Barr Laboratories, Inc.

Annual Report 2001

Creating Choices In Generic and Proprietary Medicines

Who We Are, What We Do

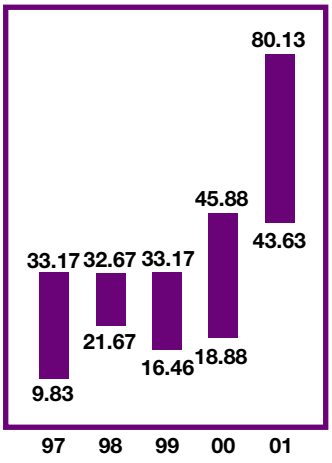
Barr Laboratories is a specialty pharmaceutical company that develops, manufactures and markets generic and proprietary prescription pharmaceuticals used to treat cancer, female health issues, heart disease, depression, infection and other illnesses.

Selected Financial Highlights

(Financial data in thousands, except per share data and employee data)	*Years Ended June 30,* 2001	2000	% Growth
Results of Operations			
Total Revenues	$509,686	$440,752	16%
Earnings			
Earnings from Operations	61,595	39,007	58
Proceeds from Patent Challenge Settlement	28,313	27,584	3
Net Earnings	62,487	44,177	41
Earnings per Share Assuming Dilution	1.66	1.24	34
Financial Position			
Cash Flows from Operations	$ 64,341	$ 46,790	38
Working Capital	285,214	202,892	41
Total Assets	543,394	423,853	28
Shareholders' Equity	365,642	282,168	30
Statistics			
Research and Development Expenditures	$ 53,244	$ 40,451	32
Capital Expenditures	$ 17,722	$ 12,086	47
Number of Employees	658	612	8
Weighted Average Number of Common Shares Outstanding Assuming Dilution	37,687	35,715	6

Stock Price Range 1997-01

dollars



Bruce L. Downey
Chairman and Chief
Executive Officer

Chairman's Letter

Fellow Shareholders:

Fiscal 2001 was an extraordinary year for our Company.

The year started strong, with the August 2000 announcement of our Court of Appeals victory in the Prozac patent challenge. The year ended with our June 2001 announcement of our intended merger with Duramed Pharmaceuticals, Inc. – a move that will dramatically accelerate our drive to become a leader in the female healthcare category.

Along the way, we met or exceeded the goals we established in every area of our business. We filed a record 18 product applications; launched our first two proprietary products; recruited industry-leading clinical and management talent to accelerate proprietary research and development activities; successfully completed a secondary stock offering that brought many new investors into our shareholder base; and delivered a 41% increase in net earnings while expanding our research and development investment to a record $53 million.

Record Financial Performance

In fiscal 2001, we achieved the highest revenues, net income and investment in R&D in our 31-year history.

Total revenues increased 16% to $510 million from $441 million last year. Our net earnings were $62 million, or $1.66 per share, compared to $44 million or $1.24 per share in fiscal 2000.

Our largest selling product, Tamoxifen Citrate, the breast cancer treatment we distribute, continued to enjoy both sales and volume growth. By the end of the fiscal year, over 80% of prescriptions for this product were filled with the Barr labeled product.

Sales of Warfarin Sodium, our second largest selling product, grew approximately 18% due to our accelerated rate of generic substitution. By year-end, Barr's Warfarin Sodium had been dispensed more than 16 million times since we launched the product in 1997.

The third major contributor to revenue growth was ViaSpan®, the organ transplant preservation solution that we began marketing in the United States and Canada in August 2000. We began marketing ViaSpan under an agreement with DuPont Pharmaceuticals Company.

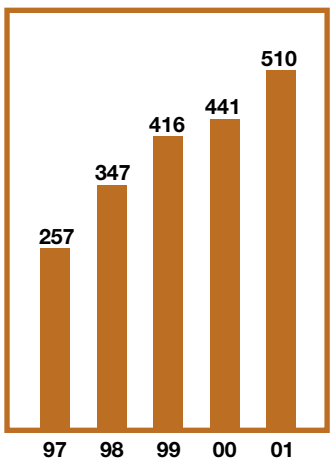
Our investment in Research and Development again recorded its eighth straight annual increase, climbing 32% to $53 million, as compared to $40 million last year.

Fiscal 2001 Sets New Record

Fiscal 2001 represented the most successful year in Barr's 31-year history. We ended the year with record revenues, record earnings and a record investment in Research and Development.

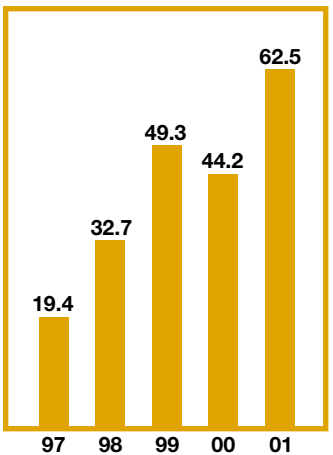
Total Revenues 1997 – 01

$ in millions



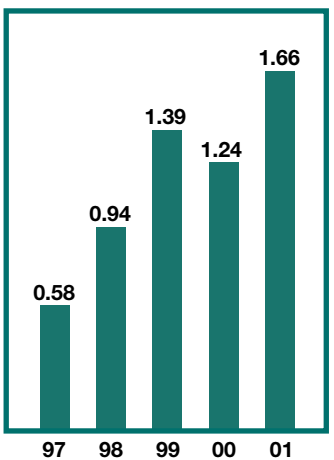
Net Earnings

$ in millions



Earnings per Share*

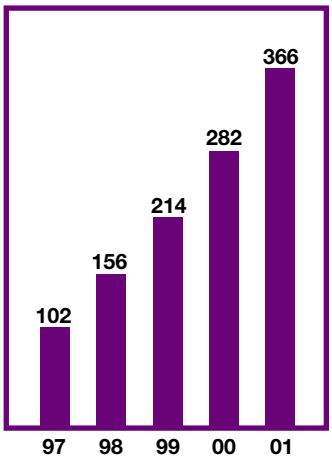
$ per share



**Assuming Dilution*

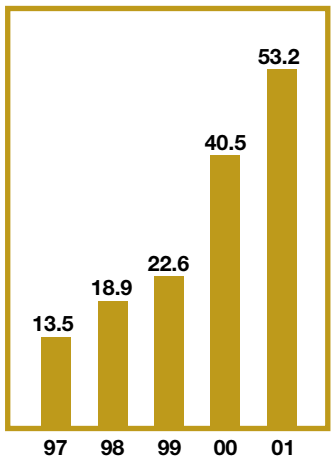
Shareholders' Equity

$ in millions



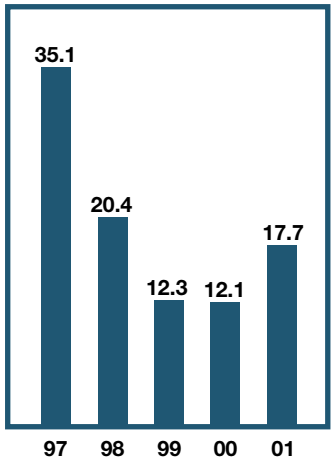
Investing in R & D

$ in millions



Capital Spending 1997 – 01

$ in millions



Executing Our Business Strategy

We continue to focus on the three-tier business strategy that has delivered growth: developing and marketing selected generic pharmaceuticals with barriers to entry; developing and introducing proprietary pharmaceuticals; and challenging patents protecting certain brand pharmaceuticals.

Generic Strategy

During the past fiscal year, we received approval for nine products, including our first generic oral contraceptive products. In addition, we launched generic products including versions of Tylox®, a pain management product; Cordarone®, for recurrent ventricular arrhythmias; DextroStat®, for narcolepsy and attention deficit disorder; and Luvox®, used to treat Obsessive Compulsive Disorder.

We filed a total of 18 new product applications, giving us a total of 26 generic product applications pending approval at FDA.

Proprietary Strategy

Our proprietary product development activities produced a number of accomplishments during fiscal 2001. In these activities, we focus on the development and commercialization of products that meet one of three basic criteria: chemical compounds where the development of new forms (liquid vs. tablets or different dosages) offers therapeutic or marketing advantages; new chemical entities in selected therapeutic categories, including some that are marketed in other countries but not currently sold in the United States; and patent-protected proprietary products in late stages of development.

Early in fiscal 2001, we received approval for our first in-house proprietary product: Mylocel™ brand Hydroxyurea tablets, an anti-cancer agent. In January, we signed a licensing agreement with MGI Pharma, Inc. to detail Mylocel to oncologists in the United States. In March, FDA approved our Trexall™ brand Methotrexate tablets used in the treatment of certain neoplastic diseases, severe psoriasis, and adult rheumatoid arthritis. DuPont has begun physician detailing of this proprietary product.

We have a number of other proprietary pharmaceutical products under development, including SEASONALE™, our patent-protected oral contraceptive, and our CyPat™ agent for symptoms associated with the treatment of prostate cancer.

Patent Strategy

One of the most publicized pharmaceutical news stories of the year was the successful conclusion of our Prozac® anti-depressant patent challenge case. Throughout the year Eli Lilly continued to exhaust its legal options in the landmark case. Simultaneously, we manufactured the quantities necessary to successfully launch the product once marketing approval was received.

Our launch of generic Prozac represented one of the most significant product introductions in the history of the generic industry.

Physician detailing will help establish our proprietary Trexall as a new option for treating rheumatoid arthritis.

I believe that the Prozac victory, perhaps because of the sheer magnitude of the market, demonstrates the undeniable consumer value of the patent challenge provisions of the 1984 Drug Price Competition and Patent Term Restoration Act (Hatch-Waxman). The removal of this invalid patent will save consumers billions of dollars through the early introduction of generic versions of Prozac.

While Prozac was in the spotlight, we also made progress with several other patent challenge cases.

Our patent challenge to market a generic equivalent of Ortho's Tri-Cyclen oral contraceptive is in the discovery stage. In March 2001, we received tentative approval of our application for the generic equivalent of Ortho-McNeil Pharmaceutical Inc.'s Ortho-Novum 7/7/7® oral contraceptive. This case is expected to go to court before the end of the calendar year. In May 2001, we filed an application for Flecainide Acetate tablets, a cardiovascular product, which is sold under the brand name Tambocor™. This case involves raw material patents.

Barr Research Formed

Barr's commitment to proprietary product development was dramatically strengthened in January with the formation of Barr Research, and the recruitment of Carole S. Ben-Maimon, M.D. as its President and Chief Operating Officer. Dr. Ben-Maimon is responsible for all aspects of proprietary product development, including products developed under the New Drug Application (NDA) process and clinical development of proprietary products using the Abbreviated New Drug Application (ANDA) process.

Since January, Dr. Ben-Maimon has opened the Barr Research offices in Philadelphia, PA, and successfully recruited a core team of scientists and product development experts who are focused on accelerating our proprietary activities.

Before joining Barr, Dr. Ben-Maimon served as Senior Vice President of Science and Public Policy, North America, for Teva Pharmaceuticals USA. During her four-year tenure with Teva, she managed the development of more than 30 products. Prior to joining Teva, Dr. Ben-Maimon was with Wyeth Ayerst.

Dr. Ben-Maimon received her B.A. (Magna Cum Laude) in Biology from the University of Pennsylvania, and received her M.D. from Thomas Jefferson Medical College in Pennsylvania. She is Board Certified in Internal Medicine.

Accelerating Our Drive to Become a Leader in Female Healthcare

On June 29, we announced that Barr and Duramed had agreed to merge our two companies into a single entity that will create a leading developer, manufacturer and marketer of proprietary and generic female healthcare products, including hormone replacement therapies and oral contraceptives. The combined company, which will operate under the Barr Laboratories name, expects to have revenues of approximately $700 million in fiscal 2002, excluding any revenues related to the introduction of our generic Prozac.

Barr contributes a strong pipeline of generic and proprietary oncology, female healthcare products and oral contraceptives, including our innovative SEASONALE oral contraceptive which is currently in Phase III clinical trials and could reach the marketplace as early as the second-half of calendar 2003. We also contribute a well-financed research and development capability and significant expertise in legal, regulatory and government affairs activities.

Duramed contributes several key oral contraceptives, including its Apri®, Aviane™ and Enpresse™ oral contraceptives, as well as hormone replacement products including its Cenestin® (synthetic conjugated estrogens, A) Tablets. Duramed also contributes an experienced sales force that has been driving the growth of Cenestin, and will play a critical role in the launch of SEASONALE. Together, we will have the most versatile specialized manufacturing capabilities in the industry. We are hopeful that the transaction will be completed by fall. Then, we can begin to benefit from the combination of these strengths.

Combining the female healthcare and oral contraceptive products from Duramed with those of Barr will create a strong competitor in this growing category.

Future Challenges

Each year, I briefly describe the challenges we will face in continuing our Company's progress. First, we must continue to deliver on our product development commitments and successfully launch upon approval. We must continue to allocate the resources necessary to support the demands of growth. We must continue to recruit, reward and retain the human resources necessary to achieve our objectives. We must continue to focus our efforts on only those activities that generate value for shareholders. And we must continue to work to educate policy-makers and consumers about the value of generic medicines, and promote reforms that encourage the timely introduction of – and increased access to – more affordable medicines.

Paul M. Bisaro, President and Chief Operating Officer, Barr Laboratories, along with Mr. Downey and Dr. Ben-Maimon have established Barr's strategy for success in generic and proprietary medicines.

The introduction of Mylocel represented the launch of our first proprietary product.

This year, we will add the challenge of integrating our Company with Duramed to the commitments that I am asking our employees to make. I am confident that we can smoothly integrate our organizations and help ensure that the combined company leverages all of the capabilities of the partners.

In addition, I believe that over the next 12-18 months we will be engaged in the debate of federal legislation that could revisit some of the components of Hatch-Waxman. The generic industry is united in its commitment to use such legislative opportunities to encourage Congress to close loopholes that allow brand pharmaceutical companies to delay generic introductions and manipulate the legislative, regulatory and patent processes. This will not be an easy battle, but I am confident that the members of our industry recognize the benefits of seeking expansion and acceleration of generic approval, and ultimately the establishment of a process that enables the introduction of generic biologics into a multi-billion dollar brand marketplace. As always, we will play a leading role in ensuring that the interests of consumers are represented in any discussion of Hatch-Waxman expansion.

Finally, I want to thank the members of the Barr team for their efforts during this exciting and challenging year. While we have much to be proud of, we have much to accomplish in 2002. The commitment of Barr's employees will help ensure that we continue to successfully execute our strategy to continue to deliver increasing value to our shareholders.

Thank you for your continued support of our Company. We look forward to an exciting future in which Barr will continue its drive to become a leader in female healthcare and oral contraceptives, while expanding our proprietary product activities and extending our presence as a specialty pharmaceutical company.

Sincerely,

Bruce L. Downey

Chairman

Proprietary Product Pipeline

	Category	Dosages	Status	Est. Launch Qtr. Ending
ViaSpan	Transplant	1	Launched	
Trexall™	Oncology	4	Launched	
Mylocel™	Oncology	2	Launched	
SEASONALE™	OC	2	Phase III	Sept. 2003
CyPat™	Oncology	1	Phase III	June 2004
DP3	Female HC	2	Phase III	June 2004
BRL3	Oncology	1	File Q4 CY01	Sept. 2003
Japanese Encephalitis Vaccine	Anti-Viral	1	Phase II	TBD

The Power of Choice

20th Century Harvard philosopher Dr. William James once noted that “life is a mass of small choices.” For some Americans, that choice is the availability of a new therapy that improves compliance or represents a choice over existing drugs. Or, perhaps that choice is the more affordable generic that provides the necessary therapy while making it possible to better manage the family budget in light of illness or disease.

Barr’s commitment to developing generic and proprietary pharmaceuticals is about increasing choices and enhancing access to medicines that improve the quality of life.

For cancer patient and author Amelia Frahm, there was no other choice. With no "kid-friendly" resources to explain the physical and emotional changes that result from battling cancer, she wrote the book *Tickles Tabitha's Cancer-Tankerous Mommy* for her children, and the children of hundreds of thousands of other cancer patients.

Oncology

Cancer treatments have traditionally been a major focus of Barr's product line. During fiscal 2001, sales and prescriptions for our largest selling product, Tamoxifen, the gold-standard in the treatment of breast cancer, continued to grow. In addition, we launched the new proprietary product Mylocel. We also continued the development of other cancer agents including CyPat, an innovative treatment for the symptoms associated with the treatment of prostate cancer.

Tamoxifen is the generic name for AstraZeneca's Nolvadex®, which is used to treat advanced breast cancer, impede the recurrence of tumors following surgery, and reduce the incidence of breast cancer in women at high risk for developing the disease. Total U.S. sales were approximately $374 million last year. Approximately 84% of the total prescriptions written for Tamoxifen in the U.S. were filled with our product.

During fiscal 2001, we received FDA approval to market new dosage strengths of the Hydroxyurea anti-cancer agent. This proprietary product, marketed under the Mylocel name, includes a 1000 mg tablet that is designed to simplify drug therapy and enhance patient compliance. Some patients using Hydroxyurea take as much as 6000 mg per day. Mylocel's 1000 mg strength makes it possible to reduce the number of individual tablets patients take, because the 500 mg dosage strength was the highest previously available. In addition, our tablets are scored to allow the more accurate adjustment of dosage levels.

Our commitment to participating in the oncology market includes both generic and proprietary cancer treatments.

In January, we signed a licensing and distribution agreement with MGI Pharma, Inc., whose sales force began marketing Mylocel in March, supported by advertising and physician sampling programs.

CyPat Clinical Study

Cyproterone Acetate, which we intend to market in the United States under the name CyPat, is a steroid that blocks the action of testosterone.

In July 1999, we submitted an Investigational New Drug (IND) application with the FDA for CyPat for the treatment of vasomotor symptoms associated with prostate cancer therapies and their effects on the patients' quality of life. Of the more than 2.4 million patients in the United States who have been diagnosed with prostate cancer, CyPat may prove suitable for treating approximately 100,000 of the patients.

Our clinical trials to demonstrate the effectiveness of our CyPat product continued through fiscal 2001.

We have initiated a Phase III clinical trial to study the efficacy and safety of CyPat for the treatment of hot flashes following surgical or chemical castration in prostate cancer patients. The clinical studies are expected to include approximately 600 patients at approximately 60 sites across the country. We have enrolled approximately 300 patients to date and are working to complete enrollment by March 2002.

Pending FDA approval, CyPat could reach consumers as early as mid-calendar 2004.

Female Health

An estimated 10 million American women use oral contraceptives, which have annual sales of approximately $2.2 billion. Approximately 40% of American women between the ages of 50 and 74 take some form of estrogens or other female hormones that have annual sales of more than $2 billion.

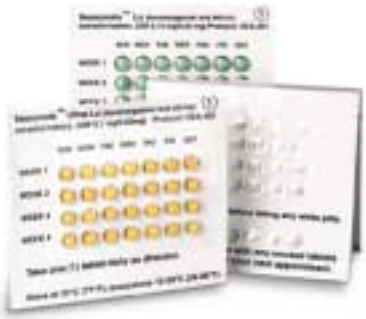
During fiscal 2001, we expanded our line of hormonal agents; introduced our first generic oral contraceptive product; and continued development of our proprietary SEASONALE oral contraceptive. Our proposed merger with Duramed Pharmaceuticals Inc. will enable us to accelerate the development of a complete line of generic oral contraceptives and strengthen our female healthcare franchise.

In March, FDA approved our applications to manufacture and market our first generic oral contraceptives: versions of Ortho-McNeil Pharmaceutical, Inc.'s Ortho-Novum 1/35® Tablets oral contraceptive and Modicon-28® Tablets oral contraceptive. We are marketing these products under the Nortrel™ trademark. The combined product strengths have current annual sales of approximately $80 million.

In May, FDA approved our Norethindrone Acetate tablets, USP 5 mg, the generic equivalent of ESI Lederle Inc.'s Aygestin®, tablets. Aygestin is indicated for secondary amenorrhea, endometriosis, and abnormal uterine bleeding. We launched our product, the first generic, at the close of fiscal 2001.

SEASONALE Clinical Trial

In January 2001, we completed enrollment and approximately 1,300 patients are actively participating in our Phase III clinical study for SEASONALE, our patent-protected oral contraceptive regimen. We expect to complete the trial by January 2002. Pending FDA approval, SEASONALE could reach consumers as early as the second-half of calendar 2003. The SEASONALE regimen is patent-protected through 2017.



The introduction of SEASONALE, pending completion of clinical studies and FDA approval, could give women an innovative option in family planning.

SEASONALE would be used by women for up to 84 consecutive days, and then they would have a seven-day placebo interval. By contrast, the majority of oral contraceptive products currently available in the United States are based on a regimen of 21 treatment days and then seven placebo days.

The proposed SEASONALE regimen is expected to result in only 4 menstrual cycles per year, or one per "season." This type of oral contraceptive regimen is preferable for many women whose lifestyles dictate the convenience of fewer menstrual cycles per year.

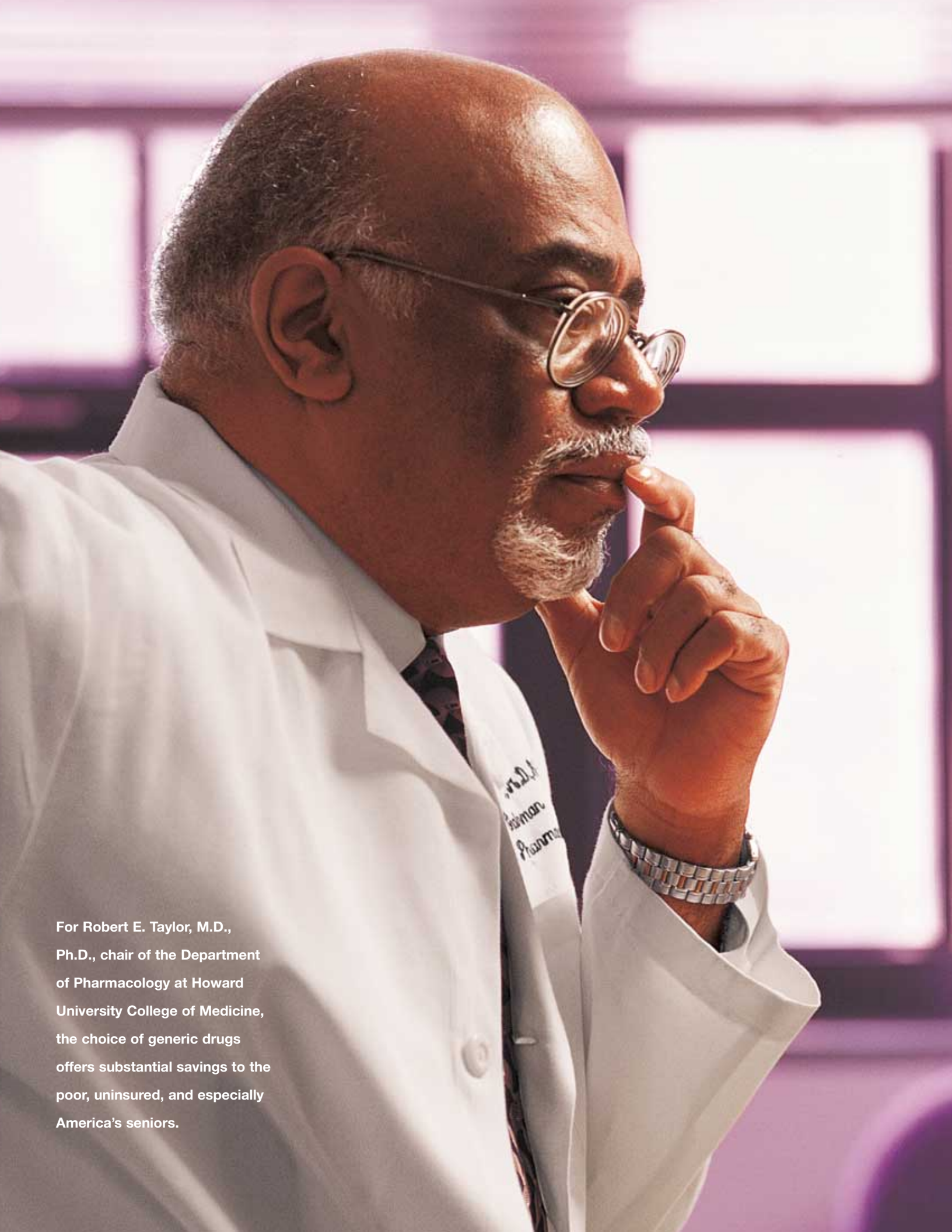
Two other products in our oral contraceptive pipeline involve patent challenges.

In October 1998, we filed an application for the generic equivalent of Ortho-McNeil Pharmaceutical Inc.'s Ortho-Novum 7/7/7 oral contraceptive. In March 2001, we received tentative approval. The case is expected to go to trial later this year.

In February 2000, we filed an application to market three different tablet combinations of Norgestimate and Ethinyl Estradiol, the generic equivalent of Ortho Tri-Cyclen. This case is currently in the discovery phase.

Our commitment to offer patients a line of generic oral contraceptive products advanced with the introduction of our first product during fiscal 2001.

Dr. Sooji Lee-Rough, a clinical researcher, is participating in the studies related to the approval of Barr's SEASONALE oral contraceptive. Dr. Lee-Rough's work, as well as that of other clinicians', may re-define American women's family planning choices.



For Robert E. Taylor, M.D., Ph.D., chair of the Department of Pharmacology at Howard University College of Medicine, the choice of generic drugs offers substantial savings to the poor, uninsured, and especially America's seniors.

Cardiovascular

Barr's presence in the cardiovascular category, particularly through our generic Warfarin Sodium product, continued to grow during fiscal 2001.

We launched Warfarin in 1997, the first generic equivalent of Coumadin®, an anticoagulant given to patients with heart disease and/or high risk of stroke. Since then, our product has been dispensed more than 16 million times. During fiscal 2001, the percentage of Coumadin prescriptions filled with a generic version has increased steadily to approximately 42%. Total U.S. generic and brand sales of Warfarin Sodium were approximately $455 million last year.

Florida Consumers Victorious

The State of Florida was the focal point of a successful effort during fiscal 2001 to remove a decades-old barrier to substitution for Warfarin. On June 1, 2001, Florida Governor Jeb Bush signed HB 69, legislation that will modernize Florida's generic substitution regulations and permit the substitution of "AB" rated generic products for their brand name equivalents, including Warfarin Sodium.

In signing the landmark legislation, the Governor said, "This bill will provide Floridians, particularly elders, with an opportunity to purchase quality drugs at a more affordable price." Based on current sales of Coumadin, and other drugs currently restricted by Florida's negative formulary, Florida patients should save $15-20 million each year.

In addition to our continued support of legislative initiatives to remove barriers to Warfarin substitution, we continued our commitment to educating physicians, pharmacists and patients about the benefits of generic Warfarin. Our Warfarin web site (www.warfarininfo.com), which was launched a year ago, has logged nearly 1 million visits.

During fiscal 2001, we also added another cardiovascular therapy to the products that we currently market. In January 2001, we received approval for Amiodarone Hydrochloride, the generic equivalent of Wyeth Ayerst Laboratories, Inc.'s Cordarone. Cordarone is indicated for the treatment of life threatening recurrent ventricular arrhythmias, recurrent ventricular fibrillation and recurrent hemodynamically unstable ventricular tachycardia. Current annual sales are approximately $145 million.

In May 2000, we filed an application with the FDA initiating a patent challenge on Flecainide Acetate tablets, which are sold under the brand name, Tambocor. This case involves an alleged infringement of raw material patents and is not a challenge to the validity of patents protecting the product. Flecainide has current annual sales of approximately $97 million.

We added Amiodarone to our line of cardiovascular products, which has Warfarin Sodium as its cornerstone.

Psychotherapeutics

The big news in Barr's psychotherapeutic category during fiscal 2001 was our victory in the battle to bring a more affordable version of Prozac to American consumers.

Fluoxetine is the generic equivalent of Eli Lilly Company's anti-depressant, Prozac, which had annual sales last year of approximately $2.7 billion. The 20 mg capsules which we launched in August represent approximately $2.2 billion of this market. We filed our application for the 20 mg capsule of Fluoxetine in December 1995, and were sued for patent infringement by Lilly, initiating the patent challenge process.

On August 9, 2000, the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., ruled in favor of our challenge to a Lilly patent protecting Prozac. The Court unanimously upheld our "double-patenting" claims, and struck down a patent that would have protected Prozac from generic competition until December 2003.

On May 30, 2001, in answer to Lilly's appeal, a three-judge panel of the Court of Appeals reaffirmed its earlier decision invalidating the patent protecting Eli Lilly's Prozac anti-depressant.

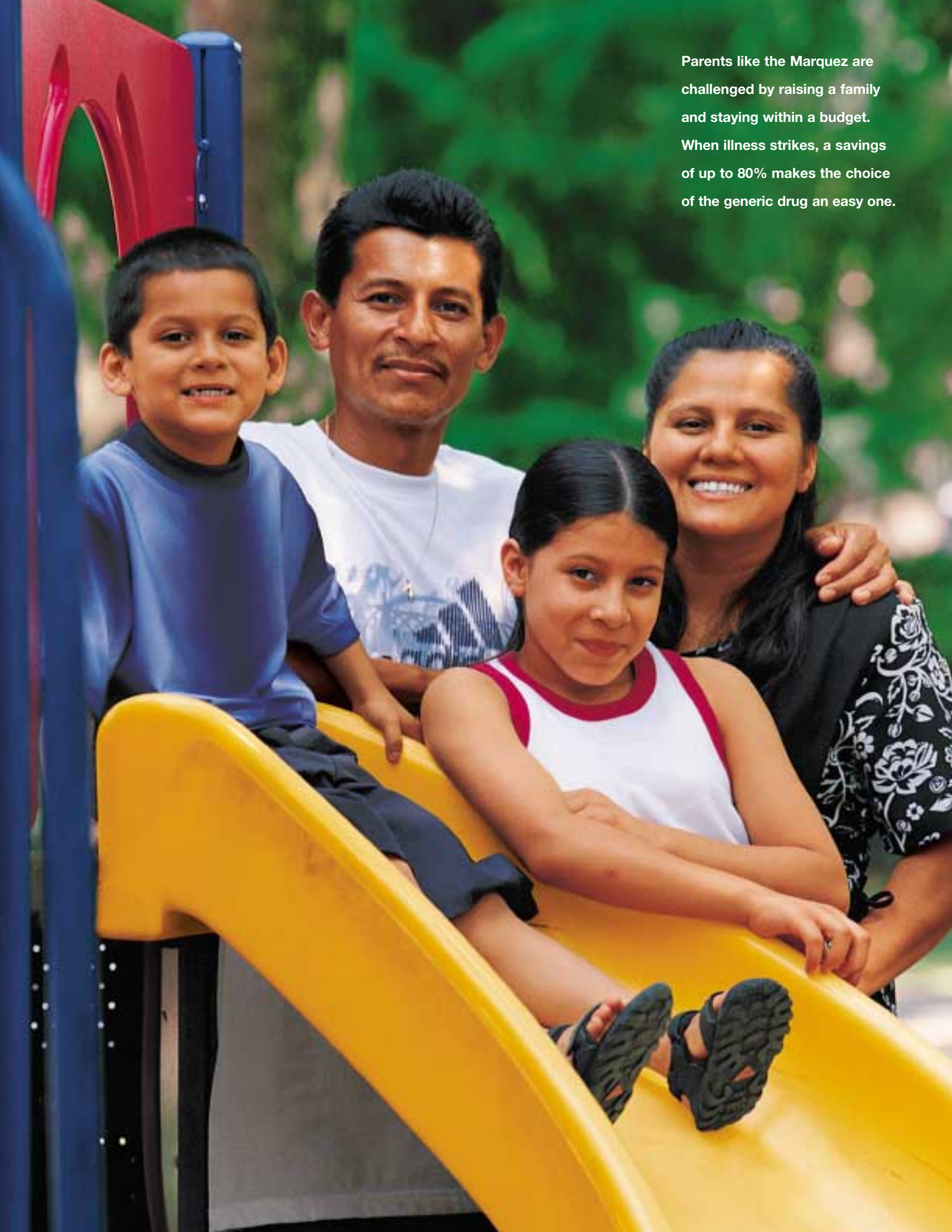
On July 27, the Appeals Court ordered the Indiana District Court to remove the final obstacles to our launch of generic Prozac. On August 2, the six year effort to launch a generic Prozac, and save consumers billions of dollars, was successfully concluded when we received FDA approval and immediately began shipping our product.

While our generic Prozac grabbed the national spotlight, we also added a new OCD product to our line.

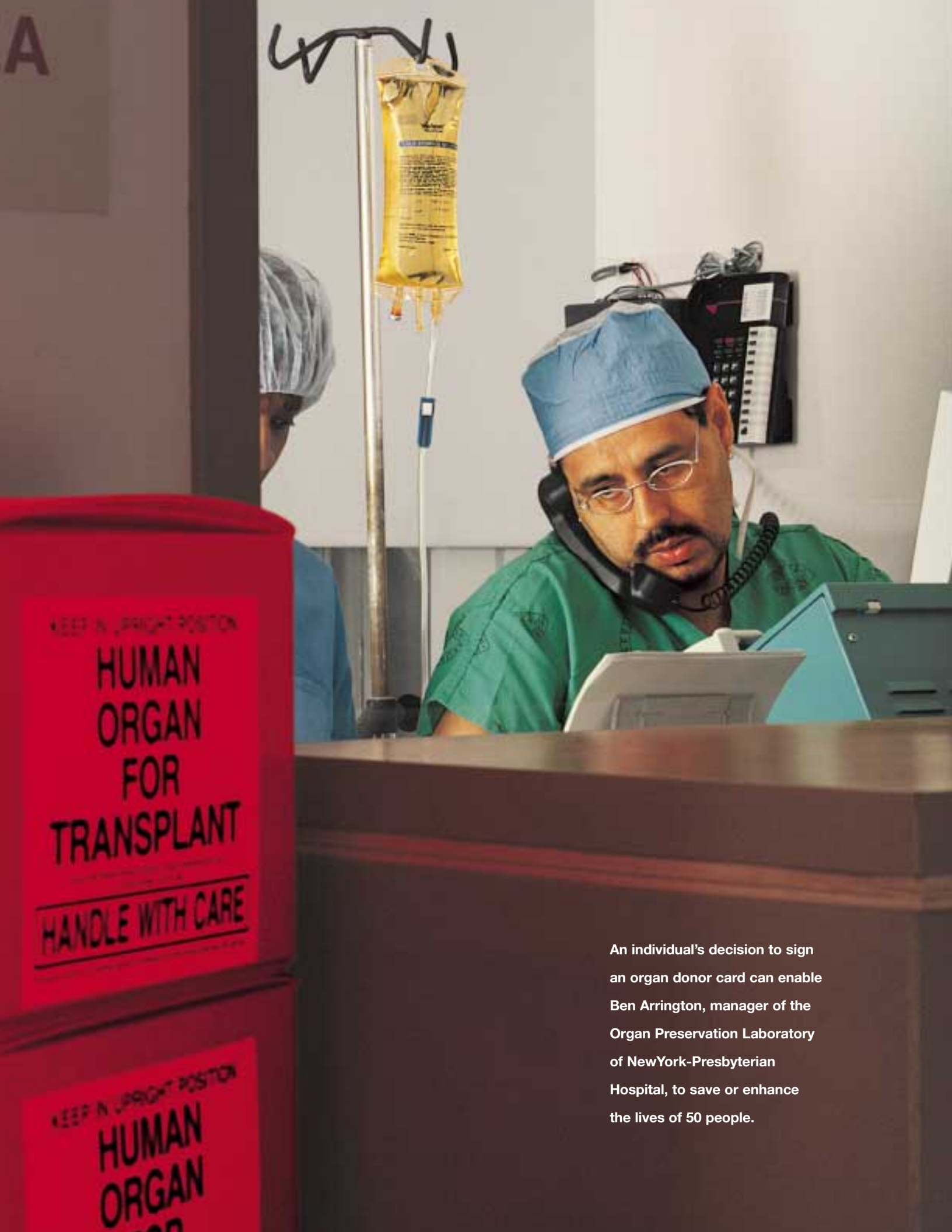
Millions of American consumers will benefit from the savings, and millions more who might have otherwise had to forego this medicine because of its high cost will have access to a more affordable version of Prozac.

As the first generic drug company to file an application for the Prozac 20 mg capsules challenging Lilly's listed patents, we expect to receive 180-days of generic exclusivity granted under the Hatch-Waxman Act.

In addition to Prozac, fiscal 2001 saw the January FDA approval for Fluvoxamine Maleate 25 mg, 50 mg and 100 mg tablets. Fluvoxamine is the generic equivalent of Solvay Pharmaceuticals, Inc.'s LUVOX tablets. Luvox is indicated for the treatment of patients with Obsessive Compulsive Disorder (OCD) and has current annual sales of approximately $200 million.



Parents like the Marquez are challenged by raising a family and staying within a budget. When illness strikes, a savings of up to 80% makes the choice of the generic drug an easy one.



An individual's decision to sign an organ donor card can enable Ben Arrington, manager of the Organ Preservation Laboratory of NewYork-Presbyterian Hospital, to save or enhance the lives of 50 people.

Organ Transplant Preservation

According to the UNOS Transplant Patient Data Source Scientific Registry, more than 17,000 kidney and liver transplants are conducted annually in the United States. Critical to the success of these transplants is the appropriate preservation of the organ prior to transplant.

In August 2000, we began marketing ViaSpan, a solution used for hypothermic flushing and storage of organs including kidney, liver and pancreas at the time of their removal from the donor in preparation for storage, transportation and eventual transplantation into a recipient.

We acquired the marketing rights to ViaSpan in the United States and Canada from DuPont Pharmaceuticals Company as part of a co-development and marketing alliance.

Since August, we have focused our sales and marketing efforts to support expanded use of the product within the transplantation market and have assumed a leadership role in the encouragement of organ donation.

Our dedicated sales and marketing effort separates us from competitive products in this category. Our ViaSpan National Account Manager calls upon the Organ Procurement Organizations (OPOs) as well as select transplant centers in the U.S. and Canada. The average OPO services more than 120 hospitals. In addition to building strong relationships within this relatively small community, we have also extended our marketing activities to include advertising in transplantation journals and the creation of a ViaSpan web site (www.viaspan.com).

Even before we began marketing ViaSpan, we recognized that educating consumers about organ donation and helping define public policies that increase organ donation were critical needs within the transplant community. We have been a sponsor of the Coalition on Donation's national education programs, worked with a number of national transplant associations, and sponsored various local programs coordinated by individual OPOs.

We have also supported initiatives in the legislative arena, and were recognized, along with several other companies, for our efforts by Health and Human Services Secretary Tommy Thompson.

On April 16, 2001, Barr executives were present to lend their support to Thompson's "Workplace Partnership for Life" campaign, in which employers and employees will join a nationwide network to promote organ donation. We were recognized as a charter member of the Partnership.

The program includes the creation of a model organ donor card; establishment of a national organ donor registry; and the availability of funds to support demonstration programs for increasing donations.

Clinical studies have demonstrated that patients receiving organs flushed and stored in ViaSpan have improved outcomes.

Expanded Therapeutic Categories

Barr's emphasis on developing products with barriers-to-entry often results in the development and introduction of a valuable pharmaceutical product that may not neatly fit into one of the Company's primary therapeutic categories.

During fiscal 2001, we launched a proprietary product that builds on our expertise in the development of Methotrexate-based products. We also introduced a product for attention deficit disorder that capitalizes on our expertise with controlled substances.

Trexall

In 1990, Barr became the first generic company to introduce Methotrexate tablets, a product used to treat certain cancers, severe psoriasis and adult rheumatoid arthritis. This product was the first of many manufactured in Barr's pioneering special manufacturing suites that also support manufacturing of hormonal agents, oral contraceptives and our Warfarin product.

In March 2001, we received FDA approval for our second proprietary product, capitalizing on our leadership with Methotrexate: Trexall proprietary Methotrexate tablets, USP 5, 7.5, 10 and 15 mg.

Barr's proprietary Trexall product represents four new dosage strengths of Methotrexate designed to simplify drug therapy and increase patient convenience and compliance.

Prior to Trexall's approval, Methotrexate tablets were only available in the 2.5 mg tablet strength. However, some patients must take a dosage of up to 20 mg at one time. Trexall will offer physicians the option to prescribe higher dosage strengths utilizing tablets that are scored, color-coded and debossed with the dosage strength.

DuPont Pharmaceuticals began detailing Trexall directly to target physicians prior to the end of the fiscal year, under the terms of a 5-year marketing agreement. This marketing effort includes physician detailing and product sampling, patient support information, an 800-number and a web-site.

In addition, we have provided grants to support the ongoing efforts of the American Arthritis Foundation.

Dextroamphetamine

In February, we entered a new therapeutic arena: narcolepsy and attention deficit disorder with hyperactivity (ADHD), with the launch of the first generic Dextroamphetamine Sulfate tablets, the generic equivalent of Shire Richwood Inc.'s DextroStat. We are offering the product in two strengths, the 5 mg and 10 mg tablets.

The launch of our Dextroamphetamine product demonstrates our ability to leverage capabilities, such as our ability to manufacture and market Class II controlled substances, and our ability to accelerate product development in order to be the first generic entrant into the marketplace. The total DextroStat market was valued at approximately $20 million last year.

Our Trexall product is designed to simplify drug therapy and increase patient convenience and compliance.

For Teri Mouro, rheumatoid arthritis sufferer and Barr sales executive, the introduction of Trexall is the logical choice for simplifying drug therapy and enhancing compliance.

Financial Review

As a generic industry pioneer, Barr's heritage is to make drug therapy more affordable and accessible to American consumers like the Larson family. Barr's emerging leadership in unique proprietary products gives Americans new choices in managing illness.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(thousands of dollars)

Results of Operations Fiscal 2001 to Fiscal 2000

Total revenues increased approximately 16% from $440,752 to $509,686 driven by increased product sales and increased development and other revenue.

Product sales increased approximately 12% from $440,110 to $493,256 due to increased sales of Tamoxifen and Warfarin Sodium and the launch of new products such as ViaSpan, which more than offset declines in sales of other products due to pricing declines and/or lower volumes.

Tamoxifen sales increased 8% from $297,395 to $322,318. The increase was attributable to higher prices and an expansion in the use of Tamoxifen as measured by an increase in total prescriptions written for the product. In October 1998, Tamoxifen was approved to reduce the incidence of breast cancer in women at high risk of developing the disease. Tamoxifen is a patent protected product manufactured for the Company by AstraZeneca, the innovator. Currently, Barr is the only distributor of Tamoxifen in the U.S. other than AstraZeneca, whose product is sold under the brand name Nolvadex. In fiscal 2001, Tamoxifen accounted for 65% of product sales versus 68% in fiscal 2000. The Company currently has a tentatively approved ANDA to manufacture the 10 mg tablet of Tamoxifen and is awaiting approval of the 20 mg tablet application. After the patent expires in August 2002, the Company expects that it will either continue to sell Tamoxifen as a distributed product or as its own manufactured product. The Company expects that additional competitors will enter the market upon patent expiry. If this does occur, Barr believes that while its revenues and market share will be negatively affected, its gross margins on the sales of Tamoxifen will exceed those it currently earns as a distributor.

Other product sales increased 20% from $142,583 to $170,938. The increase was attributable to increased sales of Warfarin Sodium and Trazodone and products introduced in the current fiscal year including ViaSpan, which the Company began distributing on August 1, 2000 and Fluvoxamine, which the Company launched in January 2001. Warfarin Sodium sales accounted for approximately 14% of total product sales in the current and prior year.

Development and other revenue consists primarily of amounts received from DuPont Pharmaceuticals Company ("DuPont") for various development and co-marketing agreements entered into in March 2000. As the Company incurs research and other development activity costs, Barr records such expenses as research and development and invoices and records the related revenue from DuPont as development and other revenue (See Note 2 to the Consolidated Financial Statements). Development and other revenue also includes royalty income earned under various licensing agreements with other third parties.

Cost of sales increased from $316,126 to $342,821 primarily related to an increase in product sales. As a percentage of product sales, cost of sales declined from 71.8% to 69.5%. The decrease in cost of sales as a percentage of product sales was due mainly to a lower percentage of Tamoxifen sales to total product sales, higher margins earned on Tamoxifen due to a price increase which occurred earlier in the year than the prior year and a more favorable mix of other higher margin products including ViaSpan, Fluvoxamine and Warfarin Sodium.

Selling, general and administrative expenses increased from $45,168 to $52,026. The increase was primarily due to higher legal spending, increased personnel costs, increased advertising and promotion costs and costs associated with the distribution of ViaSpan, which the Company began distributing August 1, 2000. The current year includes the Company's $2.4 million portion of the estimated $5.7 million success fee due to the Company's outside legal counsel in connection with the July 27, 2001 court order that removed the injunction restricting the launch of fluoxetine (See Note 15 to the Consolidated Financial Statements). The prior year's legal spending included a $2.5 million success fee paid to the Company's outside legal counsel associated with finalizing the various development and co-marketing agreements with DuPont. The increased spending over the prior year related to on-going patent challenges, legal research and preparation related to several additional patent challenges, increased costs associated with the Invamed, Inc./Apothecon, Inc. litigation as well as costs associated with antitrust litigation brought against the Company in fiscal 2001 (See Note 13 to the Consolidated Financial Statements). The increased advertising and promotions costs are the result of increased promotional and advertising development costs related mainly to new product launches.

Research and development expenses increased from $40,451 to $53,244. Approximately 45% of the increase in research and development spending was attributable to increased raw material purchases and internal development costs associated with maintaining a higher number of products in development. The balance of the increase is mainly related to increased payments to clinical research organizations for clinical and bio-study services associated with the Company's expanded development activities, as well as

increased payments for strategic collaborations. The increased level of spending during the fiscal year ended June 30, 2001, enabled the Company to file 18 applications with the U.S. Food and Drug Administration.

Interest income increased by $4,331 primarily due to an increase in the average cash and cash equivalents balance, partially offset by a decrease in the market rates on the Company's short-term investments.

Interest expense decreased $542 primarily due to lower fees paid on the average unsecured Tamoxifen payable balance (See Note 1 to the Consolidated Financial Statements) as well as a decrease in the Company's debt balances.

Other income increased by $3,301 primarily due to the $6,659 gain realized on the sale of the Company's investment in Galen Holdings plc ("Galen"), partially offset by the $2,450 charge related to the write-off of the Company's investment in Gynetics, Inc. The prior year amount reflects the $343 gain recognized on the warrants received from Halsey Drug Company, Inc. (See Note 6 to the Consolidated Financial Statements).

Results of Operations Fiscal 2000 to Fiscal 1999

Product sales increased approximately 6% from $415,950 to $440,110.

Tamoxifen sales increased 8% from $275,127 to $297,395. The increase was attributable to higher prices and an expansion in the use of Tamoxifen. In October 1998, Tamoxifen was approved to reduce the incidence of breast cancer in women at high risk of developing the disease. Tamoxifen is a patent protected product manufactured for the Company by AstraZeneca, the innovator. Currently, the Company is the only distributor of Tamoxifen in the U.S. other than AstraZeneca, whose product is sold under the brand name Nolvadex. In fiscal 2000, Tamoxifen accounted for 68% of product sales versus 66% in fiscal 1999.

The prior year's sales included $6,373 of Minocycline sales which the Company discontinued selling in late 1999 due to deteriorating market conditions.

Other product sales increased 6% from $134,450 to $142,583. The increase was attributable to sales of Warfarin Sodium, Medroxyprogesterone Acetate, Methotrexate, Naltrexone, Trazodone and Hydroxyurea. Warfarin Sodium sales accounted for approximately 14% of total product sales, which was a slight decline from 15% in the prior year. Barr ended the fiscal year with approximately 27% of all brand and generic Warfarin Sodium unit sales.

Development and other revenue consist of income earned under various licensing agreements.

Cost of sales increased from $301,393 to $316,126 primarily related to an increase in product sales. As a percentage of product sales, cost of sales declined from 72.5% to 71.8%. The Company's product margins are dependent on several factors including product sales mix, manufacturing efficiencies and competition. The decrease in cost of sales as a percentage of product sales was due to a more favorable mix among non-Tamoxifen product sales, which was slightly offset by a higher percentage of Tamoxifen sales to total product sales. Tamoxifen is distributed by the Company and has lower margins than most of Barr's other products.

Selling, general and administrative expenses increased from $40,439 to $45,168. The increase was primarily due to legal costs related to litigation with DuPont that was resolved in March 2000, approximately $2,500 in one time legal charges associated with finalizing the Company's definitive agreements with DuPont and to ongoing patent challenges. Also, the prior year included approximately $1,700 related to the Company's share of the $4,000 payment received from Eli Lilly & Company for reimbursement of legal costs incurred as part of the agreement to take the Prozac® case directly to the court of appeals.

Research and development expenses increased from $22,593 to $40,451. Over 60% of the increase in research and development spending was attributable to increased payments to clinical research organizations for clinical and bio-study services. The balance of the increase is mainly related to higher personnel costs that support an increased number of products in development and higher costs associated with the Company's proprietary drug development efforts. Also, the prior year included $646 related to a proprietary product collaboration with Eastern Virginia Medical School. The increased level of spending during the fiscal year ended June 30, 2000, enabled the Company to file fifteen applications with the U.S. Food and Drug Administration and initiate Phase III clinical studies for two proprietary products.

Proceeds from patent challenge settlement decreased $499, as expected, since proceeds recognized in the prior year under a separate contingent supply agreement related to the Ciprofloxacin litigation ceased.

Interest income increased $1,912 primarily due to an increase in the average cash and cash equivalents balance.

Interest expense decreased $292 due to a decrease in the Company's debt balances and lower fees paid on the average unsecured Tamoxifen payable balance.

Other income increased $311 primarily due to the gain recognized on the warrants received from Halsey Drug Co., Inc. (See Note 6 to the Consolidated Financial Statements).

Liquidity and Capital Resources

The Company's cash and cash equivalents balance increased $66,417 or 43% to $222,339 at June 30, 2001 from $155,922 at June 30, 2000. In connection with an Alternative Collateral Agreement between the Company and the Innovator of Tamoxifen (See Note 1 to the Consolidated Financial Statements), the Company has increased the cash held in its interest-bearing escrow account from $74,011 at June 30, 2000 to $96,820 at June 30, 2001.

Cash provided by operating activities was $64,341 for the year ended June 30, 2001, driven by net earnings of $62,487, that more than offset an increase in working capital. The working capital increase was led by increases in accounts receivable and inventories, which were partially offset, by an increase in accounts payable and accrued liabilities. Accounts receivable at June 30, 2001 were $73,050 or $18,381 higher than those at June 30, 2000 primarily attributable to increased product sales. The $36,133 increase in inventory is due to a $24,160 increase in Tamoxifen inventory as a result of the timing of Tamoxifen sales and increased Tamoxifen purchases, and an $11,973 increase in other inventory primarily reflecting increased inventory associated with products the Company intends to launch in fiscal 2002, including Fluoxetine. The increase in accounts payable and accrued liabilities is primarily the result of increased Tamoxifen purchases as well as the $5.7 million success fee due to the Company's outside legal counsel related to the Prozac patent challenge (See Note 15 to the Consolidated Financial Statements).

Approximately $28 million of the Company's fiscal 2001 cash flows from operations relates to payments from its contingent non-exclusive supply agreement with Bayer Corporation ("Bayer") related to its 1997 Cipro® patent challenge. Under that agreement, Bayer has, at its option, the right to allow Barr and its partner (collectively Barr) to purchase Cipro at a predetermined discount or to provide Barr quarterly cash payments. This contingent supply agreement expires in December 2003. If Bayer does not elect to supply Barr with product, Barr would receive approximately $31 million per calendar year for the remainder of the agreement. However, there is no guarantee that Bayer will continue to make such payments. If Bayer elected to supply product to Barr for resale, the earnings and related cash flows, if any, Barr could earn from the sale of Cipro would be entirely dependent upon market conditions. The Supply Agreement also provides that, six months prior to patent expiry, if Barr is not already distributing the product, Barr will have the right to begin distributing ciprofloxacin product manufactured by Bayer.

In fiscal 2001, the Company earned $17,570 related to the DuPont agreements entered into in March 2000. Of the $17,570, the Company received $15,170 in cash prior to year-end and the remaining $2,400 was included in other receivables at June 30, 2001.

During fiscal 2001, the Company invested $17,722 in capital assets, primarily related to upgrades and new equipment for its facilities. In fiscal 2002, the Company expects to increase its capital spending compared to fiscal 2001 through increased investments in management information systems and expansion in its distribution, research and development, manufacturing and packaging capabilities. As a result, the Company could spend $23 to $31 million in capital projects in fiscal 2002. Over the past two years, capital projects have been funded from cash flows provided by operations. Given the extent and the long-term nature of some of the planned expenditures, the Company may consider financing a portion of its projects and believes it has the capital structure and cash flow to complete such financing.

The Company realized approximately $12.8 million in proceeds on the sales of its investment in Galen. The Company completed the sales of its investment in Galen in March 2001 and, therefore, further gains and cash flows will not be realized.

Debt balances declined by approximately $2 million during the fiscal year due to scheduled repayments on the Company's debt. Scheduled principal repayments on the Company's existing debt will be approximately $3.2 million in fiscal 2002. The Company did not use any funds available to it under its $20 million Revolving Credit Facility during fiscal 2001. This facility expires in December 2001 and the Company is currently evaluating an extension and/or expansion of such facility.

A portion of the Company's spending on proprietary product development is being reimbursed by DuPont Pharmaceuticals Company in accordance with two development agreements entered into in March 2000 (See Note 2 to the Consolidated Financial Statements). During the year ended June 30, 2001, the Company earned $17,008 under the terms of the two agreements. Payments of $2 million per quarter over four quarters, related to the Trexall Development and Marketing Agreement, ended December 31, 2000. The Company's final $1 million payment under that agreement was received in March for gaining FDA approval on Trexall prior to March 31, 2001. Payments under the Proprietary Product Development Agreement are reimbursements of Barr's spending up to an aggregate of $45 million on three of its proprietary products. This agreement provides for reimbursement of up to $4 to $5 million per quarter through December 2003. As of June 30, 2001, the Company had received approximately $20 million of the $45 million maximum. The Company expects that all its costs related to the products covered by the DuPont agreement will be within the quarterly limits and therefore expects to be reimbursed all of its costs in fiscal 2002.

On June 29, 2001 the Company announced that it had signed a definitive merger agreement with Duramed Pharmaceuticals, Inc. ("Duramed"). Under the terms of the agreement, Duramed common shareholders will receive 0.2562 shares of Barr common stock for each share of Duramed common stock. Duramed preferred stock shareholders will receive 5.0632 shares of Barr common stock for each share of Duramed preferred stock. The transaction is subject to customary approvals and other conditions, and is expected to close late in Barr's first fiscal quarter or early in its second fiscal quarter. If the transaction is completed Barr expects to incur approximately $35 million in direct transaction costs related to this merger, the majority of

which will be incurred in fiscal 2002. These costs include amounts to satisfy existing employment contracts, as well as investment banking, legal, accounting, regulatory agency filings, financial printing and other related costs. In addition, Duramed currently has debt balances that total approximately $45 million, a portion of which would be due upon closing of the transaction. If the transaction is completed, the Company intends to either refinance or retire all or a portion of the outstanding debt through existing cash balances, its Revolving Credit Facility Agreement or other means which the Company may deem appropriate.

The Company's cash flow from operations and its overall liquidity position is expected to increase substantially due to the launch of Fluoxetine on August 2, 2001. The amount of cash flow that will be generated related to this launch is difficult to predict since it is dependent on several factors outside of the Company's control. These factors include the rate of substitution and related market share that Barr could achieve during the exclusivity period and beyond, and the extent of price declines following Barr's period of market exclusivity when numerous other generic companies are expected to launch competing Fluoxetine products.

To expand its growth opportunities, the Company has and will continue to evaluate and enter into various strategic collaborations or acquisitions. The timing and amount of cash required to enter into these collaborations may be significant, but is difficult to predict because they are dependent on several factors, many of which are outside of the Company's control. Spending related to agreements in place at June 30, 2001 is not expected to exceed $1,000.

The Company believes that its current cash balances, cash flows from operations and borrowing capacity, including unused amounts under its existing $20 million Revolving Credit Facility, will be adequate to meet the operations described above and to take advantage of strategic opportunities as they occur. To the extent that additional capital resources are required, such capital may be raised by additional bank borrowings, equity offerings or other means.

Outlook

The following section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. The generic pharmaceutical industry is characterized by relatively short product lives and declining prices and margins as competitors launch competing products. The Company's strategy has been to develop generic products with some barrier to entry to limit competition and extend product lives and margins. The Company's expanded efforts in developing and launching proprietary products is also driven by the desire to market products that will have limited competition and longer product lives. The Company's future operating results are dependent upon several factors that impact its stated strategies. These factors include timing of product approval and launches, the ability to introduce new products, patient acceptance of new products and new indications of existing products, customer purchasing practices, pricing practices of competitors, spending levels including research and development and patent activities, as well as risk factors contained in the Company's Registration Statements on Forms S-3 and S-4 as filed with the Securities and Exchange Commission in May 2001 and August 2001, respectively. In addition, the ability to receive sufficient quantities of raw materials to maintain its production is critical. While the Company has not experienced any interruption in sales due to lack of raw materials, the Company is continually identifying alternate raw material suppliers for many of its key products in the event that raw material shortages were to occur.

As previously discussed, the Company announced that it signed a definitive merger agreement with Duramed on June 29, 2001. The merger is expected to be accounted for on a pooling-of-interest basis and is expected to close, subject to customary approvals and other conditions, late in Barr's first fiscal quarter or early in its second fiscal quarter. The following comments do not reflect the expectations of the combined company.

The Company's net income guidance for fiscal 2002, excluding Fluoxetine continues to be $75 to $80 million. Based on expected weighted average shares of approximately 38 million shares, fiscal 2002 earnings per share would be in the range of $1.97 to $2.10 per share.

Product sales are expected to increase significantly in the quarter ending September 30, 2001 compared to the same period in the prior year. The year over year increase is expected to be driven primarily by the launch of Fluoxetine 20mg capsules, higher Tamoxifen sales and increased sales of other products. Other product sales are expected to increase compared to the same period in the prior year primarily from sales of new generic products expected to be approved and launched before the end of the quarter that will more than offset expected declines in existing generic product sales.

Development revenues depend on the Company's spending on the products covered by the proprietary drug development agreement with DuPont. Such amounts are limited to a maximum of $5 million per quarter for fiscal 2002. The Company expects that total development and other revenue will increase to approximately $4 to $5 million in the quarter ending September 30, 2001.

Proceeds from patent challenge settlement represents amounts earned under the terms of the supply agreement entered into as part of the settlement of the Company's patent challenge on Bayer's Cipro antibiotic. Under the terms of the supply agreement, Bayer can elect to supply Barr and its partner product at a predetermined discount or if Bayer does not make such election, Barr will recognize proceeds of approximately $31 million per year through the year ending June 30, 2003. If Bayer does not elect to provide product to Barr for resale, the Company expects to record

proceeds of approximately $7.9 million in the quarter ending September 30, 2001, up 13% from the prior year amount.

Barr's product margins represent the amount of gross profit it expects to earn on product sales expressed as a percentage of product sales. Barr's overall margins on product sales in the quarter ending September 30, 2001 are expected to increase compared to prior year. The expected increase is the result of a lower percentage of Tamoxifen sales to total sales. The expected lower percentage of Tamoxifen sales to total sales is primarily the result of the launch of Fluoxetine 20mg capsules. Tamoxifen is distributed by the Company and has lower margins than most of Barr's other products. Tamoxifen margins are expected to be lower in the quarter ended September 30, 2001 versus the prior year due to the timing of the price increase instituted in the prior year. Margins on other product sales are expected to be down compared to the prior year primarily due to the launch of Fluoxetine, which, due to the profit split with the Company's partner, has lower margins than most of Barr's other products.

Selling, general and administrative expenses are expected to increase to approximately $14 to $16 million in the quarter ending September 30, 2001. The increase is expected to be caused by higher sales and marketing costs associated with supporting the Company's Trexall proprietary product, including sales royalties expected to be earned by DuPont Pharmaceuticals for providing the sales force used to promote the product directly to physicians, as well as sales and marketing costs associated with the Company's expected product launches in fiscal 2002. Other selling, general and administrative expense increases include higher distribution costs due to higher expected sales volumes, and higher expected legal costs due to an increase in patent challenge activities and higher costs associated with defending the Company against class action suits, initiated in fiscal 2001, relating to the Company's patent challenge settlements.

Research and development costs are anticipated to increase to approximately $17 to $19 million in the quarter ended September 30, 2001. A portion of this increase is related to expected spending on the third product in the DuPont proprietary drug development agreement. As previously discussed, all spending under that agreement is expected to be reimbursed by DuPont up to the specific limits discussed. The balance of the expected increase is due to anticipated increases in raw material purchases and clinical trial costs associated with the Company's generic drug development effort.

Interest income is expected to remain flat with the prior year quarter as lower market interest rates should be somewhat offset by higher expected cash balances in the current quarter.

Interest expense is expected to be slightly less in the quarter ending September 30, 2001 versus the prior year quarter due to slightly lower debt balances.

The Company's weighted average shares outstanding depends on several factors including the number of employee and director stock options granted by the Company during the year, the Company's stock price during the year in relation to the strike prices of its options and warrants outstanding, and whether the Company would issue shares if it decides to pursue any strategic acquisitions. Weighted average shares in the quarter are expected to increase approximately 2% when compared to the prior year quarter.

Based on the above factors, the Company expects its earnings per share assuming dilution for the quarter ended September 30, 2001 to be approximately $1.40 to $1.45.

Environmental Matters

The Company may have obligations for environmental safety and clean-up under various state, local and federal laws, including the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund. Based on information currently available, environmental expenditures have not had, and are not anticipated to have, any material effect on the Company's consolidated financial statements.

Effects of Inflation

Inflation has had only a minimal impact on the operations of the Company in recent years.

Forward-Looking Statements

Except for the historical information contained herein, this Annual Report contains forward-looking statements, all of which are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include: the timing and outcome of legal proceedings; the difficulty of predicting the timing of FDA approvals; the difficulty in predicting the timing and outcome of court decisions on patent challenges, including the Supreme Court; the Court and FDA decisions on exclusivity periods; market and customer acceptance and demand for new pharmaceutical products; the ability to market proprietary products; the impact of competitive products and pricing; timing and success of product development and launch; availability of raw materials; the regulatory environment; fluctuations in operating results; and other risks detailed from time-to-time in the Company's filings with the Securities and Exchange Commission. Forward-looking statements can be identified by their use of words such as "expects," "plans," "will," "should," "believes," "may," "estimates," "intends" and other words of similar meaning. Should known or unknown risks or uncertainties materialize, or should our assumptions prove inaccurate, actual results could vary materially from those anticipated.

Consolidated Balance Sheets

(in thousands of dollars, except share amounts)	*June 30,* **2001**	*June 30,* **2000**
Assets		
Current assets:		
Cash and cash equivalents	$222,339	$155,922
Marketable securities	–	96
Accounts receivable (including receivables from related parties of $3,603 in 2001 and $865 in 2000) less allowances of $8,230 and $4,140 in 2001 and 2000, respectively	73,050	54,669
Other receivables	20,272	23,811
Inventories	115,615	79,482
Deferred income taxes	2,716	–
Prepaid expenses	2,782	1,428
Total current assets	436,774	315,408
Property, plant and equipment, net	102,583	95,296
Other assets	4,037	13,149
Total assets	$543,394	$423,853
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable (including payables to a related party of $954 and $497 in 2001 and 2000, respectively)	$120,921	$ 94,529
Accrued liabilities	17,280	11,079
Deferred income taxes	–	1,036
Current portion of long-term debt	3,185	1,924
Income taxes payable	10,174	3,948
Total current liabilities	151,560	112,516
Long-term debt	24,899	28,084
Other liabilities	1,293	1,085
Commitments & Contingencies		
Shareholders' equity:		
Preferred stock, $1 par value per share; authorized 2,000,000 shares; none issued		
Common stock, $.01 par value per share; authorized 100,000,000; issued 35,581,369 and 35,004,869 in 2001 and 2000, respectively	356	350
Additional paid-in capital	104,188	83,463
Additional paid-in capital – warrants	16,418	16,418
Warrant subscription receivable	–	(1,835)
Retained earnings	244,356	181,869
Accumulated other comprehensive income	337	1,916
	365,655	282,181
Treasury stock at cost: 176,932 shares	(13)	(13)
Total shareholders' equity	365,642	282,168
Total liabilities and shareholders' equity	$543,394	$423,853

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

(in thousands, except per share amounts)	*For the Years Ended June 30,* 2001	2000	1999
Revenues:			
Product sales (including sales to related parties of $7,139, $7,479 and $6,852 in 2001, 2000 and 1999, respectively)	$493,256	$440,110	$415,950
Development and other revenue	16,430	642	–
Total revenues	509,686	440,752	415,950
Costs and expenses:			
Cost of sales	342,821	316,126	301,393
Selling, general and administrative	52,026	45,168	40,439
Research and development	53,244	40,451	22,593
Earnings from operations	61,595	39,007	51,525
Proceeds from patent challenge settlement	28,313	27,584	28,083
Interest income	9,423	5,092	3,180
Interest expense	1,863	2,405	2,697
Other income	3,648	347	36
Earnings before income taxes	101,116	69,625	80,127
Income tax expense	38,629	25,448	30,877
Net earnings	$ 62,487	$ 44,177	$ 49,250
Earnings per common share	$ 1.77	$ 1.28	$ 1.45
Earnings per common share – assuming dilution	$ 1.66	$ 1.24	$ 1.39
Weighted average shares	35,267	34,406	33,877
Weighted average shares – assuming dilution	37,687	35,715	35,373

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the Years Ended June 30, 2001, 2000 and 1999

(in thousands of dollars, except share amounts)	*Common stock* Shares	Amount	*Additional paid-in capital*	*Additional paid-in capital – warrants*	*Warrant subscription receivable*	*Retained earnings*	*Accumulated other comprehensive income/(loss)*	*Treasury stock* Shares	Amount	*Total shareholders' equity*
Balance, June 30, 1998	22,424,645	$224	$ 68,064	$ –	$ –	$ 88,596	$ (942)	117,955	$ (13)	$155,929
Comprehensive income:										
Net earnings						49,250				49,250
Unrealized loss on marketable securities, net of tax of $238							(316)			(316)
Total comprehensive income										48,934
Tax benefit of stock incentive plans			4,352							4,352
Issuance of common stock for exercised stock options and employees' stock purchase plans	498,938	5	4,487							4,492
Balance, June 30, 1999	22,923,583	229	76,903	–	–	137,846	(1,258)	117,955	(13)	213,707
Comprehensive income:										
Net earnings						44,177				44,177
Unrealized gain on marketable securities, net of tax of $2,126							3,174			3,174
Total comprehensive income										47,351
Tax benefit of stock incentive plans			846							846
Issuance of common stock for exercised stock options and employees' stock purchase plans	426,947	5	5,741							5,746
Issuance of warrants				16,418	(16,418)					–
Proceeds applied to warrant receivable					14,583					14,583
Stock split (3-for-2)	11,654,339	116	(27)			(154)	–	58,977	–	(65)
Balance, June 30, 2000	35,004,869	350	83,463	16,418	(1,835)	181,869	1,916	176,932	(13)	282,168
Comprehensive income:										
Net earnings						62,487				62,487
Unrealized gain on marketable securities, net of tax of $226							305			305
Reclassification adjustment							(1,884)			(1,884)
Total comprehensive income										60,908
Tax benefit of stock incentive plans			11,614							11,614
Issuance of common stock for exercised stock options and employees' stock purchase plans	576,500	6	9,111							9,117
Proceeds applied to warrant receivable					1,835					1,835
Balance, June 30, 2001	35,581,369	$356	$104,188	$16,418	$ –	$244,356	$ 337	176,932	$ (13)	$365,642

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)	*For the Years Ended June 30,* 2001	2000	1999
Cash Flows from Operating Activities:			
Net earnings	$ 62,487	$ 44,177	$ 49,250
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	10,846	10,420	9,306
Deferred income tax (benefit) expense	(4,244)	(4,127)	1,834
Loss (gain) on sale of assets	303	(470)	11
(Gain) loss on sale of marketable securities	(6,671)	122	6
Write-off of investments	2,750	–	–
Tax benefit of stock incentive plans	11,614	846	4,352
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable and other receivables, net	(14,842)	(12,503)	(4,550)
Inventories	(36,133)	(1,869)	(3,236)
Prepaid expenses	(1,354)	128	(750)
Other assets	508	(1,718)	(492)
Increase (decrease) in:			
Accounts payable, accrued liabilities and other liabilities	32,851	8,015	(14,633)
Income taxes payable	6,226	3,769	(3,178)
Net cash provided by operating activities	64,341	46,790	37,920
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(17,722)	(12,086)	(12,333)
Proceeds from sale of property, plant and equipment	27	287	1
Purchases of strategic investments	–	–	(2,800)
Proceeds (purchases) of marketable securities, net	10,839	7,965	(901)
Net cash used in investing activities	(6,856)	(3,834)	(16,033)
Cash Flows from Financing Activities:			
Principal payments on long-term debt and capital leases	(2,020)	(2,165)	(1,968)
Net borrowings under line of credit	–	–	(2,500)
Fees associated with stock split	–	(65)	–
Earnings under DuPont agreements applied to warrant receivable	1,835	14,583	–
Proceeds from exercise of stock options and employee stock purchases	9,117	5,746	4,492
Net cash provided by financing activities	8,932	18,099	24
Increase in cash and cash equivalents	66,417	61,055	21,911
Cash and cash equivalents, beginning of year	155,922	94,867	72,956
Cash and cash equivalents, end of year	$222,339	$155,922	$ 94,867
Supplemental Cash Flow Data:			
Cash paid during the year:			
Interest, net of portion capitalized	$ 1,892	$ 2,438	$ 2,727
Income taxes	$ 25,533	$ 24,946	$ 27,869
Non-cash transactions:			
Equipment under capital lease	$ 612	$ –	$ –
Write-off of equipment & leasehold improvements related to closed facility	$ –	$ 115	$ 83
Warrants issued for subscription receivable	$ –	$ 16,418	$ –

See accompanying notes to the consolidated financial statements.

(in thousands of dollars, except per share amounts)

1 Summary of Significant Accounting Policies

(a) Principles of Consolidation and Other Matters

The consolidated financial statements include the accounts of Barr Laboratories, Inc. (the "Company or Barr") and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Sherman Delaware, Inc. owned 32.1% of the outstanding common stock of the Company at June 30, 2001. Dr. Bernard C. Sherman is a principal stockholder of Sherman Delaware, Inc. and a Director of Barr Laboratories, Inc.

Certain amounts in the prior year's financial statements have been reclassified to conform with the current year presentation.

(b) Credit and Market Risk

Financial instruments that potentially subject the Company to credit risk consist principally of interest-bearing investments and trade receivables. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers.

(c) Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments including market auction securities with interest rates that are re-set in intervals of 7 to 49 days, which are readily convertible into cash at par value, which approximates cost. As of June 30, 2001 and 2000, $96,820 and $74,011, respectively, of the Company's cash was held in an interest bearing escrow account. Such amounts represent the portion of the Company's payable balance with AstraZeneca Pharmaceuticals LP ("AstraZeneca"), which the Company has decided to secure in connection with its cash management policy.

In December 1995, the Company and AstraZeneca, the Innovator of Tamoxifen, entered into an Alternative Collateral Agreement ("Collateral Agreement") which suspends certain sections of the Supply and Distribution Agreement ("Distribution Agreement") entered into by both parties in March 1993. Under the Collateral Agreement, extensions of credit to the Company are no longer required to be secured by a letter of credit or cash collateral. However, the Company may at its discretion maintain a balance in the escrow account based on its short-term cash requirements. All remaining terms of the Distribution Agreement remain in place. In return for the elimination of the cash collateral requirement and in lieu of issuing letters of credit, the Company has agreed to pay AstraZeneca monthly interest based on the average unsecured monthly Tamoxifen payable balance, as defined in the Collateral Agreement, and maintain compliance with certain financial covenants. The Company was in compliance with such covenants at June 30, 2001.

(d) Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market.

(e) Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful lives or the terms of the respective leases.

The estimated useful lives of the major classification of depreciable assets are:

	Years
Buildings	45
Building improvements	10
Machinery and equipment	3-10
Leasehold improvements	3-10

Maintenance and repairs are charged to operations as incurred; renewals and betterments are capitalized.

(f) Research and Development

Research and development costs, which consist principally of product development costs, are charged to operations as incurred.

(g) Earnings Per Share

On May 31, 2000, the Company's Board of Directors declared a 3-for-2 stock split effected in the form of a 50% stock dividend. Approximately 11.6 million additional shares of common stock were distributed on June 29, 2000 to shareholders of record as of June 12, 2000. All applicable prior year share and per share amounts have been adjusted for the stock split.

The following is a reconciliation of the numerators and denominators used to calculate earnings per common share ("EPS") on the Consolidated Statements of Operations:

Share amounts in thousands	2001	2000	1999
Earnings per common share:			
Net earnings (numerator)	$62,487	$44,177	$49,250
Weighted average shares (denominator)	35,267	34,406	33,877
Net earnings	$ 1.77	$ 1.28	$ 1.45
Earnings per common share – assuming dilution:			
Net earnings (numerator)	$62,487	$44,177	$49,250
Weighted average shares	35,267	34,406	33,877
Effect of dilutive options	2,420	1,309	1,496
Weighted average shares – assuming dilution (denominator)	37,687	35,715	35,373
Net earnings	$ 1.66	$ 1.24	$ 1.39

During the years ended June 30, 2001, 2000 and 1999, there were 130,400, 1,560,000 and 819,000 respectively, of outstanding options and warrants that were not included in the computation of diluted EPS, because their respective exercise prices were greater than the average market price of the common stock for the period.

(h) Deferred Financing Fees

All debt issuance costs are being amortized on a straight-line basis over the life of the related debt, which matures in 2002, 2004 and 2007. The unamortized amounts of $166 and $238 at June 30, 2001 and 2000, respectively, are included in other assets in the Consolidated Balance Sheets.

(i) Fair Value of Financial Instruments

Cash, Accounts Receivable, Other Receivables and Accounts Payable – The carrying amounts of these items are a reasonable estimate of their fair value.

Marketable Securities – Marketable securities are recorded at their fair value (see Note 6).

Other Assets – Investments in strategic collaborations that do not have a readily determinable market value are recorded at cost as it is a reasonable estimate of fair value or current realizable value (see Note 6).

Long-Term Debt – The fair value at June 30, 2001 and 2000 is estimated at $28 million and $30 million, respectively. Estimates were determined by discounting the future cash flows using rates currently available to the Company.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2001. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

(j) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and use assumptions that affect certain reported amounts and disclosures; actual results may differ substantially.

(k) Revenue Recognition

The Company recognizes product sales revenue when substantially all risks and rights of ownership have transferred. Barr earns revenues under the DuPont research and development agreements (see Note 2) as Barr performs the related research and development. Amounts received under these agreements are not refundable. For the period between January 1, 2000 and July 31, 2000, Barr earned Transition Revenues under the ViaSpan Agreement. For the years ended June 30, 2001 and 2000, $1,835 and $14,583, respectively, earned under the DuPont and ViaSpan Agreements have been applied against the warrant receivable (see Note 2).

(l) Segment Reporting

The Company operates in one segment – the development, manufacture and marketing of generic and proprietary pharmaceuticals. The Company's chief operating decision-maker reviews operating results on a consolidated company basis.

The Company's manufacturing plants are located in New Jersey, New York and Virginia and its products are sold throughout the United States, Puerto Rico and Canada, primarily to wholesale and retail distributors. In fiscal 2001, 2000 and 1999, a customer accounted for approximately 15%, 16% and 14% of product sales, respectively. No other customer accounted for greater than 10% of product sales in any of the last three fiscal years.

(m) Asset Impairment

The Company reviews the carrying value of its property, plant and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets.

(n) New Accounting Pronouncements

Derivative Instruments

On June 15, 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended and interpreted, provides accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 is effective for all fiscal quarters for all fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 on July 1, 2000 and its adoption did not have a material impact on the Company's consolidated financial statements.

Revenue Recognition

In December 1999, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements" which summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company implemented SAB 101 on January 1, 2001 and its adoption did not have a material impact on the Company's consolidated financial statements.

Business Combinations/Goodwill and Other Intangible Assets

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 supercedes APB opinion No. 16, "Business Combinations" and amends or supercedes a number of related interpretations of APB 16. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations, and changes the criteria to recognize intangible assets apart from goodwill. SFAS No. 142 supercedes APB opinion No. 17, "Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. The Company plans to adopt the provisions of SFAS No. 141 for any business combination that is initiated after June 30, 2001. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS No. 142 beginning in the first fiscal quarter of fiscal 2003. The Company does not believe that the adoption of SFAS No's. 141 and 142 will have a material impact on its results of operations or financial position.

2 DuPont Pharmaceuticals Company Strategic Alliance

On March 20, 2000, the Company signed definitive agreements to establish a strategic relationship with DuPont Pharmaceuticals Company ("DuPont") to develop, market and promote several proprietary products and to terminate all litigation between the two companies. Each agreement contains common termination provisions including for bankruptcy and material breach by either party, which is not cured within a specified period. The Company is unable to assess whether the individual terms of each of the agreements would have been different had each of the agreements been negotiated separately with other third parties not involved in litigation. These agreements are individually described below.

Development and Other Revenue/Warrant Subscription Receivable

In connection with a proprietary product development funding agreement ("Product Development Agreement"), DuPont may invest up to $45 million over three years to support the development of three of the Company's proprietary products. The funding is subject to a maximum amount of $17 million per product. Funding is made on a quarterly basis and is limited to a maximum of $5 million per quarter. As Barr incurs qualified research and development expenses, as defined in the Product Development Agreement, Barr records such expenses as research and development, and invoices and records the related revenue from DuPont as development and other revenue. Upon approval of the products, Barr will be responsible for marketing the products and DuPont may receive royalties based on product sales for a term of ten years. Such royalties may be reduced if Barr elects to repay the funding

provided by DuPont. If Barr elects this option, DuPont may elect to eliminate the royalty in exchange for an additional fee. In connection with the Product Development Agreement, the Company earned $12,008 and $8,000 for the years ended June 30, 2001 and 2000, respectively and reported $1,835 and $8,000, respectively, as an offset to the warrant subscription receivable described below.

In a second agreement, DuPont assumed responsibility for sales and marketing support of Trexall, which Barr launched in the second calendar quarter of 2001 ("Development and Marketing Agreement"). During the development period, as Barr completed its ongoing research and other development activities necessary to gain FDA approval for the product, Barr received payments and recorded revenues. Such payments, included a milestone payment the Company received for getting FDA approval on Trexall prior to March 31, 2001. Upon FDA approval of the product, Barr became responsible for manufacturing and packaging the product for DuPont, and DuPont receives a royalty based on product sales for a term of five years. In addition to general termination provisions, DuPont may terminate the agreement after two years from launch of the product. Barr may terminate the agreement after three years from the launch of the product and if so, DuPont will receive a quarterly royalty based on product sales for one year following the termination date. For the years ended June 30, 2001 and 2000, the Company earned $5,000 and $4,000, respectively, related to this agreement. For the year ended June 30, 2000, the Company reported the $4,000 identified above as an offset to the warrant subscription receivable described below.

Under the terms of a third agreement, ("ViaSpan Agreement"), Barr became the sole distributor in the United States and Canada of DuPont's ViaSpan® organ transplant preservation agent for a period of eight years. Barr purchases ViaSpan from DuPont for resale. During a transition period, that ended July 31, 2000, DuPont remained the distributor of ViaSpan but paid a fee to Barr based on a defined formula ("Transition Revenue") calculated on DuPont's actual sales of ViaSpan during this transition period. In addition to general termination provisions, Barr may terminate this agreement at any time upon a defined notice period. For the years ended June 30, 2001 and 2000, the Company earned $562 and $2,584, respectively, during this transition period. For the year ended June 30, 2000, the Company reported the $2,584 identified above as an offset to the warrant subscription receivable described below. On August 1, 2000, Barr assumed complete responsibility for distributing the product and records product sales and related costs, including royalties to DuPont based on product sales, in its Consolidated Statement of Operations.

Warrants/Warrant Subscription Receivable

In connection with the strategic alliance, the Company issued two warrants granting DuPont the right to purchase 750,000 shares of Barr's common stock at $31.33 per share, and 750,000 shares at $38.00 per share, respectively. Each warrant is immediately exercisable and expires in March 2004. DuPont cannot assign or transfer the warrants to a third party without Barr's consent. As of June 30, 2001, DuPont had sold its rights to all the warrants to other third parties. None of the options have been exercised as of June 30, 2001. In connection with the issuance of such warrants, the Company recorded $16,418 as the fair value of the warrants as a subscription receivable in the shareholder's equity section of the Consolidated Balance Sheet at June 30, 2000. The amount was calculated using a Black-Scholes option pricing model with the following assumptions at the grant date: dividend yield of 0%; expected volatility of 38%; weighted-average risk-free interest rate of 7.1341% and expected term of 4 years. For the years ended June 30, 2001 and 2000, the Company applied $1,835 and $14,584, respectively, earned under the three agreements with DuPont as a reduction of the warrant subscription receivable. In September 2000, when the warrant receivable was reduced to zero, the Company began to report all revenues earned under the Product Development and Development and Marketing Agreements as Development and other revenue on the Consolidated Statements of Operations.

3 Proceeds from Patent Challenge Settlement

In January 1997, Bayer AG and Bayer Corporation ("Bayer") and the Company agreed to settle the then pending litigation regarding Bayer's patent protecting ciprofloxacin hydrochloride. Under the Settlement Agreement, the Company withdrew its patent challenge by amending its ANDA from a paragraph IV certification (claiming invalidity) to a paragraph III certification (seeking approval upon patent expiry) and acknowledged the validity and enforceability of the ciprofloxacin patent. As consideration for this settlement, the Company received a

non-refundable payment of $24,550 in January 1997, which it recorded as proceeds from patent challenge settlement. Concurrent with the Settlement Agreement, the Company also signed a contingent, non-exclusive Supply Agreement ("Supply Agreement") with Bayer that ends at patent expiry in December 2003.

Under the terms of the Supply Agreement, Bayer, at its sole option can either allow Barr and Rugby Laboratories, now owned by Watson Pharmaceuticals, Inc., to purchase, at a predetermined discount to Bayer's then selling price, quantities of ciprofloxacin for resale under market conditions or make quarterly cash payments as defined in the Agreement. Further, the Supply Agreement also provides that, six months prior to patent expiry, currently July 2003, if Barr is not already distributing the product, Barr and Rugby Laboratories will have the right to begin distributing ciprofloxacin product manufactured by Bayer. The Bayer license is non-exclusive and Bayer may, at its option, provide other non-exclusive licenses to others after Barr and Rugby Laboratories have operated under the license for six months.

If Bayer elects to supply Barr and Rugby Laboratories with product for resale in the market, the amount Barr and Rugby Laboratories could earn would be dependent upon numerous market factors including, the existence of competing products, market acceptance of the Barr product and pricing decisions. If Bayer elects not to allow Barr and Rugby Laboratories to purchase product for resale, Barr is entitled to receive cash payments during the remainder of the agreement that could range from $31-$32 million per calendar year through December 31, 2003. As of June 30, 2001, the present value of the cash payments Barr may receive approximates $72 million. However, there is no guarantee that Bayer will continue to elect to make cash payments.

Barr recognizes the amounts due under the Supply Agreement as such amounts are realized based on the outcome of Bayer's election. The amounts realized are reported as proceeds from patent challenge settlement.

Also included in proceeds from patent challenge settlement for the year ended June 30, 1999 is $1,500 received under a separate contingent supply agreement with an unrelated party relating to the ciprofloxacin patent challenge.

4 Inventories

A summary of inventories is as follows:

	June 30, 2001	2000
Raw materials and supplies	$ 22,656	$16,884
Work-in-process	5,825	5,102
Finished goods	87,134	57,496
	$115,615	$79,482

Tamoxifen Citrate, purchased as a finished product, accounted for $66,890 and $42,730 of finished goods inventory at June 30, 2001 and 2000, respectively.

5 Property, Plant and Equipment

A summary of property, plant and equipment is as follows:

	June 30, 2001	2000
Land	$ 3,462	$ 3,408
Buildings and improvements	65,701	64,649
Machinery and equipment	75,799	72,886
Leasehold improvements	1,160	1,288
Automobiles and trucks	95	68
Construction in progress	13,136	3,823
	159,353	146,122
Less: Accumulated depreciation & amortization	56,770	50,826
	$102,583	$ 95,296

For the years ended June 30, 2001, 2000 and 1999, $239, $136 and $205 of interest was capitalized, respectively. For the years ended June 30, 2001, 2000 and 1999, the Company recorded depreciation expense of $10,717, $10,279 and $9,122, respectively.

6 Marketable Securities & Other Assets

The Company's investments in marketable securities and certain other assets are classified as "available for sale" and, accordingly, are recorded at current market value with offsetting adjustments to shareholders' equity, net of income taxes.

In fiscal 2000, marketable securities included investments in a short duration portfolio of corporate and government debt. The debt securities were held for less than one year and were therefore, recorded as a current asset in the Consolidated Balance Sheets. In fiscal 2001, the Company did not invest in marketable securities.

Other assets include equity securities that represent the Company's investment in Halsey Drug Co., Inc. ("Halsey"). In fiscal 2000, the Company also had an investment in Galen Holdings plc (formerly Warner Chilcott plc.).

Halsey Drug Co., Inc.

In April 1999, the Company sold its rights to several pharmaceutical products to Halsey in exchange for 500,000 warrants exercisable for 500,000 shares of Halsey's common stock at $1.06 per share. The warrants expire in April 2004. In connection with this sale, the Company recorded an investment in warrants and realized a gain of $343. The Company has valued the warrants at their fair value using the Black-Scholes option-pricing model using the following assumptions for June 30, 2001 and 2000, respectively: dividend yield of 0%; expected volatility of 121.7% and 90.0%; risk-free interest rate of 5.78%; and expected life of 2.75 and 3.75 years.

Warner Chilcott plc.

On August 13, 1997, Barr made a strategic investment in Warner Chilcott, a developer, marketer, and distributor of specialty pharmaceutical products. In connection with Warner Chilcott's Initial Public Offering ("Offering"), the Company acquired 250,000 Ordinary Shares represented by 250,000 American Depository Shares ("ADSs") at a price equal to the initial public offering price less underwriting discounts and commissions. The initial investment totaled $4,069. In addition, the Company was granted warrants to purchase an additional 250,000 shares in the form of ADSs. Beginning on the first anniversary of the Offering and annually thereafter for the next three years, one-fourth of the warrants were exercisable by Barr. If Barr did not exercise in full the portion of the warrant exercisable during any one-year, such portion of the warrant would terminate. The Company elected not to exercise the first portion of the warrants because the warrants' exercise price exceeded the then market price, and as a result, such portion of the warrants terminated. The Company exercised the remaining warrants and sold its investment in Galen Holdings plc., formerly Warner Chilcott plc, during the year ended June 30, 2001.

Other Investments

Included in other assets for the year ended June 30, 2000, was the Company's investment related to Gynetics, Inc. ("Gynetics"), a private company that develops and markets pharmaceutical products and medical devices to advance the healthcare of women.

In September 1998, the Company made an investment in Gynetics that represented approximately 7% of Gynetics' outstanding voting shares. Barr did not have the ability to exercise significant influence on Gynetics' operations and there was no readily determinable market value, therefore, the Company accounted for this investment using the cost method of accounting.

In the quarter ended September 30, 2000, the Company reviewed the valuation of its investment related to Gynetics in light of numerous negative events that occurred in the quarter including product development delays and threatened litigation. Due to these events as well as continued operating difficulties at Gynetics that included extensive losses and negative operating cash flow, Barr concluded as of September 30, 2000, that its investment related to Gynetics was other than temporarily impaired and that as of September 30, 2000, its investment related to Gynetics should be written down to $0, the current realizable value.

The amortized cost and estimated market values of the securities at June 30, 2001 and 2000 are as follows:

June 30, 2001	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Market value*
Equity securities	$ 343	$ 565	$–	$ 908

June 30, 2000	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Market value*
Debt securities:				
U.S. Government securities	$ 101	$ –	$5	$ 96
Equity securities	4,412	3,206	–	7,618
Total securities	$4,513	$3,206	$5	$7,714

Proceeds of $12,873 and $52,916, which include a gain of $6,671 and loss of $122, respectively, were received on the sales of marketable securities in the years ended June 30, 2001 and 2000, respectively. The cost of investments sold is determined by the specific identification method.

7 Long-Term Debt

A summary of long-term debt is as follows:

	June 30, 2001	2000
Senior unsecured notes[a]	$25,714	$27,143
Equipment financing[b]	2,370	2,865
Unsecured revolving credit facility[c]	–	–
	28,084	30,008
Less: Current installments of long-term debt	3,185	1,924
Total long-term debt	$24,899	$28,084

[a]The Senior Unsecured Notes of $25,714 include a $20,000, 7.01% Note due November 18, 2007 and $5,714, 6.61% Notes due November 18, 2004. Annual principal payments under the Notes total $1,429 through November 2002, $5,429 in 2003 and 2004, and $4,000 in 2005 through 2007.

The Senior Unsecured Notes contain certain financial covenants including restrictions on dividend payments not to exceed $10 million plus 75% of consolidated net earnings subsequent to June 30, 1997. The Company was in compliance with all such covenants as of June 30, 2001.

[b]In April 1996, the Company signed a Loan and Security Agreement with BankAmerica Leasing and Capital Group that provided the Company up to $18,750 in financing for equipment to be purchased through October 1997. Notes entered into under this agreement require no principal payment for the first two quarters; bear interest quarterly at a rate equal to the London Interbank Offer Rate (LIBOR) plus 125 basis points; and have a term of 72 months. LIBOR was 3.836% and 6.769% at June 30, 2001 and June 30, 2000, respectively.

[c]The Company currently has no outstanding borrowings under its $20,000 Unsecured Revolving Credit Facility ("Revolver") with Bank of America, National Association. Borrowings under this facility bear interest at either prime or LIBOR plus 0.75%. In addition, the Company is required to pay a commitment fee equal to .25% of the difference between the outstanding borrowings and $20,000. In December 1999, the term of the Revolver was extended to December 31, 2001.

Principal maturities of existing long-term debt for the next five years and thereafter are as follows:

Year Ending June 30,	
2002	$3,185
2003	2,041
2004	5,429
2005	5,429
2006	4,000
Thereafter	8,000

8 Related-Party Transactions

The Company's related-party transactions were with affiliated companies of Dr. Bernard C. Sherman. During the years ended June 30, 2001, 2000 and 1999, the Company purchased $2,644, $2,716 and $1,134, respectively, of bulk pharmaceutical material from such companies. In addition, the Company sold certain of its pharmaceutical products and bulk pharmaceutical materials to two other companies owned by Dr. Sherman. During fiscal 1996, the Company also entered into a multi-year agreement with a company owned by Dr. Sherman to share litigation and related costs in connection with one of its patent challenges. For the years ended June 30, 2001, 2000 and 1999, the Company recorded $2,867, $668 and $1,438, respectively, in connection with such agreement as a reduction to selling, general and administrative expenses and research and development expenses. The Company also incurred $1,290 in expenses, which were reimbursed by Dr. Sherman, related to a secondary stock offering, completed in May 2001, for the sale of 3.5 million shares of common stock, beneficially owned by Dr. Sherman.

During the years ended June 30, 2001, 2000 and 1999, the Company's founder and Vice Chairman, Edwin A. Cohen, earned $200, $200 and $200, respectively, under a consulting agreement, which expires on June 30, 2002.

9 Income Taxes

A summary of the components of income tax expense is as follows:

Year Ended June 30,	2001	2000	1999
Current:			
Federal	$37,218	$25,475	$25,173
State	5,655	4,100	3,870
	42,873	29,575	29,043
Deferred:			
Federal	(3,688)	(3,577)	1,588
State	(556)	(550)	246
	(4,244)	(4,127)	1,834
Total	$38,629	$25,448	$30,877

The provision for income taxes differs from amounts computed by applying the statutory federal income tax rate to earnings before income taxes due to the following:

Year Ended June 30,	2001	2000	1999
Federal income taxes at statutory rate	$35,391	$23,726	$28,044
State income taxes, net of federal income tax effect	3,314	2,307	2,675
Other, net	(76)	(585)	158
	$38,629	$25,448	$30,877

The temporary differences that give rise to deferred tax assets and liabilities as of June 30, 2001 and 2000 are as follows:

	2001	2000
Deferred tax assets:		
Receivable reserves	$ 5,010	$ 2,313
Inventory reserves	524	620
Inventory capitalization	1,640	895
Investments*	1,019	–
Other operating reserves	3,128	2,443
Warrants issued	6,657	6,610
Total deferred tax assets	17,978	12,881
Deferred tax liabilities:		
Plant and equipment	(7,199)	(6,384)
Proceeds from patent challenge settlement	(6,657)	(6,576)
Other operating reserves	(197)	(240)
Investments*	(226)	(1,283)
Total deferred tax liabilities	(14,279)	(14,483)
Net deferred tax asset (liability)	$ 3,699	$ (1,602)

**Tax effects are reflected directly in equity*

10 Shareholders' Equity

Employee Stock Option Plans

The Company has two stock option plans, the 1993 Stock Incentive Plan (the "1993 Option Plan") and the 1986 Option Plan, which were approved by the shareholders and which authorize the granting of options to officers and certain key employees to purchase the Company's common stock at a price equal to the market price on the date of grant. Effective June 30, 1996, options are no longer granted under the 1986 Option Plan. For fiscal 2001, 2000 and 1999, there were no options that expired under this plan.

All options granted prior to June 30, 1996, under the 1993 Option Plan and 1986 Option Plan, are exercisable between one and two years from the date of grant and expire ten years after the date of grant except in cases of death or termination of employment as defined in each Plan. Options issued after June 30, 1996 are exercisable between one, three and five years from the date of grant. Through fiscal 2000, no option had been granted under either the 1993 Option Plan or the 1986 Option Plan at a price below the current market price of the Company's common stock on the date of grant. In fiscal 2001, 30,000 options were granted to a key executive as part of her employment agreement at various prices below the current market price on the date of grant. The total value of the discount associated with this grant was $896 and is being amortized over the five-year vesting period of the options. In fiscal 2001, the amortization of the discount totaled $281.

A summary of the activity resulting from all plans for the three fiscal years ended June 30, 2001 is as follows:

	No. of Shares	*Weighted-Average Option Price*
Outstanding at 6/30/98	2,511,731	$ 9.05
Granted	417,000	22.75
Canceled	(48,864)	21.69
Exercised	(644,566)	4.67
Outstanding at 6/30/99	2,235,301	12.59
Granted	617,516	24.07
Canceled	(5,947)	26.20
Exercised	(515,575)	7.76
Outstanding at 6/30/00	2,331,295	16.67
Granted	623,700	57.06
Canceled	(42,817)	34.82
Exercised	(459,708)	13.69
Outstanding at 6/30/01	2,452,470	$27.18
Available for grant (7,743,750 authorized)	1,577,451	
Exercisable at 6/30/01	1,322,999	$14.80

Non-Employee Directors' Stock Option Plan

During fiscal year 1994, the shareholders ratified the adoption by the Board of Directors of the 1993 Stock Option Plan for Non-Employee Directors (the "Directors' Plan"). This formula plan, among other things, enhances the Company's ability to attract and retain experienced directors. In December 1998, the number of shares which each non-employee director is optioned was decreased from 11,250 to 7,500 shares on the grant date. In October 1999, the number of shares which each non-employee director is optioned was decreased from 7,500 to 5,000 shares on the grant date. Effective October 2000, as a result of Barr's 3-for-2 stock split in June 2000, the number of shares which each non-employee director is optioned is 7,500 shares on the grant date.

All options granted under the Directors' Plan have ten-year terms and are exercisable at an option exercise price equal to the market price of the common stock on the date of grant. Each option is exercisable on the date of the first annual shareholders' meeting immediately following the date of grant of the option, provided there has been no interruption of the optionee's service on the Board before that date. The following is a summary of activity for the three fiscal years ended June 30, 2001:

	No. of Shares	*Weighted-Average Option Price*
Outstanding at 6/30/98	392,625	$11.70
Granted	56,250	32.42
Exercised	(43,875)	7.88
Outstanding at 6/30/99	405,000	14.99
Granted	37,500	19.96
Exercised	(52,500)	8.30
Outstanding at 6/30/00	390,000	16.37
Granted	52,500	63.94
Exercised	(58,875)	17.88
Outstanding at 6/30/01	383,625	$22.65
Available for grant (843,750 authorized)	187,875	
Exercisable at 6/30/01	331,125	$16.10

Employee Stock Purchase Plan

During fiscal 1994, the shareholders ratified the adoption by the Board of Directors of the 1993 Employee Stock Purchase Plan (the "Purchase Plan") to offer employees an inducement to acquire an ownership interest in the Company. The Purchase Plan permits eligible employees to purchase, through regular payroll deductions, an aggregate of 675,000 shares of common stock at approximately 85% of the fair market value of such shares. Under the Plan, purchases were 50,295, 60,874 and 59,965 shares for the years ended June 30, 2001, 2000 and 1999, respectively.

Accounting for Stock-Based Compensation Plans

The Company applies APB No. 25 and related Interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for its stock option plans and its stock purchase plan. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

		2001	2000	1999
Net earnings	As reported	$62,487	$44,177	$49,250
	Pro forma	$57,842	$41,233	$46,940
Net earningspershare	As reported	$ 1.77	$ 1.28	$ 1.45
	Pro forma	$ 1.63	$ 1.20	$ 1.39
Netearnings pershare– assuming dilution	As reported	$ 1.66	$ 1.24	$ 1.39
	Pro forma	$ 1.53	$ 1.15	$ 1.33

The weighted average fair value of the options granted at market during the years ended June 30, 2001, 2000 and 1999 was $22.19, $9.00 and $8.75 per share, respectively. The weighted average fair value of the options granted in fiscal 2001, which were below the current market price on the date of grant, was $42.02 per share. The fair values were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for 2001, 2000 and 1999, respectively: dividend yield of 0%; expected volatility of 46.5%, 50.6% and 48.9%; weighted-average risk-free interest rates of 5.3%, 5.8% and 4.7%; and expected option life of 3 years for the 1993 Option Plan and 4 years for the Directors' Plan.

The following table summarizes information about stock options outstanding at June 30, 2001:

	Options Outstanding		
Range of Exercise Prices	*Number Outstanding at 6/30/01*	*Weighted Average Remaining Contractual Life*	*Weighted Average Exercise Price*
$ 3.03 – 7.59	674,984	3.52	$ 6.44
11.50 – 20.00	391,846	5.95	14.15
22.20 – 32.40	1,116,565	7.39	24.68
41.00 – 59.00	512,300	9.20	55.69
59.90 – 73.90	140,400	9.47	66.76
	2,836,095		

	Options Exercisable	
Range of Exercise Prices	*Number Exercisable at 6/30/01*	*Weighted Average Exercise Price*
$ 3.03 – 7.59	674,984	$ 6.44
11.50 – 20.00	346,847	13.44
22.20 – 32.40	632,293	25.14
41.00 – 59.00	–	–
59.90 – 73.90	–	–
	1,654,124	

11 Savings and Retirement Plan

The Company has a savings and retirement plan (the "401(k) Plan") which is intended to qualify under Section 401(k) of the Internal Revenue Code. Employees are eligible to participate in the 401(k) Plan in the first month following the month of hire. Participating employees may contribute up to a maximum of 12% of their earnings before or after taxes. The Company is required, pursuant to the terms of its union contract, to contribute to each union employee's account an amount equal to the 2% minimum contribution made by such employee. The Company may, at its discretion, contribute a percentage of the amount contributed by an employee to the 401(k) Plan up to a maximum of 10% of such employee's compensation. Participants are always fully vested with respect to their own contributions and any profits arising therefrom. Participants become fully vested in the Company's contributions and related earnings after five full years of employment.

The Company's contributions to the 401(k) Plan were $2,958, $2,608 and $2,292 for the years ended June 30, 2001, 2000 and 1999, respectively.

In fiscal 2000, the Board of Directors approved a non-qualified plan ("Excess Plan") that enables certain executives to defer up to 10% of their compensation in excess of the qualified plan. The Company may, at its discretion, contribute a percentage of the amount contributed by the individuals covered under this Excess Plan to a maximum of 10% of such individual's compensation. In fiscal years 2001 and 2000, the Company chose to make contributions at the 10% rate to this plan. As of June 30, 2001 and 2000, the Company had an asset and matching liability for the Excess Plan of $847 and $422, respectively.

12 Other Income

A summary of other income is as follows:

	Year Ended June 30,		
	2001	**2000**	**1999**
Net (loss) gain on sale of assets	$ (302)	$ 470	$(11)
Net gain (loss) on sale of securities	6,671	(141)	(11)
Write-off related to Gynetics strategic investment	(2,450)	–	–
Other, net	(271)	18	58
Other income	$ 3,648	$ 347	$ 36

For the year ended June 30, 2001, the net gain on sale of securities consists primarily of the gain realized on the sale of the investment in Galen Holdings plc., formerly Warner Chilcott plc. (see Note 6).

The prior year included a $343 gain resulting from the receipt of 500,000 warrants from Halsey Drug Company, Inc. in exchange for rights to several pharmaceutical products (see Note 6).

13 Commitments and Contingencies

The Company is party to various leases which relate to the rental of office facilities and equipment. The Company believes it will be able to extend such leases, if necessary. Rent expense charged to operations was $594, $1,069 and $1,099 in fiscal 2001, 2000 and 1999, respectively. The table below shows the future minimum rental payments, exclusive of taxes, insurance and other costs under noncancellable long-term lease commitments at June 30, 2001. Such payments total $1,420 for operating leases. The net present value of such payments on capital leases was $516

after deducting executory costs and imputed interest of $370 and $63, respectively.

Year Ending June 30,	*Operating leases*	*Capital leases*	*Minimum lease payments*
2002	$653	$263	$916
2003	561	263	824
2004	183	263	446
2005	23	160	183
Thereafter	–	–	–

Product Liability

The Company maintains product liability insurance coverage in the amount of $20,000. No significant product liability suit has ever been filed against the Company. However, if one were filed and such a case were successful against the Company, it could have a material adverse effect upon the business and financial condition of the Company to the extent such judgment was not covered by insurance or exceeded the policy limits.

Class Action Lawsuits

The Company has been named as a defendant in 35 putative class action complaints alleging violation of federal antitrust laws and/or state antitrust and consumer protection laws on the grounds that the 1997 Bayer-Barr settlement agreement was allegedly anti-competitive.

As of August 15, 2001, 20 consumer or third-party payor class action complaints have been filed against Zeneca, Inc., AstraZeneca Pharmaceuticals LP and the Company. The complaints allege that the 1993 settlement of patent litigation between Zeneca, Inc. and the Company insulates Zeneca, Inc. and the Company from generic competition and enables Zeneca, Inc. and Barr to charge artificially inflated prices for Tamoxifen citrate.

The Company believes that each of its agreements with Bayer Corporation and Zeneca, Inc., respectively, is a valid settlement to a patent suit and cannot form the basis of an antitrust claim. Although it is not possible to forecast the outcome of these matters, the Company intends to vigorously defend itself. It is anticipated that these matters may take several years to be resolved but an adverse judgment could have a material adverse impact on the Company's financial statements.

Invamed, Inc./Apothecon, Inc. Lawsuit

In February 1998 and May 1999, Invamed, Inc., which has since been acquired by Geneva Pharmaceuticals, Inc. and Apothecon, Inc., both of which are subsidiaries of Novartis AG, respectively, named the Company and several others as defendants in lawsuits filed in the United States District Court for the Southern District of New York, charging that the Company unlawfully blocked access to the raw material source for Warfarin Sodium. The two actions have been consolidated. The Company believes that these suits are without merit and intends to vigorously defend its position. These actions are currently in the discovery stage. It is anticipated that this matter may take several years to be resolved but an adverse judgment could have a material adverse impact on the Company's consolidated financial statements.

Fluoxetine Hydrochloride Patent Challenge

As disclosed in the Company's previous public filings, the U.S. Court of Appeals, Federal Circuit in Washington D.C., ruled in favor of Barr's challenge to Eli Lilly Company's ("Lilly") patent protecting Prozac®. On October 6, 2000, Lilly filed a petition asking the full panel of the U. S. Court of Appeals to rehear the case. On May 30, 2001, the three-judge panel of the U. S. Court of Appeals, reaffirmed its earlier decision invalidating the patent protecting Lilly's Prozac. On July 18, 2001, the U. S. Court of Appeals, denied Lilly's request for a re-hearing of the Court's May 30, 2001 decision invalidating the patent protecting Lilly's Prozac that was due to expire in December 2003. On July 23, 2001, the Court of Appeals denied Lilly's request for another rehearing and on July 27, 2001 issued its mandate to the District Court in Indianapolis instructing the District Court to enter a final order invalidating the Prozac patent. On August 2, 2001, Barr launched its generic version of Lilly's 20 mg Prozac capsule product. Lilly has announced its intention to petition the U.S. Supreme Court to review the Court of Appeals decision. The Supreme Court is not expected to make a decision on the Prozac matter for several months. If the Supreme Court overturns the Court of Appeals decision, which Barr believes is unlikely, and reinstates the Prozac patent, Barr may be liable for substantial damages which could have a material adverse effect on Barr's operations and financial condition.

On August 1, 2001, aaiPharma Inc. ("AAI") filed a lawsuit in the United States District Court for the Eastern District of North Carolina against Barr and others claiming that the generic versions of Prozac manufactured by those companies infringe AAI's patent. Barr launched its generic version of the 20 mg Prozac capsule on August 2, 2001. If Barr is found to infringe the AAI patent, Barr may be

liable to AAI for damages that may reduce Barr's profits from its generic Prozac product. The Company believes that the suit filed against it by AAI is without merit and intends to defend its position vigorously. This action is currently in the discovery stage. It is anticipated that this matter may take several years to be resolved but an adverse judgment could have a material adverse impact on the Company's consolidated financial statements.

Other Litigation

As of June 30, 2001, the Company was involved with other lawsuits incidental to its business, including patent infringement actions. Management of the Company, based on the advice of legal counsel, believes that the ultimate disposition of such other lawsuits will not have any significant adverse effect on the Company's consolidated financial statements.

14 Merger with Duramed Pharmaceuticals, Inc.

On June 29, 2001, the Company and Duramed Pharmaceuticals, Inc. ("Duramed") announced that their respective Boards of Directors had unanimously approved, and both companies have signed, a definitive agreement for a stock-for-stock merger of the two companies.

Under the terms of the agreement, Duramed common shareholders will receive 0.2562 shares of Barr common stock for each share of Duramed common stock. Duramed preferred stock shareholders will receive 5.0632 shares of Barr common stock for each share of Duramed preferred stock. The transaction is subject to customary approvals and conditions, and is expected to close late in Barr's first fiscal 2002 quarter, or early in the second fiscal quarter. The transaction is expected to be a tax-free exchange, and accounted for under the "pooling-of-interests" method.

15 Subsequent Event

As disclosed in the Company's previous public filings, the Company and its partners will share in a success fee payable to their outside legal counsel upon the successful resolution of the Prozac patent litigation. As a result of the July 27, 2001 court order that removed the injunction restricting the launch of fluoxetine (see Note 13), the Company recorded $2.4 million in the year ended June 30, 2001 for its portion of the success fee. This amount is included in selling, general and administrative expenses.

16 Quarterly Data (Unaudited)

A summary of the quarterly results of operations is as follows:

Three Month Period Ended	*Sept. 30*	*Dec. 31*	*Mar. 31*	*June 30*
Fiscal Year 2001:				
Total revenues	$103,136	$128,318	$137,337	$140,895
Cost of sales	68,384	88,847	94,510	91,080
Net earnings	10,390	16,521	17,126	18,450
Earnings per common share – assuming dilution				
Net earnings [1]	$ 0.28	$ 0.44	$ 0.45	$0.49
Price Range of Common Stock [2]				
High	$ 80.13	$ 77.19	$ 75.59	$77.15
Low	43.63	54.19	44.50	48.28
Fiscal Year 2000:				
Total revenues	$92,407	$114,111	$121,641	$112,593
Cost of sales	62,114	81,378	93,002	79,632
Net earnings	11,493	12,394	11,848	8,442
Earnings per common share – assuming dilution				
Net earnings [1]	$ 0.32	$ 0.35	$ 0.33	$ 0.23
Price Range of Common Stock [2]				
High	$ 26.75	$ 23.50	$ 33.92	$ 45.88
Low	18.88	19.00	20.00	25.38

[1] The sum of the individual quarters may not equal the full year amounts due to the effects of the market prices in the application of the treasury stock method. During its two most recent fiscal years, the Company paid no cash dividend.

[2] The Company's common stock is listed and traded on the New York Stock Exchange (BRL). At June 30, 2001, there were approximately 635 shareholders of record of common stock. The Company believes that a significant number of beneficial owners hold their shares in street names.

Independent Auditors' Report

To the Board of Directors and Shareholders of
Barr Laboratories, Inc.:

We have audited the accompanying consolidated balance sheets of Barr Laboratories, Inc. and subsidiaries (the "Company") as of June 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Barr Laboratories, Inc. and subsidiaries at June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

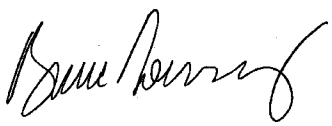
Stamford, Connecticut
August 6, 2001

Responsibility for Financial Reporting

Management is responsible for the preparation and accuracy of the consolidated financial statements and other information included in this report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles using, where appropriate, management's best estimates and judgments.

In meeting its responsibility for the reliability of the financial statements, management has developed and relies on the Company's system of internal accounting control. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are properly recorded.

The Board of Directors reviews the financial statements and reporting practices of the Company through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Company. The Committee meets with the independent auditors and management to discuss audit scope and results and also to consider internal control and financial reporting matters. The independent auditors have direct unrestricted access to the Audit Committee. The entire Board of Directors reviews the Company's financial performance and financial plan.



Chairman of the Board and Chief Executive Officer

Selected Financial Data

(in thousands of dollars, except per share amounts)	*Year Ended June 30,* 2001	2000	1999	1998	1997
Statements of Operations					
Total revenues	$509,686	$440,752	$415,950	$346,638	$257,436
Earnings before income taxes and extraordinary loss	101,116	69,625	80,127	54,658	32,050
Income tax expense	38,629	25,448	30,877	21,148	12,603
Earnings before extraordinary loss	62,487	44,177	49,250	33,510	19,447
Net earnings	62,487	44,177	49,250	32,720[2]	19,447
Earnings per common share:					
Earnings before extraordinary loss	1.77	1.28	1.45[1]	1.02[1]	0.61[1][3]
Net earnings	1.77	1.28	1.45[1]	1.00[1][2]	0.61[1][3]
Earnings per common share – assuming dilution:					
Earnings before extraordinary loss	1.66	1.24	1.39[1]	0.96[1]	0.58[1][3]
Net earnings	1.66	1.24	1.39[1]	0.94[1][2]	0.58[1][3]

	2001	2000	1999	1998	1997
Balance Sheet Data					
Working capital	$285,214	$202,892	$ 146,863	$ 95,281	$ 41,807
Total assets	543,394	423,853	347,890	310,851	202,845
Long-term debt[4]	24,899	28,084	30,008	32,174	14,941
Shareholders' equity[5]	365,642	282,168	213,707	155,929	102,138

[1]Amounts have been adjusted for the June 2000 3-for-2 stock split effected in the form of a 50% stock dividend.

[2]Fiscal 1998 includes the effect of a $790 ($0.02 per share) extraordinary loss (net of tax of $492) on early extinguishment of debt.

[3]Fiscal 1997 earnings per share amounts have been restated to conform with the provisions of Statement of Financial Accounting Standards No. 128 "Earnings per Share."

[4]Excludes current installments (See Note 7 to the Consolidated Financial Statements).

[5]The Company has not paid a cash dividend in any of the above years.

Board of Directors

Bruce L. Downey, Esq.[B]
Chairman of the Board, Chief Executive Officer, Barr Laboratories, Inc.

Carole S. Ben-Maimon, M.D.[B]
President and Chief Operating Officer, Barr Research

Paul M. Bisaro, Esq.[B]
President and Chief Operating Officer, Barr Laboratories, Inc.

Robert J. Bolger[A]
President, Robert J. Bolger Associates

Harold N. Chefitz[A]
Chairman, Notch Hill Advisors
President, Chefitz Healthcare Investments

Edwin A. Cohen, RPh.[B]
Vice Chairman of the Board, Founder, Barr Laboratories, Inc.

Michael F. Florence, CA[C]
President, Sherfam, Inc.

Jacob M. Kay[B]
President, Apotex, Inc.

Bernard C. Sherman, Ph.D.
Chief Executive Officer and Chairman of the Board, Apotex, Inc.

George P. Stephan, Esq.[A,C]
Business Consultant; Director, Sartorius Sports Limited

[A]*Audit Committee*
[B]*Business Development Committee*
[C]*Compensation Committee*

Design:
Arnold Saks Associates

Photography:
Bill Gallery

Product Photography:
Jim Barber

Printing:
PonyXPress Printing Services

Management Team

Bruce L. Downey, Esq.
Chairman of the Board and Chief Executive Officer, Barr Laboratories, Inc.

Carole S. Ben-Maimon, M.D.
President, Chief Operating Officer
Barr Research

Paul M. Bisaro, Esq.
President and Chief Operating Officer, Barr Laboratories, Inc.

Salah U. Ahmed, Ph.D.
Senior Vice President, Research and Development

Timothy P. Catlett
Senior Vice President, Sales and Marketing

William T. McKee
Senior Vice President, Chief Financial Officer, Treasurer and Secretary

Martin Zeiger, Esq.
Senior Vice President, Strategic Business Development and General Counsel

Robert G. Bell, Ph.D.
Vice President, Proprietary Product Development

Michael J. Bogda
Vice President, Validation and Technical Services

Ann S. Boyle, CPA
Vice President, Controller

Suzanne Donaghy
Vice President and Chief Information Officer

Jake Hansen
Vice President, Government Affairs

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Vice President, Human Resources

Michael Moorshead
Vice President, Manufacturing and Engineering

Christine Mundkur, Esq.
Vice President, Quality and Regulatory Counsel

Charlene Polino
Vice President, Strategic Business Development

Shareholder Information

Investor Relations Department
Contact: Carol A. Cox
Director, Corporate Communications
Email: ccox@barrlabs.com
Telephone: 1-800-BARRLAB
Homepage: www.barrlabs.com

Common Stock
Common Stock is traded on the New York Stock Exchange
Symbol: BRL

Registrar and Transfer Agent
Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606-1915

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Coumadin is a registered trademark of DuPont Pharmaceuticals

Prozac is a registered trademark of Eli Lilly & Co.

Cordarone is a registered trademark of Wyeth Ayerst Laboratories, Inc.

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10-K Report Available
The Company's 2001 Annual Report on Form 10-K, filed with the Securities and Exchange Commission is available via the Company's web site or by writing to the Investor Relations Department at the Company's corporate headquarters.

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