprised of matching contributions made under the Company's 401(k) Plan in 2005 of \$12,600 each and the dollar value of premiums paid by the Company with respect to term life insurance and group life insurance for each of such executive's benefit.
- (3) Mr. Lankau was the Company's Senior Vice President, U.S. Business, until April 8, 2003, at which time he was appointed to President and Chief Operating Officer, a role in which he served until May 20, 2005, when he was appointed to President and Chief Executive Officer.

Stock Option/SAR Grants in Last Fiscal Year

The following table sets forth all individual grants of stock options made to the Named Executive Officers during the fiscal year ended December 31, 2005. No SARs were granted by the Company in fiscal 2005.

Name	Individual Grants Percent of Total				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
	Number of Shares Underlying Options Granted	Options Granted to Employees in Fiscal Year	Exercise Price per Share	Expiration Date	5%	10%
2004 Stock Incentive Plan:						
Peter A. Lankau	250,000	63.6%	\$ 20.22	4/27/15	\$ 3,179,062	\$ 8,056,368

- (1) Based upon the exercise price and the market price of the common stock on the date of grant of \$20.22 annual appreciation at the assumed rates stated on such price through the expiration date of the options. Amounts shown represent hypothetical gains that could be achieved for the options if exercised at the end of the term. These amounts have been determined on the basis of assumed rates of appreciation mandated by the SEC and do not represent the Company's estimate or projection of the future stock price. Actual gains, if any, are contingent upon the continued employment of Mr. Lankau through the expiration date, achievement of the defined vesting thresholds as well as being dependent upon the general performance of the common stock. The potential realizable values have not taken into account amounts required to be paid for federal income taxes.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth the December 31, 2005 aggregate value of unexercised options held by each of the Named Executive Officers as well as the fiscal year-end option values.

Name	Number of Securities Underlying Options Exercised	Value Realized	Number of Securities		Value of Unexercised	
			Underlying Unexercised		In-The-Money	
			Options at		Options at	
			December 31, 2005		December 31, 2005(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable	Exercisable	Unexercisable
Carol A. Ammon	7,333,866	\$ 171,415,875	1,114,449	132,513	\$ 31,026,260	\$ 3,689,162
Peter A. Lankau	140,112	\$ 3,243,592	592,899	259,137	\$ 11,807,996	\$ 4,414,999
David A.H. Lee, M.D., Ph.D.	2,952,049	\$ 68,603,688	210,516	24,766	\$ 5,860,765	\$ 689,485
Caroline B. Manogue	179,910	\$ 4,159,430	91,740	58,508	\$ 1,678,474	\$ 908,764
Jeffrey R. Black	2,589,324	\$ 60,222,508	210,516	24,766	\$ 5,860,765	\$ 689,485

(1) Based upon the closing price on December 30, 2005 of \$30.26. Includes all options granted as of December 31, 2005, for which the exercise price is equal to or less than \$30.26 per share.

Options exercised pursuant to the Endo Pharma LLC 1997 Stock Option Plan do not result in the issuance of additional shares in the Company. These stock options are exercisable solely into shares of Company common stock that is held by Endo Pharma LLC (an affiliate of Kelso & Company in which certain members of management have an interest). As a result, the exercise of these options will not result in the issuance of additional shares of Company common stock and will not dilute the ownership of our other public stockholders.

Stock options granted under the Endo Pharma LLC 1997 Stock Option Plan expire no later than August 26, 2007. The shares of common stock that are received upon exercise of stock options pursuant to the Endo Pharma LLC 1997 Stock Option Plan are currently held by Endo Pharma LLC.

Employment Agreements, Termination of Employment and Change-in-Control Arrangements*Employment Agreements with Named Executive Officers*

On September 1, 2001, Endo entered into amended and restated employment agreements with each of Ms. Ammon, Mr. Black, Dr. Lee and Ms. Manogue, and on December 20, 2005, Endo entered into an amended and restated employment agreement with Mr. Lankau. Ms. Ammon's employment agreement was terminated on May 19, 2005 in connection with her retirement from the position of Chief Executive Officer. Each of these remaining employment agreements currently expires on December 31, 2006. Each of these agreements is renewable by the parties for additional one-year periods. On April 19, 2006, Mr. Black announced his intention to retire effective in August 2006.

Each of the employment agreements provides that the executive will be entitled to basic compensation as well as additional incentive compensation. For each fiscal year or part thereof during the employment period, the Company will pay an executive's incentive compensation in cash in an amount equal to a percentage of this executive's salary if Endo meets the performance targets set by the board of directors for a particular fiscal year. Ms. Ammon's additional incentive compensation was equal to 50% of her base salary. Mr. Lankau's additional incentive compensation is equal to 50% of his base salary. Dr. Lee's, Mr. Black's and Ms. Manogue's additional compensation is equal to 40% of their respective base salary. Under these employment agreements, the Company may terminate each executive (1) for cause, (2) for good reason, or (3) upon the executive's disability, incapacity or death. If the Company terminates an executive for cause, he or she will be entitled to receive his or her salary and incentive compensation prorated through the effective date of termination.

In addition, if an executive elects to renew his or her employment agreement but Endo does not and Endo's election not to renew is not for cause, then the executive will be entitled to receive his or her salary for the remainder of the calendar month in which this termination is effective and for eighteen consecutive calendar months thereafter, and Endo will continue to provide the executive with benefits for eighteen consecutive calendar months after such termination. If an executive terminates his or her employment agreement for good reason, the Company will:

pay:

monthly to the executive his or her salary for the remainder of the employment period or eighteen months (whichever is longer) and

the executive's incentive compensation for the fiscal year during which the termination is effective, prorated through the effective date of termination, if this incentive compensation is payable and

continue to provide the executive with benefits for the remainder of the employment period or eighteen months (whichever is longer). Under the terms of each of these employment agreements, good reason means any of the following:

Endo Pharmaceuticals' material breach of the provisions in the employment agreement relating to the director's and officer's liability coverage and compensation or Endo Pharmaceuticals' obligations under the stockholders agreement for the benefit of the executive, or

the assignment of the executive, without the executive's consent, to a position, responsibilities, or duties of a materially lesser status or degree of responsibility.

Under the terms of Mr. Lankau's employment agreement, if he is terminated within twelve (12) months of a sale of all or substantially all of the assets of Endo, the sale of all or substantially all of the stock of Endo, the merger of Endo with one or more other related or unrelated entities, or other similar transaction vesting control of Endo with a third party or parties, the Company must:

pay:

a lump sum payment equal to the Mr. Lankau's salary for the remainder of the employment period plus eighteen months, and

a lump sum payment with respect to Mr. Lankau's incentive compensation for the fiscal year during which the termination is effective, provided that this incentive compensation is payable, and

continue to provide Mr. Lankau with benefits for the remainder of the employment period plus eighteen months.

Performance Graph

The following graph provides a comparison of the cumulative total return on the Company's common stock with that of the cumulative total return on the NASDAQ Stock Market Index (U.S.) and the NASDAQ Pharmaceutical Index commencing on December 31, 2000 and ending December 31, 2005. The graph assumes \$100 invested on December 31, 2000 in the Company's common stock, in the NASDAQ Stock Market (U.S.) Index, or the NASDAQ Pharmaceutical Index, and that all dividends are reinvested.

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Proxy Statement, in whole or in part, the following report and the Performance Graph that follows shall not be deemed to be incorporated by reference into any such filings.

NO DISSENTERS RIGHTS

The corporate action described in this Proxy Statement will not afford stockholders the opportunity to dissent from the actions described herein or to receive an agreed or judicially appraised value for their shares.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the Company's acquisition of Algos Pharmaceutical Corporation, affiliates and designees of Kelso & Company contributed all of their shares of Endo common stock to Endo Pharma LLC. This contribution represented approximately 86% of the Endo common stock originally contributed to Endo Pharma LLC, and these contributors continue to own an approximately 86% interest in Endo Pharma LLC. Endo Pharma LLC currently owns less than 1% of all of the issued and outstanding Endo common stock. Currently, Ms. Ammon serves as a member of the Board of Managers of Endo Pharma LLC.

Tax Sharing Agreement. On July 14, 2000, Endo Pharma LLC was formed in connection with the Algos merger to ensure that the stock options granted pursuant to the Endo Pharma LLC Stock Option Plans diluted only the Endo common stock held by persons and entities that held such shares prior to our merger with Algos. Endo Pharma LLC is a limited liability company that held approximately 15% of our common stock at December 31, 2005, in which affiliates of Kelso & Company and certain members of management have an interest. Upon the exercise of these stock options, only currently outstanding shares of our common stock held by Endo Pharma LLC have been and will be delivered. Because Endo Pharma LLC, and not us, has been and will provide the shares upon the exercise of these options, we have entered into a tax sharing agreement with Endo Pharma LLC under which we are required to pay to Endo Pharma LLC the amount of the tax benefits usable by us as a result of the exercise of these stock options into shares of our common stock held by Endo Pharma LLC. As of December 31, 2005, approximately 32.7 million of these stock options had been exercised into shares of our common stock held by Endo Pharma LLC. Upon exercise of any of these Endo Pharma LLC stock options, we generally will be permitted to deduct as a compensation charge, for federal income tax purposes, an amount equal to the difference between the market price of our common stock and the exercise price paid upon exercise of these options (as of December 31, 2005, approximately \$669 million), which is estimated to result in a tax benefit amount of approximately \$257 million. Under the tax sharing agreement, we are required to pay this \$257 million, \$56 million of which has already been paid as of December 31, 2005, to Endo Pharma LLC to the extent that a compensation charge deduction is usable by us to reduce our taxes and based upon the assumption that all other deductions of Endo are used prior thereto. Additionally, as part of the tax sharing agreement, Endo Pharma LLC will reimburse us for the after-tax employer payroll taxes paid by us as a result of the exercise of the 32.7 million options discussed above. We have paid approximately \$9.9 million in employer payroll taxes, of which Endo Pharma LLC will reimburse us for approximately \$6.1 million, which represents the after-tax employer payroll tax expensed by us for the periods from 2001 through 2005.

On April 30, 2004, the tax sharing agreement was amended to provide for a specific schedule upon which payments currently contemplated by the tax sharing agreement would be made. The amended tax sharing agreement provides that the amount of the tax benefits usable by us in each such year will be paid to Endo Pharma LLC in two installments: (i) 50% of the estimated amount shall be paid within 15 business days of our receipt from our independent registered public accounting firm of an opinion on our final audited financial statements, and (ii) the remaining amount shall be paid within 30 business days of the filing of our federal income tax return.

In 2004, we paid \$13.5 million to Endo Pharma LLC to satisfy the tax sharing obligations attributable to 2001, 2002 and 2003. Since 6.6 million shares underlying stock options granted under the Endo Pharma LLC stock option plans were exercised into common stock and sold in the offerings on August 9, 2004 and November 29, 2004, at prices of \$17.46 and \$20.02, respectively, with a weighted average exercise price of \$2.44, and an assumed tax rate of 38.7%, we were obligated to pay Endo Pharma LLC a tax benefit of

approximately \$41 million. Fifty percent of the tax benefit amount attributable to these two 2004 offerings and other Endo Pharma LLC stock option exercises in 2004, aggregating \$21.4 million, was due and was paid within 15 business days of the date we received an opinion on our audited 2004 financial statements from our independent registered public accounting firm and the remaining fifty percent of the tax benefit amount attributable to 2004 was due within 30 business days of the date on which we filed our 2004 tax return with the Internal Revenue Service (which occurred in September 2005) and approximately \$21.4 million was paid in October 2005 to satisfy the tax sharing obligations attributable to 2004. As of December 31, 2005, approximately \$200.9 million is payable to Endo Pharma LLC related to estimated tax sharing payments that we are obligated to pay which are attributable to 2005. This amount will be offset by the \$6.1 million after-tax employer payroll amount discussed above. All payments made and accrued pursuant to the tax sharing agreement have been reflected as a reduction of stockholders' equity in the accompanying financial statements. The estimated tax benefit amount payment to Endo Pharma LLC attributable to Endo Pharma LLC stock options exercised may increase if certain holders of Endo Pharma LLC stock options exercise additional stock options in the future.

On April 30, 2004, we filed a shelf registration statement on Form S-3, as amended on June 10, June 14 and June 25, 2004, providing for the sale by Endo Pharma LLC and certain other selling stockholders named therein, including certain of our directors and officers, from time to time, of up to 30 million currently issued and outstanding shares of our common stock. The shelf registration statement was declared effective by the Securities and Exchange Commission on June 28, 2004. After the closing of the August 9, 2004 and November 29, 2004 offerings, which totaled 19 million shares, up to 11 million shares remained eligible for sale by Endo Pharma LLC under this shelf registration statement. On September 2, 2005, we filed another registration statement on Form S-3, which was declared effective by the Securities and Exchange Commission on September 26, 2005. This shelf registration statement, as amended, effectively increased the shares available for sale by Endo Pharma LLC from 11 million shares to up to 33.35 million currently issued and outstanding shares of our common stock. All of the shares available under this registration statement were sold pursuant to an offering on October 12, 2005, as discussed below. Endo Pharma LLC has informed us that, subject to a variety of factors, including market conditions and stock price levels, it may initiate additional secondary offerings of our common stock in the future.

The Class C Endo Pharma LLC stock options (all of which were vested) became exercisable at the earlier of an exit event, as defined, or January 1, 2006. If the Class C stock options were not exercised by January 1, 2006, they would have terminated. Although the Company had considered extending the term of the Class C stock options, following enactment of the 2004 American Jobs Creation Act, an extension of the term of the stock options would result in adverse tax consequences for the option holders. As a result, the Company and Endo Pharma LLC decided to accelerate the exercisability of the Class C stock options to allow approximately 22 million Class C stock options to be exercised before their expiration on January 1, 2006. The exercise of the Class C stock options is expected to generate a significant tax deduction for the Company and create a significant tax sharing payment obligation to Endo Pharma LLC pursuant to the tax sharing agreement. Upon exercise, option holders will receive shares of Company common stock currently owned by Endo Pharma LLC. Accordingly, no shares of Company common stock will be issued upon exercise of the Class C stock options.

On October 12, 2005, as part of the sale of 33,350,000 shares of our common stock, approximately 19.5 million shares underlying stock options granted under the Endo Pharma LLC stock option plans were exercised at a market price of \$26.04, with a weighted average exercise price of \$2.72, and an assumed tax rate of 38.4%. Since the attributable compensation charge deductions are usable to reduce our taxes in 2005, we are obligated, under our amended tax sharing agreement, to pay to Endo Pharma LLC an additional tax benefit amount of approximately \$175 million. Fifty percent of the estimated tax benefit amount attributable to the October 12, 2005 offering and any additional tax benefits attributable to the exercise of stock options granted under the Endo Pharma LLC stock option plans in 2005 will be due within 15 business days of the date we receive an opinion on our final audited 2005 financial statements from our independent registered public accounting firm and the remaining tax benefit amount attributable to 2005 is due within 30 business days of the date on which we file our 2005 tax return with the Internal Revenue Service. Additionally, since approximately

2.7 million additional stock options granted under the Endo Pharma LLC stock option plans were exercised during the year ended December 31, 2005, and since the attributable compensation charge deductions are usable to reduce our taxes in 2005, we will be obligated, under our amended tax sharing agreement, to pay to Endo Pharma LLC an additional tax benefit amount of approximately \$26 million in 2006. As a result of the significant tax deductions expected to be generated in 2005 from the exercise of the 22.2 million stock options discussed above, we have incurred a net operating loss in 2005 for tax purposes which will permit us to obtain a tax refund of a portion of prior years' payments during 2006. All payments that have been, or will be, made or accrued pursuant to the tax sharing agreement have been, or will be, reflected as a reduction of stockholders' equity in our consolidated financial statements. As of December 31, 2005, there are approximately 2.8 million stock options remaining to be exercised under the Endo Pharma LLC stock option plans. Using a weighted average exercise price of \$2.42 per share and an assumed tax rate of 38.4%, if all of these remaining stock options under the Endo Pharma LLC stock option plans were vested and exercised, and assuming the price of our common stock was \$30.26 per share, the closing price on December 30, 2005, we would generally be able to deduct, for income tax purposes, compensation of approximately \$78 million, which could result in a tax benefit amount of approximately \$30 million payable to Endo Pharma LLC in 2007 and beyond.

Settlement of Contingent Obligation. During the year ended December 31, 2005, the Company reached an agreement with an individual to compensate him a total of \$2 million for past services rendered to the Company. This agreement was finalized in May 2005, and the \$2 million has been recorded in selling, general and administrative expenses during the year ended December 31, 2005. Endo Pharma LLC made these payments totaling \$2 million on behalf of the Company, and they have been treated as a capital contribution by Endo Pharma LLC.

2006 Compensation. In March 2006, Endo Pharma LLC advised our board of directors that it intended to pay a one-time cash bonus to each of Mr. Lankau and Ms. Manogue in the amount of \$3 million and \$6 million, respectively, in recognition of their significant contributions to our success. These bonus payments will be recorded as compensation charges in our 2006 financial statements. In addition, a portion of these bonus payments to Mr. Lankau and Ms. Manogue may, subject to IRS regulations, be permitted to be deducted for income tax purposes. We are not required to pay nor will we pay to Endo Pharma LLC the amount of any of the tax benefits related to these bonus payments pursuant to the Tax Sharing Agreement between us and Endo Pharma LLC. These bonuses to Mr. Lankau and Ms. Manogue will be funded entirely by Endo Pharma LLC, with no contribution by us.

Endo Pharma LLC has also informed us that, in connection with its eventual winding up, it expects to pay Mr. Black \$10 million and make a special allocation to Ms. Ammon of approximately \$22 million, with all or a portion of Ms. Ammon's payment being satisfied by granting to her the remaining unallocated Endo Pharma LLC stock options of approximately 0.8 million shares under the Endo Pharma LLC stock option plans. This grant of options to Ms. Ammon is currently expected to be made in the last quarter of 2006, as determined by Endo Pharma LLC. These awards will be recorded as compensation charges in our 2006 financial statements. The exercise of these stock options (assuming they are granted and exercised) will result in compensation charges which we will be permitted to deduct for income tax purposes. Under the terms of the Tax Sharing Agreement, we are required to pay to Endo Pharma LLC the amount of the tax benefit usable by us as a result of the exercise of these stock options into shares of our common stock held by Endo Pharma LLC. Upon the exercise of the stock options granted under the Endo Pharma LLC stock option plans, only currently outstanding shares of our common stock held by Endo Pharma LLC will be received by holders of such options upon exercise. The exercise of stock options pursuant to Endo Pharma LLC stock option plans does not increase the number of our shares outstanding, and only dilutes the equity holdings of the members of Endo Pharma LLC and not the equity holdings of our other stockholders.

Mr. Hyatt, a director of the Company, is a Senior Managing Director of Bear, Stearns & Co., Inc., an investment bank that performs services for the Company from time to time. However, no payment therefore was due to, or received by, Bear, Stearns & Co., Inc. in fiscal 2005 for these services.

Mr. Mitchell, a director of the Company until March 15, 2006, is Of Counsel to Skadden, Arps, Slate, Meagher & Flom LLP, a law firm that performs legal services for the Company from time to time. In fiscal year 2005, the Company made customary payments to Skadden, Arps, Slate, Meagher & Flom LLP in connection with these services. Mr. Mitchell also invests in Kelso transactions from time to time.

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors of the Company knows of no other matters to be presented for stockholder action at the Annual Meeting. However, other matters may properly come before the Annual Meeting or any adjournment or postponement thereof. If any other matter is properly brought before the Annual Meeting for action by the stockholders, proxies in the enclosed form returned to the Company will be voted in accordance with the recommendation of the Board of Directors.

ANNUAL REPORT/ FORM 10-K

The Company's 2005 Annual Report to its stockholders is being mailed to all stockholders concurrently with this Proxy Statement. Copies of the Company's Form 10-K as filed with the SEC may be obtained without charge by writing to Endo Pharmaceuticals Holdings Inc., 100 Endo Boulevard, Chadds Ford, PA 19317, Attention: Secretary.

STOCKHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING

The Company's By-laws require that, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof, along with other specified material, in proper written form to the Secretary of the Company. To be timely, a stockholder's notice to the Secretary must be received at the principal executive offices of the Company not less than 60 days and not more than 90 days prior to the anniversary date of the immediately preceding annual meeting. Accordingly, to make a proposal for consideration at our 2006 annual meeting that is timely within the meaning of the Company's By-laws, a stockholder must make certain notice of such proposal is received by the Secretary of the Company no earlier than February 28, 2006 and no later than March 30, 2006. If the Company does not receive such notice between such dates, the notice will be considered untimely. For any other meeting of stockholders, the nomination or other item of business must be received by the tenth day following the date of public announcement of the date of the meeting. Any stockholder who wishes to make a proposal should obtain a copy of the relevant section of the By-laws from the Secretary of the Company. In addition, any stockholder who wishes to submit a nomination to the Board must deliver written notice of the nomination within this time period and comply with the information requirements in the By-laws relating to stockholder nominations and the procedures set out in this Proxy Statement under the heading "Committees of the Board of Directors and Related Reports *Nominating Committee*."

Proposals of stockholders intended to be presented pursuant to Rule 14a-8 under the Exchange Act at the 2006 annual meeting must be received by us at our principal executive offices addressed to the Secretary of the Company no later than December 16, 2006 in order to be considered timely for inclusion in the 2006 proxy statement.

All proposals should be addressed to the Secretary, Endo Pharmaceuticals Holdings Inc., 100 Endo Boulevard, Chadds Ford, PA 19317.

SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto authorized.

By order of the Board of Directors,

CAROLINE B. MANOGUE

Secretary

Chadds Ford, Pennsylvania

April 28, 2006

CHARTER
OF THE
AUDIT COMMITTEE
OF THE
BOARD OF DIRECTORS OF
ENDO PHARMACEUTICALS HOLDINGS INC.
AS ADOPTED BY THE BOARD
ON APRIL 19, 2006

I.

AUTHORITY

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Endo Pharmaceuticals Holdings Inc. (the "Corporation") is established pursuant to Section 8 of the Corporation's Amended and Restated Bylaws and Section 141(c) of the Delaware General Corporation Law. The Committee shall be comprised of three or more directors as determined from time to time by resolution of the Board. Members shall not serve on more than three public company audit committees simultaneously. Consistent with the appointment of other Board committees, the members of the Committee shall be elected by the Board at the annual organizational meeting of the Board or at such other time as may be determined by the Board. The Chairman of the Committee shall be designated by the Board; provided that if the Board does not so designate a Chairman, the members of the Committee, by majority vote, may designate a Chairman. The presence in person or by telephone of a majority of the Committee's members shall constitute a quorum for any meeting of the Committee. All actions of the Committee will require the vote of a majority of its members present at a meeting of the Committee at which a quorum is present.

II.

PURPOSE OF THE COMMITTEE

The Committee's purpose is to provide assistance to the Board in fulfilling its (1) legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation and its subsidiaries and (2) oversight responsibility relating to: (i) the integrity of the Company's financial statements; (ii) the effectiveness of the Company's internal control over financial reporting; (iii) the effectiveness of the Company's disclosure controls and procedures; (iv) the Company's compliance with legal and regulatory requirements; (v) the independent registered public accounting firm's qualifications and independence; and (vi) the performance of the Company's internal audit function and independent registered public accounting firm. The Committee shall also prepare the Audit Committee report that SEC proxy rules require to be included in the Company's annual proxy statement. The Committee shall retain and compensate such outside legal, accounting, or other advisors, as it considers necessary in discharging its oversight role.

The Committee shall oversee the audit efforts of the Corporation's independent registered public accountants and internal auditors and, in that regard, shall take such actions as it may deem necessary to satisfy itself that the Corporation's auditors are independent of management. It is the objective of the Committee to maintain free and open means of communications among the Board, the independent registered public accountants, the internal auditors and the financial and senior management of the Corporation and to determine that all parties are aware of their respective responsibilities.

III.

COMPOSITION OF THE COMMITTEE

(a) Each member of the Committee shall be an independent director within the meaning of the Nasdaq rules and Rule 10A-3 of the Exchange Act and, as such, shall be free from any relationship that may interfere with the exercise of his or her independent judgment as a member of the Committee. Notwithstanding the foregoing, as permitted by the rules of the Nasdaq, under exceptional and limited circumstances, one director who does not meet certain of the criteria for independence may be appointed to the Committee if the Board determines in its business judgment that membership on the Committee by such person is required by the best interests of the Corporation and its stockholders and the Corporation discloses in the annual proxy statement the nature of such person's relationship and the reasons for the Board's determination. A member appointed under this exception would not be permitted to serve longer than two years and would not be permitted to chair the audit committee. All members of the Committee shall be financially literate at the time of their election to the Committee or shall become financially literate within a reasonable period of time after their appointment to the Committee. Financial literacy shall be determined by the Board in the exercise of its business judgment, and shall include a working familiarity with basic finance and accounting practices and an ability to read and understand fundamental financial statements. At least one member of the Committee shall be an audit committee financial expert, as defined by the SEC rules. Committee members, if they or the Board deem it appropriate, may enhance their understanding of finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant or firm.

(b) Upon any changes in the composition of the Committee and otherwise approximately once each year, the Committee shall ensure that the Corporation provides the Nasdaq with written confirmation regarding:

(i) Any determination that the Board has made regarding the independence of the Committee members;

(ii) The financial literacy of the Committee members;

(iii) The determination that at least one of the Committee members is an audit committee financial expert, as defined by SEC rules; and

(iv) The annual review and reassessment of the adequacy of the Committee's charter.

IV.

MEETINGS OF THE COMMITTEE

The Committee shall meet at least quarterly and with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities. As part of its purpose to foster open communications, the Committee shall meet at least annually with management, the head of the internal auditing department and the Corporation's independent registered public accountants in separate executive sessions to discuss any matters that the Committee or each of these groups or persons believe should be discussed privately. In addition, the Committee (or the Chairman) should meet or confer with the independent registered public accountants and management quarterly to review the Corporation's periodic financial statements prior to their filing with the Securities and Exchange Commission (SEC). The Chairman should work with the Chief Financial Officer and management to establish the agendas for Committee meetings. The Committee, in its discretion, may ask members of management or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary. The Committee shall maintain minutes of its meetings and records relating to those meetings and the Committee's activities and provide copies of such minutes to the Board.

V.

DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

In carrying out its duties and responsibilities, the Committee's policies and procedures should remain flexible, so that it may be in a position to best react or respond to changing circumstances or conditions. The Committee should review and reassess annually the adequacy of the Committee's charter. The charter must specify: (1) the scope of the Committee's responsibilities and how it carries out those responsibilities, (2) the ultimate accountability of the Corporation's independent registered public accountants to the Board and the Committee, (3) the responsibility of the Committee and the Board for the selection, evaluation and replacement of the Corporation's independent registered public accountants, and (4) that the Committee is responsible for ensuring that the Corporation's independent registered public accountants submit on a periodic basis to the Committee a formal written statement delineating all relationships between the independent registered public accountants and the Corporation and that the Committee is responsible for actively engaging in a dialogue with the independent registered public accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accountants and for recommending that the Board take appropriate action to ensure the independence of the independent registered public accountants.

While there is no blueprint to be followed by the Committee in carrying out its duties and responsibilities, the following should be considered the principal duties and responsibilities of the Committee:

Selection and Evaluation of Independent Registered Public Accountants

- (a) Review and approve the appointment, compensation, retention and oversight of the work of the independent registered public accountants (including resolution of disagreements between management and the independent registered public accountant regarding financial reporting and internal control related matters) to audit the books and accounts of the Corporation and its subsidiaries for each fiscal year as well as the performance other audit, review, or attest services including their report on the Corporation's internal control over financial reporting and management's assessment thereon, and the independent registered public accountants must report directly to the Committee;
- (b) Review and approve the Corporation's independent registered public accountants' annual engagement letter, including the proposed fees contained therein;
- (c) Review the performance of the Corporation's independent registered public accountants and make decisions regarding the replacement or termination of the independent registered public accountants when circumstances warrant. Such evaluation should also include the review and evaluation of the lead partner of the independent registered public accountants and take into account the opinions of management and the Corporation's personnel responsible for the internal audit function;
- (d) Oversee the independence of the Corporation's independent registered public accountants by, among other things:
 - (i) requiring the independent registered public accountants to deliver to the Committee on a periodic basis, and at least annually, a formal written statement delineating (i) the firm's internal quality control procedure; (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the independent registered public accountants and the Corporation (to assess the auditors' independence); and
 - (ii) actively engaging in a dialogue with the independent registered public accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accountants and take appropriate action to satisfy itself of the auditors' independence;

(iii) determining that the independent audit firm has a process in place to address the rotation of the lead partner and other audit partners serving the Corporation as required under the SEC independence rules;

(iv) pre-approving all audit and non-audit services provided by the independent registered public accountants and not engaging the independent registered public accountants to perform non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Committee and the decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting;

(e) Instruct the Corporation's independent registered public accountants that they must report directly to the Committee, and that the Committee is responsible for the selection, evaluation and termination of the Corporation's independent registered public accountants;

Oversight of Annual Audit and Quarterly Reviews

(f) Review and accept, if appropriate, the annual audit plan of the Corporation's independent registered public accountants, including the scope of audit activities as well as the adequacy of staffing and budget or compensation, and monitor such plan's progress and results during the year;

(g) Confirm through private discussions with the Corporation's independent registered public accountants and the Corporation's management that no management restrictions are being placed on the scope of the independent registered public accountants' work;

(h) Receive and review a report from the independent registered public accountants on the results of the year-end audit of the Corporation, prior to the filing of the Company's Annual Report on Form 10-K, including (as applicable):

a. the audit report, the published financial statements, the management representation letter, the Memorandum Regarding Accounting Procedures and Internal Control or similar memorandum prepared by the Corporation's independent registered public accountants, any other pertinent reports and management's responses concerning such memorandum;

b. the qualitative judgments of the independent registered public accountants about the appropriateness, not just the acceptability, of accounting principle and financial disclosure practices used or proposed to be adopted by the Corporation and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates;

c. the methods used to account for significant unusual transactions;

d. the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

e. management's process for formulating sensitive accounting estimates and the reasonableness of these estimates;

f. significant recorded and unrecorded audit adjustments;

g. any material accounting issues among management, the Corporation's internal auditing department and the independent registered public accountants;

h. other matters required to be communicated to the Committee under the Standards of the Public Company Accounting Oversight Board (PCAOB) (United States) by the independent registered public accountants; and

i. any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement;

(i) Review with management and the Corporation's independent registered public accountants such critical accounting policies (and changes therein) of the Corporation, including any financial reporting issues which could have a material impact on the Corporation's financial statements, as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the SEC or other regulatory body;

(j) Review and discuss the Corporation's interim financial statements included in Quarterly Reports on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the independent registered public accountants prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the Committee should discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent registered public accountants under the Standards of the PCAOB (United States);

(k) Review and discuss the Corporation's annual audited financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the independent registered public accountants prior to the filing of the Company's Annual Report on Form 10-K. Also, the Committee should discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent registered public accountants under the Standards of the PCAOB (United States);

Oversight of Financial Reporting Process and Internal Controls

(l) Review the adequacy and effectiveness of the Corporation's accounting and internal control policies and procedures through inquiry and discussions with the Corporation's independent registered public accountants and management of the Corporation;

(m) Review with management the Corporation's administrative, operational and accounting internal controls, including controls and security of the computerized information systems, and evaluate whether the Corporation is operating in accordance with its prescribed policies, procedures and codes of conduct;

(n) Review with management and the independent registered public accountants the adequacy of the company's internal control over financial reporting and any specific remedial actions adopted in light of significant deficiencies or material weaknesses;

(o) Receive periodic reports from the Corporation's independent registered public accountants and management of the Corporation to assess the impact on the Corporation of significant accounting or financial reporting developments proposed by the Financial Accounting Standards Board or the SEC or other regulatory body, or any other significant accounting or financial reporting related matters that may have a bearing on the Corporation;

(p) Establish and maintain free and open means of communication between and among the Board, the Committee, the Corporation's independent registered public accountants, the Corporation's internal auditing department and management;

Other Matters

(q) Meet annually with the general counsel, and outside counsel when appropriate, to review legal and regulatory matters, including any matters that may have a material impact on the financial statements of the Corporation;

(r) Prepare a report to be included in each annual proxy statement (or, if not previously provided during the fiscal year, any other proxy statement or consent statement relating to the election of directors) of the Corporation commencing after December 15, 2000 which states, among other things, whether:

(i) the Committee has reviewed and discussed with management the audited financial statements to be included in the Corporation's Annual Report on Form 10-K;

- (ii) the Committee has discussed with the Corporation's independent registered public accountants the matters that the auditors are required to discuss with the Committee by Statements on Auditing Standard No. 61, (as it may be modified or supplemented);
- (iii) the Committee has received the written disclosures and the letter from the Corporation's independent registered public accountants required by Independence Standards Board Standard No. 1, as may be modified or supplemented, and has discussed with the independent registered public accountants their independence; and
- (iv) based on the review and discussions described in subsections (i), (ii) and (iii) above, the Committee has recommended to the Board that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the last fiscal year for filing with the SEC;
- (s) Obtain from the independent registered public accountants any information pursuant to Section 10A of the Securities Exchange Act of 1934;
- (t) Review and approve all related party transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404, and discuss with management the business rationale for the transactions and whether appropriate disclosures have been made;
- (u) Review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- (v) Review management's report on its assessment of the effectiveness of internal control over financial reporting as of the end of the most recent fiscal year and the independent registered public accountants' report on (1) management's assessment and (2) the effectiveness of internal control over financial reporting;
- (w) Discuss with management, the internal auditors, and the independent registered public accountants management's process for assessing the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, including any significant deficiencies or material weaknesses identified;
- (x) Discuss with the independent registered accountants the characterization of any deficiencies in internal control over financial reporting and any differences between management's assessment of the deficiencies and the independent registered public accountants' assessment. The Committee shall also discuss with management its remediation plan to address internal control deficiencies. The Committee shall determine that the disclosures describing any identified material weaknesses and management's remediation plans are clear and complete.
- (y) Discuss with management its process for performing its required quarterly certifications under Section 302 of the Sarbanes-Oxley Act.
- (z) Discuss with management, the internal auditors, and the independent registered public accountants any significant changes in internal control over financial reporting that are disclosed, or considered for disclosures, in the Corporation's periodic filings with the SEC;
- (aa) Discuss the Corporation's policies with respect to risk assessment and risk management, including the risk of fraud. The Committee also shall discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures;
- (bb) Establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting and auditing matters;

(cc) Set clear hiring policies for employees or former employees of the independent registered public accountants that meet the SEC regulations and stock exchange listing standards;

(dd) Determine the appropriate funding needed by the Committee for payment of (1) compensation to the independent audit firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company; (2) compensation to any advisers employed by the Committee; and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties;

(ee) Perform an evaluation of its performance at least annually to determine whether it is functioning effectively;

(ff) Review and reassess the charter at least annually and obtain the approval of the board of directors;

(gg) Conduct or authorize investigations into any matters within the Committee's scope of responsibilities, including retaining outside counsel or other consultants or experts for this purpose; and

(hh) Perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Committee or the Board deems necessary or appropriate.

WITH RESPECT TO THE DUTIES AND RESPONSIBILITIES LISTED ABOVE, THE COMMITTEE SHOULD:

1. Report regularly to the Board on its activities, as appropriate;
2. Exercise reasonable diligence in gathering and considering all material information;
3. Understand and weigh alternative courses of conduct that may be available;
4. Focus on weighing the benefit versus harm to the Corporation and its stockholders when considering alternative recommendations or courses of action;
5. If the Committee deems it appropriate, secure independent expert advice and understand the expert's findings and the basis for such findings, including retaining independent counsel, accountants or others to assist the Committee in fulfilling its duties and responsibilities; and
6. Provide management, the Corporation's independent registered public accountants and internal auditors with appropriate opportunities to meet privately with the Committee.

* * *

While the Committee has the duties and responsibilities set forth in this charter, the Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is the responsibility of the Committee to resolve disagreements, if any, between management and the independent registered public accountants and to ensure that the Corporation complies with all laws and regulations.

Adopted by the Board of Directors of

Endo Pharmaceutical Holdings Inc.

on April 19, 2006.

