

WATSON PHARMACEUTICALS INC

Form DEF 14A

March 31, 2009

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**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

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 §240.14a-12

Watson Pharmaceuticals, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- Fee paid previously with preliminary materials.
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March 31, 2009

To Our Stockholders:

You are cordially invited to attend the 2009 Annual Meeting of Stockholders of Watson Pharmaceuticals, Inc. The meeting will be held at the Westin South Coast Plaza Hotel located at 686 Anton Boulevard, Costa Mesa, California on May 8, 2009 at 9:00 a.m. local time.

The Secretary's Notice of Meeting and the proxy statement, which follow, describe the matters to come before the meeting. During the meeting, we will also review the activities of the past year and items of general interest about the company.

We appreciate your continued interest and support as a Watson Pharmaceuticals, Inc. stockholder. We hope that you will be able to attend the meeting in person and we look forward to seeing you. For your convenience, we are also offering a webcast of the meeting. The webcast will be available by accessing www.watson.com shortly before the meeting time. You may also listen to a replay of the webcast on our website for thirty days after the end of the meeting.

Whether or not you plan to attend the annual meeting, please vote your shares: (i) by calling the toll-free telephone number on your proxy card, (ii) via the Internet, by following the instructions on your proxy card, or (iii) by

marking, dating and signing the enclosed proxy card and returning it in the accompanying postage paid envelope as quickly as possible.

Sincerely,

Paul M. Bisaro
President and Chief Executive Officer

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**WATSON PHARMACEUTICALS, INC.
311 Bonnie Circle
Corona, California 92880**

**2009 ANNUAL MEETING OF STOCKHOLDERS
May 8, 2009**

Notice of Annual Meeting of Stockholders:

You are hereby notified that the 2009 Annual Meeting of Stockholders (the *Meeting*) of Watson Pharmaceuticals, Inc. (the *Company*) will be held at the Westin South Coast Plaza Hotel, located at 686 Anton Boulevard, Costa Mesa, California at 9:00 a.m. local time, on May 8, 2009, for the following purposes:

1. To elect Ronald R. Taylor, Andrew L. Turner and Jack Michelson to hold office until the 2012 Annual Meeting or until each of their respective successors are duly elected and qualified.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 20, 2009 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting. Only stockholders of record at the close of business on March 20, 2009 will be entitled to notice of and to vote at the Meeting or any adjournment thereof. Your attention is directed to the attached proxy statement for more complete information regarding the matters to be acted upon at the Meeting.

Whether or not you plan to attend the annual meeting, please vote your shares: (i) by calling the toll-free telephone number on your proxy card, (ii) via the Internet, by following the instructions on your proxy card, or (iii) by marking, dating and signing the enclosed proxy card and returning it in the accompanying postage paid envelope as quickly as possible.

By Order of the Board of Directors

David A. Buchen,
Secretary

Corona, California
March 31, 2009

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**WATSON PHARMACEUTICALS, INC.
311 Bonnie Circle
Corona, California 92880**

**2009 ANNUAL MEETING OF STOCKHOLDERS
May 8, 2009**

PROXY STATEMENT

GENERAL

This proxy statement and the accompanying proxy are furnished to stockholders of Watson Pharmaceuticals, Inc. (*Watson, we, us and our*) in connection with the solicitation of proxies by our Board of Directors for use at the 2009 Annual Meeting of Stockholders (the *Meeting*) to be held at the Westin South Coast Plaza Hotel, located at 686 Anton Boulevard, Costa Mesa, California at 9:00 a.m. local time on May 8, 2009 for the purposes set forth in the accompanying Notice of Annual Stockholders Meeting. This proxy statement, the enclosed form of proxy, and our 2008 Annual Report to Stockholders are being mailed to stockholders on or about April 3, 2009.

Stockholders of record at the close of business on March 20, 2009 (the *record date*) are entitled to notice of and to vote at the Meeting. On such date, there were outstanding 105,324,586 shares of our common stock, par value \$0.0033 per share. In deciding all questions, each holder of common stock shall be entitled to one vote, in person or by proxy, for each share held on the record date.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 8, 2009.

This proxy statement and our 2008 annual report to stockholders and the means to vote by Internet are available on our website at www.watson.com/proxy and at www.proxyvote.com. Our website also contains the following documents: the notice of the annual meeting, this proxy statement and proxy card sample, and the 2008 Annual Report to Stockholders. You are encouraged to review all of the important information contained in the proxy materials before voting.

VOTING RIGHTS AND SOLICITATION OF PROXIES

Voting by Proxy or in Person

The method of voting by proxy differs for shares held as a record holder and shares held in street name. If you hold your shares of common stock as a record holder, you may vote by completing, dating and signing the enclosed proxy card and promptly returning it in the enclosed, preaddressed, postage paid envelope or otherwise mailing it to us, or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. You may also vote by attending the annual meeting and voting in person.

If you hold your shares of common stock in street name, which means your shares are held of record by a broker, bank or nominee, you will receive instructions from your broker, bank or other nominee that you must follow in order to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions over the Internet or

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by telephone. Please see the voting instructions from your broker, bank or nominee that accompany this proxy statement. If you hold your shares in street name, you will need to obtain a legal proxy from your bank, broker or nominee in order for you to vote in person at the annual meeting.

Your vote is very important. Accordingly, please complete, sign and return the enclosed proxy card or voting instruction card whether or not you plan to attend the annual meeting in person. You should vote your

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proxy even if you plan to attend the annual meeting. Voting instructions are included on your proxy card. If you properly give your proxy and submit it to us in time to vote, one of the individuals named as your proxy will vote your shares as you have directed.

Voting by Internet or Telephone

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically over the Internet or by telephone. A large number of banks and brokerage firms are participating in the Broadridge Investor Communications Solutions, Inc. (*Broadridge*) (formerly ADP Investor Communication Services) online program. This program provides eligible stockholders the opportunity to vote via the Internet or by telephone. If your bank or brokerage firm is participating in Broadridge's program, your voting form will provide instructions. The Internet and telephone voting facilities will close at 11:59 p.m. Eastern Time on May 7, 2009. Stockholders who vote through the Internet or telephone should be aware that they may incur costs to access the Internet, such as usage charges from telephone companies or Internet service providers, and that these costs must be borne by the stockholder. Stockholders who vote by Internet or telephone need not return a proxy card by mail. If your voting form does not reference Internet or telephone information, please complete and return the paper proxy in the self-addressed postage paid envelope provided.

Revocation of Proxy

A stockholder of record may revoke his or her proxy in one of four ways at any time before the proxy is voted at the Meeting.

1. The stockholder may send a notice in writing, with a date later than the date of the proxy, to our Secretary revoking the proxy.
2. The stockholder may attend the Meeting and vote in person. Attendance at the Meeting will not, by itself, revoke a proxy.
3. The stockholder may execute a proxy, relating to the same shares, with a later date and deliver it to our Secretary before the voting at the Meeting.
4. The stockholder may submit another proxy by telephone or the Internet (your latest telephone or Internet voting instructions will be followed).

Any such notices and new proxies that are sent by mail should be sent to Watson Pharmaceuticals, Inc., Corporate Secretary, 311 Bonnie Circle, Corona, California 92880.

Persons who hold their shares through a bank, brokerage firm or other nominee, may revoke their proxy by following the requirements of their bank or broker, or may vote in person at the Meeting by obtaining a legal proxy from their bank or broker.

Solicitation of Proxies

All expenses incurred in the solicitation of proxies will be borne by us. In addition to the use of the mail, proxies may be solicited on our behalf by our directors, officers and employees, who will receive no additional consideration for such services. Brokers, custodians, nominees and other stockholders of record will forward copies of the proxy statement and other soliciting materials to persons for whom they hold shares of our common stock and to request authority for the exercise of proxies. In such cases, we, upon the request of the stockholders of record, will reimburse

brokers, custodians and nominees for their reasonable expenses.

Quorum and Voting

At the close of business on March 20, 2009, 105,324,586 shares of our common stock were outstanding and entitled to vote. Votes cast by proxy (including through the Internet or by telephone) or in person at the Meeting will be tabulated by the election inspector appointed for the Meeting who will determine whether or not a quorum is present. The presence, in person or by proxy, of the holders of a majority of our common

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stock outstanding and entitled to vote at a meeting of stockholders is necessary in order to constitute a quorum for the conduct of business at the Meeting.

Brokers or other nominees who hold shares of common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters which the New York Stock Exchange (the *NYSE*) determines to be non-routine, without specific instructions from the beneficial owner. If a proxy is received but marked abstention or if a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not been instructed on how to vote (i.e. *broker non-votes*), those shares will be considered as present and entitled to vote for purposes of determining the presence of a quorum. The election of directors and ratification of accountants are generally considered to be routine proposals.

A properly executed proxy that is received before the polls are closed at the Meeting and that is not revoked will be voted in the manner directed by the stockholder submitting the proxy. If no direction is made, such proxy will be voted:

FOR the election of Ronald R. Taylor, Andrew L. Turner and Jack Michelson as our directors; and

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009.

As of the date of this proxy statement, the Board of Directors knows of no other business that will be presented for consideration at the Meeting. However, if other proper matters are presented at the Meeting, it is the intention of the proxy holders named in the enclosed form of proxy to take such actions as shall be in accordance with their best judgment.

The enclosed proxy gives each of Paul M. Bisaro and David A. Buchen discretionary authority to vote your shares in accordance with his best judgment with respect to all additional matters that might come before the annual meeting.

Householding

In an effort to reduce printing costs and postage fees, we have adopted a practice approved by the Securities and Exchange Commission (*SEC*) called householding. Under this practice, stockholders of record who have the same address and last name will receive only one copy of our proxy materials, unless one or more of these stockholders notifies us that he or she wishes to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards. If you share an address with another stockholder and prefer to receive separate copies of our proxy materials, please mail your request to Watson Pharmaceuticals, Inc., Investor Relations, 311 Bonnie Circle, Corona, California 92880.

Information on Our Website

Information on our website, other than our proxy statement and form of proxy, is not part of the proxy soliciting material and is not incorporated into this proxy statement by reference.

Assistance

If you need assistance in completing your proxy card or have questions regarding the annual meeting, please contact our investor relations department at 1-951-493-5563 or info@watson.com or write to: Investor Relations, at Watson

Pharmaceuticals, Inc., 311 Bonnie Circle, Corona, California 92880.

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

Under our bylaws, the Board of Directors must consist of between seven and fifteen directors, with the exact number determined by the Board of Directors. The Board of Directors has set the current number of authorized directors at nine. Our articles of incorporation provide that the Board of Directors will be divided into three classes. One class is elected each year for a three-year term, expiring at our annual meeting of stockholders. At the Meeting, three directors, who will comprise the Class II directors, are to be elected to serve until the 2012 annual meeting or until their successors are duly elected and qualified. Based upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated Ronald R. Taylor, Andrew L. Turner and Jack Michelson, each of whom was elected by the stockholders to their present term, for re-election as Class II directors.

Dr. Allen Chao, Ph.D., our co-founder and former Chief Executive Officer, retired as a director and Chairman of our Board of Directors on May 12, 2008, in order to pursue other business activities. Our Board of Directors appointed one of our existing directors, Mr. Turner, to succeed Dr. Chao as a non-executive Chairman of the Board. The Board of Directors decided not to fill Dr. Chao's vacant board position and reduced the number of authorized directors from ten to nine. Also, with the consent of the Board of Directors, Paul M. Bisaro voluntarily moved himself from Class I to Class III, where Dr. Chao formerly served, in order to balance the class sizes as evenly as possible.

Our Class III directors, Paul M. Bisaro, Michel J. Feldman and Fred G. Weiss, are scheduled to serve as directors until the 2010 Annual Meeting. Our Class I directors, Michael J. Fedida, Albert F. Hummel and Catherine M. Klema, are scheduled to serve as directors until the 2011 Annual Meeting. There are no vacant positions on the Board of Directors.

Information about the nominees for director and our directors whose term of office will continue after the Meeting is set forth in the following paragraphs and is based on information provided to us as of March 2, 2009.

Class II Director Nominees for Election at the Meeting:

Jack Michelson

Director since 2002

Jack Michelson, age 74, was our consultant from February 2001 to June 2003. Mr. Michelson served for twenty-four years as an officer of G.D. Searle & Co., a pharmaceutical company, as the Corporate Vice President and President, Technical Operations from 1993 to 2001; Senior Vice President of Technical Operations from 1981 to 1993; and Vice President of Production and Engineering from 1977 to 1981.

Ronald R. Taylor

Director since 1994

Ronald R. Taylor, age 61, has been President of Tamarack Bay, LLC, a private consulting firm, since 2001. Mr. Taylor has been a director of Red Lion Hotels Corporation, a hotel operating company, since 1998 and a director of ResMed Inc., a medical device manufacturer, since 2005. Mr. Taylor was a limited partner of Enterprise Partners Venture Capital (*Enterprise*), a venture capital firm, from April 2001 until September 2002, and was formerly a general partner of Enterprise from April 1998 to March 2001. Mr. Taylor is a limited partner of several Enterprise funds. Mr. Taylor was also a consultant to Cardinal Health, Inc., a provider of healthcare products and services, from May 1996 to May 2002.

Andrew L. Turner

Director since 1997

Andrew L. Turner, age 62, was appointed as the Chairman of our Board in May 2008. He also serves as Chairman of the Board of EnduraCare Therapy Management, Inc. (formerly known as EnduraCare, LLC), a provider of rehabilitation and therapy management services founded by Mr. Turner in 2000. Mr. Turner has also been a director of The Sports Club Company, Inc., an upscale workout company, since September 1994. Mr. Turner has been a director of Streamline Health Solutions, a provider of software for document solutions in hospitals, since 2007.

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The Board of Directors knows of no reason why any of the foregoing nominees will be unavailable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominees as the Board of Directors may recommend.

Required Vote for Election of Directors

At this year's annual meeting, directors will be elected by a favorable vote of a plurality of the shares of our common stock present and entitled to vote, in person or by proxy, at the Meeting. Thus, the three nominees receiving the largest number of votes will be elected. Accordingly, abstentions will not affect the outcome of the election of directors. In addition, the election of directors is a matter on which a broker or other nominee generally has discretionary voting authority, and thus broker non-votes are not expected to result from this proposal. Proxies cannot be voted for a greater number of persons or different persons than the nominees named. Beginning with next year's annual meeting, persons nominated to serve on our Board of Directors in an uncontested election must receive a greater number of votes cast **FOR** than votes cast **AGAINST** in order to be elected, or re-elected, to the Board of Directors.

The Board of Directors unanimously recommends a vote *FOR* the election of Ronald R. Taylor, Andrew L. Turner and Jack Michelson.

Class III Directors whose Terms Expire at the 2010 Meeting:

Paul M. Bisaro

Director since 2007

Paul M. Bisaro, age 48, has served as our President and Chief Executive Officer and on our Board of Directors since 2007. Prior to joining us, Mr. Bisaro was President and Chief Operating Officer of Barr Pharmaceuticals, Inc., a global specialty pharmaceutical company (*Barr*), from 1999 to 2007. Between 1992 and 1999, Mr. Bisaro served as General Counsel of Barr and from 1997 to 1999 served in various additional capacities including Senior Vice President Strategic Business Development of Barr. Prior to joining Barr, he was associated with the law firm Winston & Strawn and a predecessor firm, Bishop, Cook, Purcell and Reynolds from 1989 to 1992. Mr. Bisaro received his undergraduate degree in General Studies from the University of Michigan in 1983 and a Juris Doctor from Catholic University of America in Washington, D.C. in 1989.

Michel J. Feldman

Director since 1985

Michel J. Feldman, age 66, is a member of the law firm of Seyfarth Shaw LLP, where he has practiced since October 2003. Previously, Mr. Feldman was a member of the law firm of D Ancona & Pflaum LLC, where he practiced from June 1991 to October 2003. Effective October 2003, D Ancona & Pflaum LLC merged with Seyfarth Shaw LLP. From time to time in the past, Seyfarth Shaw LLP provided legal services to us. Mr. Feldman also served as our Secretary from 1995 to 1998 and Acting Secretary and Interim General Counsel from May 2002 to November 2002.

Fred G. Weiss

Director since 2000

Fred G. Weiss, age 67, has been the managing director of FGW Associates, Inc., a consulting firm, since 1997. Mr. Weiss served as Vice President, Planning, Investment and Development of Warner-Lambert from 1983 to 1996 and prior to that served as Vice President and Treasurer of Warner-Lambert from 1979 to 1983, where he was involved in both strategic planning and corporate development. Mr. Weiss is also an Independent Vice-Chairman of the Board and Chairman of the Audit Committee of numerous BlackRock-sponsored mutual funds. Additionally,

Mr. Weiss has been a Director of the Michael J. Fox Foundation for Parkinson's Research since 2000.

Class I Director whose Terms Expire at the 2011 Meeting:

Michael J. Fedida

Director since 1995

Michael J. Fedida, age 62, a registered pharmacist, has served for the past twenty-seven years as an officer and director of several retail pharmacies wholly or partially owned by him, including J&J Saint

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Michael's Pharmacy from 2005 to present; J&J Pharmacy and Classic Pharmacy from 1987 to present; Perfect Pharmacy from 1980 to 2000; and Phoster Pharmacy from 1985 to 2000. Mr. Fedida served on the Board of Directors of Circa Pharmaceuticals, Inc. (*Circa*), from 1988 to 1995, at which time Circa was acquired by us. Mr. Fedida was a Director of Bradley Pharmaceuticals, Inc., a specialty pharmaceutical company, from April 2004 to February 21, 2008.

Albert F. Hummel

Director since 1986

Albert F. Hummel, age 64, has been our director since March 1986, except for a period from July 1991 to October 1991. Mr. Hummel has been President of Pentech Pharmaceuticals, Inc., a development stage pharmaceutical company, since July 1998. Since November 2005, Mr. Hummel has been a director for Obagi Medical Products, Inc., a specialty pharmaceutical company focused on the aesthetic and therapeutic skin health markets. Additionally, Mr. Hummel served as a partner in Affordable Residential Communities, a property management firm, from January 1994 through March 2006.

Catherine M. Klema

Director since 2004

Catherine M. Klema, age 50, is currently President of Nettleton Advisors LLC, a consulting firm established by Ms. Klema in 2001. Ms. Klema served as Managing Director, Healthcare Investment Banking, at SG Cowen Securities from 1997 to 2001. While at SG Cowen, Ms. Klema had advised us on investment banking matters. Ms. Klema also served as Managing Director, Healthcare Investment Banking, at Furman Selz LLC from 1994 until 1997, and was employed by Lehman Brothers from 1987 until 1994. Ms. Klema has been a director of Pharmaceutical Product Development, Inc., a global contract research organization, since 2000.

CORPORATE GOVERNANCE

Corporate Governance Guidelines and Code of Conduct

Our Board of Directors has adopted Corporate Governance Guidelines. These guidelines address the make-up and functioning of the Board of Directors and its committees, which include determining director independence, criteria for Board membership, and authority to retain independent advisors.

Our Board of Directors has also adopted a Code of Conduct which applies to all of our Board members and all of our officers and employees. The code sets forth and summarizes certain of our policies related to legal compliance and honest and ethical business practices. The code is intended to comply with the standards set forth in Section 303A.10 of the NYSE's Listed Company Manual and SEC rules and regulations. Any amendments to, or waivers from, provisions of the Code of Conduct that apply to our directors or executive officers, including our Chief Executive Officer and Chief Financial Officer and persons performing similar functions, will be promptly posted on our website at <http://www.watson.com>.

You can find links to our Corporate Governance Guidelines and our Code of Conduct under the Investors section of our website at <http://www.watson.com>. Copies of these materials are available to stockholders without charge upon request sent to Investor Relations at Watson Pharmaceuticals, Inc., 311 Bonnie Circle, Corona, CA 92880.

Director Independence

On an annual basis our Board of Directors reviews the independence of all directors and affirmatively makes a determination as to the independence of each director. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with Watson. To assist in making this determination, the Board has adopted independence guidelines which are designed to conform to, or be more exacting than, the independence requirements set forth in the listing standards of the NYSE. You may find these guidelines on our website at www.watson.com. In addition to applying these guidelines, the Board considers any and all additional relevant facts and circumstances in making an independence determination.

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Our Board has determined that at least a majority of its directors has no direct or indirect material relationship with us (other than as our director) and such directors are independent within the meaning of the independence standards promulgated by the SEC and the NYSE. Specifically, on March 5, 2009, the Board determined, based on our Director Independence Standards and the NYSE standards for independence, that Michael Fedida, Michel Feldman, Albert Hummel, Catherine Klema, Jack Michelson, Ronald Taylor, Andrew Turner and Fred Weiss, or eight out of our nine directors, have no relationship with us that would interfere with the exercise of independent judgment and are independent directors. Mr. Bisaro was determined to be not independent, because he is our President and Chief Executive Officer.

The relationships and transactions reviewed by the Board included the following:

- (i) Mr. Fedida's ownership of pharmacies that from time to time purchase pharmaceuticals from Anda, Inc., one of our subsidiaries, that is a wholesaler distributor,
- (ii) Mr. Feldman's partnership with Seyfarth Shaw LLP, a law firm which has provided services for us in the past,
- (iii) Ms. Klema's directorship with Pharmaceutical Product Development, Inc., a contract research organization that has provided services for us in the past, and
- (iv) Mr. Taylor's directorship of 3e Company, a privately-held compliance information services company that has provided services for us in the past.

The Board has determined that these transactions were made in the ordinary course, were below the thresholds set forth in our director independence standards and did not affect the independence of the directors involved.

BOARD OF DIRECTORS AND COMMITTEES

Executive Sessions

We schedule regular executive sessions in which non-management directors meet without management participation. The Chairman of the Nominating and Corporate Governance Committee presides at these meetings.

Communications with the Board of Directors

Any interested party, including any stockholder, wishing to contact the Board of Directors, the presiding director of the non-management director meetings, or any other individual director may do so in writing by sending a letter to:

Chairman, Nominating and Corporate Governance Committee
c/o Corporate Secretary
Watson Pharmaceuticals, Inc.
311 Bonnie Circle
Corona, CA 92880

Our Corporate Secretary reviews all such written correspondence and regularly forwards to the Board of Directors a summary of all correspondence and copies of correspondence that, in the opinion of the Corporate Secretary, deal with the functions of the Board of Directors or its committees, or that the Corporate Secretary otherwise determines requires Board attention.

Director Nomination Process

The Nominating and Corporate Governance Committee considers director candidates from diverse sources, including suggestions from stockholders. From time to time, the Nominating and Corporate Governance Committee may engage a third party for a fee to assist in identifying potential director candidates. The Nominating and Corporate Governance Committee looks for candidates who (a) bring not only direct

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experience, but also a variety of experience and background, both professionally and personally, (b) will represent the balanced, best interests of the stockholders as a whole rather than special interest groups or constituencies, and (c) have a reputation for integrity and satisfy the independence requirements of the NYSE, our Director Independence Standards and applicable law. The Nominating and Corporate Governance Committee's goal is to have a diverse, balanced and engaged board whose members possess the skills and background necessary to maximize stockholder value in a manner consistent with all legal requirements and the highest ethical standards. The Nominating and Corporate Governance Committee's Charter and our Corporate Governance Guidelines, which are published on our website at <http://www.watson.com> under the Investors section, set forth in further detail the criteria that guide the Committee in assessing potential candidates for the Board of Directors.

In determining whether to recommend a director for re-election, the Nominating and Corporate Governance Committee considers the director's contributions to the Board and the Committees on which such person serves, participation in and attendance at meetings, and any changes in employment status, health, community activity or other factors that may affect the director's continuing contributions to the Board. The Nominating and Corporate Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas.

The Nominating and Corporate Governance Committee initially evaluates a candidate for nomination to the Board based on information supplied by the party recommending the candidate and any additional public information that may be available. If the initial evaluation is favorable, the Nominating and Corporate Governance Committee gathers additional information on the candidate's qualifications, availability, probable level of interest and any potential conflicts of interest. If the subsequent evaluation is also favorable, the Nominating and Corporate Governance Committee contacts the candidate directly to better determine each party's level of interest in pursuing the candidacy and checks the candidate's references. If, after discussions and meetings, the candidate and the Nominating and Corporate Governance Committee establish a mutual interest in pursuing the candidacy, the Committee makes a final recommendation to the Board to nominate the candidate for election by the stockholders (or to select the candidate to fill a vacancy, as applicable). The Nominating and Corporate Governance Committee employs the same process for evaluating all candidates, including those properly submitted by stockholders and will consider stockholder recommendations of candidates on the same basis as it considers all other candidates.

Stockholders wishing to recommend a director candidate for consideration by the Nominating and Corporate Governance Committee may do so by sending the candidate's name, biographical information and qualifications, together with a consent in writing signed by the recommended nominee that he or she is willing to be considered as a nominee and, if nominated and elected, he or she will serve as a director, to the Chair of the Nominating and Corporate Governance Committee in care of the Corporate Secretary, Watson Pharmaceuticals, Inc., 311 Bonnie Circle, Corona, California 92880. The submission of a recommendation by a stockholder in compliance with these procedures does not guarantee the selection of the stockholder's candidate or the inclusion of the candidate in our proxy statement; however, the Nominating and Corporate Governance Committee will consider any such candidate in accordance with the procedures and guidelines as described above and as set forth in the Charter of our Nominating and Corporate Governance Committee and in our Corporate Governance Guidelines.

Board Meetings

During the fiscal year ended December 31, 2008, the Board of Directors held seven meetings and executed two unanimous written consents in lieu of meetings. Each director attended at least 75% of the combined total of (i) all Board of Directors and (ii) all meetings of Committees of which the director was a member. We do not have a policy with regard to board members' attendance at annual meetings. All members of the Board attended our 2008 Annual Meeting of Stockholders.

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Committees

The Board of Directors has created four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Regulatory Compliance Committee. The Board of Directors has adopted a charter for each of the four committees. The charters for each committee and other materials related to corporate governance are available under the Investors section of our website at <http://www.watson.com>. A copy is also available to stockholders upon request sent to Investor Relations at Watson Pharmaceuticals, Inc., 311 Bonnie Circle, Corona, CA 92880.

The Audit Committee

We have an Audit Committee currently composed of Michel J. Feldman, Catherine M. Klema, Ronald R. Taylor and Fred G. Weiss. Mr. Feldman was appointed to the Audit Committee in May 2008 to succeed Andrew L. Turner, who became the Chairman of our Board at that time. All other members of the Audit Committee served as such throughout fiscal year 2008. Mr. Weiss serves as the Chairman of the Audit Committee. All of the members of the Audit Committee have been determined by the Board of Directors to be independent and meet the audit committee independence requirements of the NYSE listing standards and SEC Rule 10A-3. The Board of Directors has determined that all of the current members of the Audit Committee qualify as audit committee financial experts within the meaning of the SEC rules, and are financially literate as required under the NYSE listing standards. The functions of the Audit Committee and its activities during fiscal 2008 are described below under the heading Report of the Audit Committee. The Audit Committee is directly responsible for the engagement, compensation and oversight of the work of PricewaterhouseCoopers LLP (including resolution of disagreements between management and PricewaterhouseCoopers LLP regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. During the fiscal year ended December 31, 2008, the Audit Committee met six times.

The Board of Directors and Audit Committee will take appropriate action, including reviewing and reassessing the adequacy of the Audit Committee charter annually and periodically, as appropriate, and as conditions dictate.

The Compensation Committee

We have a Compensation Committee composed of Catherine M. Klema, Ronald R. Taylor and Fred G. Weiss. Each were members of the Compensation Committee throughout fiscal year 2008. Mr. Taylor serves as the Chairman of the Compensation Committee. All of the members of the Compensation Committee have been determined by the Board of Directors to be independent and meet the independence requirements of the NYSE listing standards. Our Board has determined that all current Compensation Committee members qualify as non-employee directors within the meaning of Section 16 of the Exchange Act and as outside directors within the meaning of Section 162(m) of the Internal Revenue Code (*IRC*). The primary purpose of the Compensation Committee is to review, approve and evaluate director and senior executive compensation plans, policies and programs for us. The Compensation Committee has engaged Towers Perrin, an independent compensation consulting firm, to advise the Compensation Committee on an ongoing basis. Towers Perrin reports directly to the Compensation Committee and the Compensation Committee retains the right to terminate or replace the consultant at any time. Towers Perrin conducts an annual review of our total compensation program for our executive officers and advises the Compensation Committee on such compensation matters as requested by the Compensation Committee. Additional information on the Compensation Committee's processes and procedures for consideration of executive compensation, including the role of our chief executive officer, are addressed in the Compensation Discussion and Analysis on page 10. The Compensation Committee met five times and executed four unanimous written consents in lieu of meetings during the fiscal year ended December 31, 2008.

The Nominating and Corporate Governance Committee

We have a Nominating and Corporate Governance Committee currently composed of Catherine M. Klema, Ronald R. Taylor and Fred G. Weiss. Ms. Klema was appointed to the Nominating and Corporate

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Governance Committee in May 2008 to succeed Andrew L. Turner, who became the Chairman of our Board at that time. All other members of the Nominating and Corporate Governance Committee served as such throughout fiscal year 2008. Since her appointment to the committee, Ms. Klema has served as the Chairperson, a position previously held by Mr. Turner. All of the members of the Nominating and Corporate Governance Committee have been determined by the Board of Directors to be independent and meet the independence requirements of the NYSE listing standards. The key functions of the Nominating and Corporate Governance Committee are to identify and present qualified candidates to the Board of Directors for election or re-election as directors of the Board and Board of Directors committees, ensure that the size and composition of the Board of Directors, its committees, and our Charter and Bylaws are structured in a way that best serves our practices and objectives, develop and recommend to the Board of Directors a set of corporate governance guidelines and principles and periodically review and recommend changes to such guidelines and principles as deemed appropriate, and oversee the evaluation of the Board of Directors and senior management. The Nominating and Corporate Governance Committee met two times during the fiscal year ended December 31, 2008.

The Regulatory Compliance Committee

We have a Regulatory Compliance Committee composed of Michael J. Fedida, Albert F. Hummel, Michel J. Feldman and Jack Michelson. Each were members of the Regulatory Compliance Committee throughout fiscal year 2008. Mr. Michelson serves as the Chairman of the Regulatory Compliance Committee. The primary purpose of the Regulatory Compliance Committee is to assist the Board of Directors with the Board's oversight responsibilities regarding our compliance with applicable regulatory requirements related to product safety and quality and environmental, health and safety matters. The Regulatory Compliance Committee met three times during the fiscal year ended December 31, 2008.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

The Compensation Committee (which we refer to in this Compensation Discussion and Analysis as the *Committee*) of our Board of Directors is responsible for establishing, implementing and continually monitoring our adherence with our compensation philosophy for our executive officers, including Paul M. Bisaro, our chief executive officer. The Committee seeks to ensure that the total compensation paid to our executive officers is fair, reasonable and competitive.

Throughout this proxy statement, references to our Named Executive Officers refer to Paul M. Bisaro, our President and Chief Executive Officer, Mark W. Durand, our Senior Vice President and Chief Financial Officer, Thomas R. Russillo, our Executive Vice President and President, Generic Division, David A. Buchen, our Senior Vice President, General Counsel and Secretary, Edward F. Heimers, our Executive Vice President, and President, Brand Division, and David C. Hsia, our former Senior Vice President, Scientific Affairs, who retired from that position on September 30, 2008.

Compensation Philosophy and Objectives

The Committee believes that its primary objectives with respect to Named Executive Officer compensation are to:

tie a significant portion of our Named Executive Officers' total compensation to the achievement of measurable individual and corporate performance goals;

align our Named Executive Officers' cash and equity incentives with company performance and provide equity incentives that focus our executives' efforts on the creation of stockholder value; and

attract and retain the most talented and dedicated executives possible in a competitive labor market.

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To these ends the Committee believes that the most effective executive compensation program is one that (i) links a significant portion of an executive's total compensation to the achievement of specific individual and corporate performance goals, including annual and long-term strategic goals and (ii) provides such compensation in a mix of both cash and equity-based compensation such that our executives continue to have the creation of short- and long-term stockholder value as a primary objective. The Committee evaluates individual, departmental, segment and corporate performance to determine the proper mix of executive total compensation with the goal of setting executive total compensation at levels the Committee believes are competitive relative to the total compensation paid to similarly situated executives of our peer companies.

As a result of our compensation objectives outlined above we allocate a significant percentage of our total compensation to annual cash incentives and long-term equity incentives. We have no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Committee continually reviews many factors, as discussed more fully below, to determine the appropriate level and mix of incentive compensation.

Role of Executive Officers in Compensation Decisions

On an annual basis, in concert with our chief executive officer, our Named Executive Officers engage in a process whereby they each set individual, departmental and company-wide goals for the year to come. Following the completion of our fiscal year, our Named Executive Officers are formally required to assess whether these goals were achieved and set values to express the extent to which the Named Executive Officer believes his or her goals were met. Our chief executive officer reviews and discusses these self-assessments with each of our Named Executive Officers and, with the assistance of our human resources department, makes recommendations to the Committee concerning compensation of the Named Executive Officers. While the Committee considers these recommendations in determining base salaries, adjustments to base salaries, cash incentive awards and equity-based awards for our Named Executive Officers, it may modify any such recommendations in its discretion. Our Senior Vice President, Human Resources, also works closely with the Committee and management to ensure that the Committee is provided with appropriate information upon which to base its decisions and communicate those decisions to management for implementation.

Independent Compensation Advisor

The Committee has engaged Towers Perrin, an independent global professional services consulting firm, to advise the committee on matters related to chief executive officer and other executive compensation. In this capacity, Towers Perrin conducts an annual benchmark review of our compensation program for our Named Executive Officers and provides the Committee with relevant market data and structuring alternatives to consider when making compensation decisions.

Working with Towers Perrin, the Committee compares the elements of our total compensation program against programs provided for similarly situated executives at peer companies, as discussed more fully below. The Committee generally assesses the competitiveness of our total target and actual direct compensation (salary, bonus and equity) for our Named Executive Officers by comparing these amounts with the 50th percentile of total direct compensation paid to similarly situated executives of our peer companies.

In June 2008, Towers Perrin conducted a competitive pay assessment of the compensation of our Named Executive Officers other than Dr. Hsia using benchmarks from compensation data reported in the then-most recent proxy statements of the following twelve (12) peer group companies:

Allergan, Inc.
APP Pharmaceuticals, Inc. (subsidiary of
Fresenius Kabi Pharmaceuticals Holding, Inc.)
Barr Pharmaceuticals, Inc.
Biovail Corporation
Forest Laboratories, Inc.
Hospira, Inc.

King Pharmaceutical, Inc.
Medicis Pharmaceutical Corp.
Mylan Laboratories Inc.
Par Pharmaceutical Companies, Inc. (Par)
Perrigo Company
Valeant Pharmaceuticals International (Valeant)

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Since the last assessment of compensation performed by Towers Perrin in June 2007, we added APP Pharmaceuticals, Inc., Hospira, Inc., and Par to our peer group based on our selection criteria of public companies competing primarily in the pharmaceutical sector that had between 50% and 200% of our revenue or our market capitalization at the time of the study. Except for Par and Valeant, the peer companies met either the revenue or market capitalization criteria. Par and Valeant fell below these criteria but our the Committee added Par to, and retained Valeant in, our peer group in order to get additional data points for comparison and because Towers Perrin and the Committee considered them to be very similar to us in terms of their business model, and in the case of Valeant, their geographic location. Excluding these two companies from our peer group would have generally resulted in no or a slight increase to the 50th percentile of the peer group for the all of the compensation factors discussed in the following discussion for our Named Executive Officers. The Committee does not rely exclusively on statistical compilations and may vary on a case-by-case basis from our compensation target objectives as dictated by the experience of the individual and market factors.