

A photograph of two women and a dog in a garden. The woman on the left is younger with blonde hair, wearing a light blue denim shirt and jeans, sitting on a wooden bench. The woman on the right is older with white hair, also wearing a light blue denim shirt and jeans, sitting on the same bench. They are both smiling and looking at a large brown and white speckled dog sitting next to them. The dog is looking at the older woman, who is holding a small object in her hand. In the foreground, there are several potted plants with yellow and orange flowers. A watering can is visible on the left side of the frame.

*Expanding  
Our Commitment  
to Female  
Healthcare*

**Barr Laboratories, Inc.**  
*Annual Report 2003*



## **This Is Barr Laboratories...**

Barr Laboratories, Inc. (NYSE-BRL) is a specialty pharmaceutical company engaged in developing, manufacturing and marketing generic and proprietary pharmaceuticals.

The Company product portfolio includes more than 100 pharmaceuticals in therapeutic categories including oncology, female healthcare (including hormone therapy and oral contraceptives), cardiovascular, anti-infective and psychotherapeutic.

Barr has operations in six locations – New Jersey, New York, Ohio, Pennsylvania, Virginia and Washington, DC.

# Selected Financial Highlights

<i>(Financial data in thousands, except per share data and employee data)</i>	Years Ended June 30,	
	2003	2002
<b>Results of Operations</b>		
Total Revenues	\$ 902,864	\$1,188,984
Earnings		
Earnings from Operations	226,580	293,629
Proceeds from Patent Challenge Settlement	31,396	31,958
Net Earnings	167,566	210,269
Earnings per Share Assuming Dilution	2.43	3.09(a)
<b>Financial Position</b>		
Cash Flows from Operations	\$ 160,328	\$ 234,825
Working Capital	572,717	457,393
Total Assets	1,180,937	888,554
Shareholders' Equity	867,995	666,532
<b>Statistics</b>		
Research and Development Expenditures	\$ 91,207	\$ 75,697
Capital Expenditures	\$ 80,617	\$ 47,205
Number of Employees	1,224	1,075
Weighted Average Number of Common Shares Outstanding Assuming Dilution	69,061	68,135(a)

(a) Adjusted for the March 17, 2003 3-for-2 stock split effected in the form of a 50% stock dividend.

## Fiscal 2003 Accomplishments

### Generic Activities

- Filed 14 Generic Product Applications
  - Generic Premarin® (Conjugated Estrogens) Filed
  - Five Patent Challenges Announced
- 10 New Generic Products Launched
  - Five New Generic Oral Contraceptives
  - Claravis™ (Generic Accutane®)
  - Alternative Brand of Ciprofloxacin
  - Tamoxifen, Tambocor, Fludrocortisone

### Corporate Activities

- Completed Enhance Pharmaceuticals Integration
- Completed Product Acquisition/Development Agreements with Wyeth
- Opened New Administrative Headquarters
- Ranked #9 in “Wall St. Journal 1000 10-Year Best Performers”

### Proprietary Activities

- Aygestin®, Three Other Licensed Products Added to Proprietary Line
- Cenestin® 0.3 mg Strength Launched
- Cenestin® 0.45 mg Supplemental New Drug Application Pending
- SEASONALE®, an Extended Cycle Oral Contraceptive Application Pending
- Nine Additional Proprietary Products in Development
- Seven Clinical Trials Underway
- Expanded Proprietary Sales Force
- Completed Adenovirus Facility



Bruce L. Downey, Chairman and Chief Executive Officer

## Fellow shareholders, employees and friends:

I am proud to report that progress in all phases of our business continued unabated during fiscal 2003. We reported strong sales in our generic products including our oral contraceptive franchise; achieved our objectives in new generic product development as measured by filings and approvals; and made strong gains in proprietary product development.

When you look at our progress, it is clear that Barr's success is driven by our ability to identify product and market opportunities; align those opportunities to our unique skill set; and meet our internal commitments to maximizing those opportunities. Fiscal 2003 represents another break-out year for our Company.

## Financial Results

Total revenues for fiscal 2003 were \$902.9 million and our net earnings were \$167.6 million, or \$2.43 per fully diluted share. Our fiscal 2003 results included an earnings charge of \$0.22 per share related to legal fees and in-process R&D in connection with the Wyeth settlement and product acquisition, and an earnings benefit of \$0.02 per share related to the release of a valuation allowance related to certain deferred tax assets. This compares with

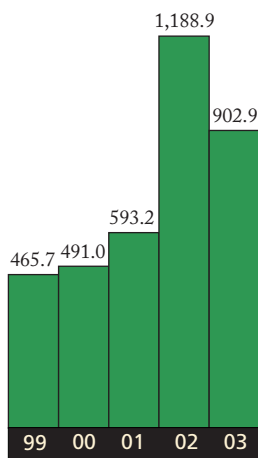
fiscal 2002 revenues of \$1.2 billion, and net earnings of \$210.3 million, or \$3.09 per fully diluted share.

Our commitment to leadership in female healthcare, particularly in oral contraceptives, was responsible for a large share of this growth. We nearly doubled the number of oral contraceptives we marketed during the year, introducing five products to our line that totaled 13 oral contraceptives at the end of fiscal 2003. Sales of our generic oral contraceptive product line increased 196% to \$274.4 million for fiscal 2003, as compared to \$92.8 million for the prior year. In addition, key generic products including our generic version of Adderall® and our warfarin sodium products also were significant contributors.

Although Cenestin® (Synthetic Conjugated Estrogens, A) sales for the 12 months decreased to \$34.6 million for fiscal 2003, compared to \$41.5 million in fiscal 2002 following publication of the Women's Health Initiative (WHI) study, we expect this important alternative to Wyeth's Premarin® to remain a strong contributor in the female healthcare category.

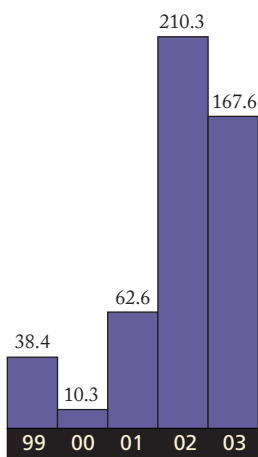
Sales of Tamoxifen, the breast cancer treatment previously distributed and now manufactured by Barr, decreased significantly as expected, following the February 2003 introduction of our manufactured product, along with products from other generic competitors.

Revenues  
\$ in Millions



Restated to include historical financial data of Duramed

Net Earnings  
\$ in millions



Restated to include historical financial data of Duramed

Sales of Fluoxetine also decreased as expected, reflecting the impact of the introduction of additional generic versions of Fluoxetine by competitors upon expiration of our exclusivity period in January 2002.

In March 2003, we executed our fourth three-for-two stock split in seven years.

Our strong performance continues to be recognized by the financial community. In 2003, Barr entered the ranks of *Fortune Magazine's* 1000, and our Company was in the top ten of *The Wall Street Journal's* 1000 10-Year Best Performers. Today, our Company is followed by 14 Wall Street financial analysts in the generic and specialty pharmaceuticals areas.

### Progress In New Product Development

Barr continued to invest record amounts on new product development for both generic and proprietary products. Investment in new product research and development increased 20% for the fiscal year, to \$91.2 million versus \$75.7 million in the prior year period.

The increase was primarily related to clinical trials associated with generic and proprietary product development, including the development of our DP3 extended cycle oral contraceptive and Cenestin product line extensions. The increase also reflected headcount and related costs associated with other proprietary development activities, including development activities related to our vaginal ring products and a \$4 million in-process R&D charge associated with Trimegestone (TMG) that is currently in Phase II studies for use as a new oral contraceptive. We acquired the rights to develop TMG as a result of our Wyeth transaction.

### Generic Products

We received approval on 16 product applications during the year (including tentative approvals related to ongoing patent challenges) and launched a total of 10 generic products

during the year, including five new oral contraceptives. We filed a total of 14 applications, including the generic version of conjugated estrogens, bringing the total number of generic product applications currently pending before the U.S. Food and Drug Administration (FDA) to more than 30.

### Additional Patent Challenges

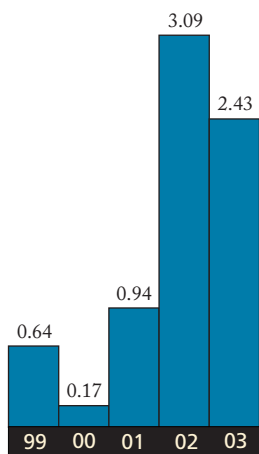
During fiscal 2003, we announced five additional patent challenges, including challenges for: Eli Lilly's Evista® product for the treatment and prevention of osteoporosis in postmenopausal women; Kos Pharmaceutical's Niaspan® 500 mg and 750 mg extended release tablets for cholesterol; Ferring's patent related to DDAVP® (Desmopressin Acetate) antidiuretic replacement therapy; Shire Laboratories, Inc.'s Adderall XR® for Attention Deficit Hyperactivity Disorder (ADHD); and, Cephalon, Inc.'s Provigil® (Modafinil), for patients experiencing excessive daytime sleepiness associated with narcolepsy. Approximately 50% of our products pending at the FDA, as well as nearly 50% of the products in development, involve challenges of brand product patents.

Our patent challenge strategy again delivered value as we launched an alternative brand version of Bayer's \$1 billion Cipro® antibiotic at the close of the fiscal year. Ciprofloxacin generated approximately \$111 million in sales following the fourth quarter launch. The Cipro agreement, forged in 1997 with Bayer, the result of our successful settlement of a patent challenge, allowed us to launch ciprofloxacin six months prior to the expiration of Bayer's patents on this product.

### Proprietary Products – SEASONALE®

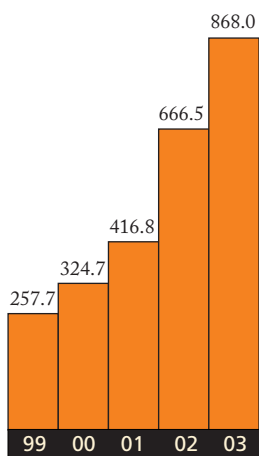
During the fiscal year, we continued to work with the FDA on our New Drug Application (NDA) for SEASONALE, an extended cycle oral contraceptive. In May, the Company announced that the FDA had extended the original 10-month Prescription

Earnings per Share  
\$ per share



Adjusted to reflect March 17, 2003 3-for-2 stock split effected in the form of a 50% stock dividend; restated to include historical financial data of Duramed.

Shareholders' Equity  
\$ in millions



Restated to include historical financial data of Duramed.

Drug User Fee Act (PDUFA) deadline for the completion of its review of the Company's SEASONALE NDA. This extension will enable the FDA to complete its review of the Company's application, including additional data that was submitted.

The NDA for SEASONALE was supported by clinical data from a randomized, open-label, multi-center trial that ended in March 2002 and an extension to that trial. The trial involved 1,400 female patients between the ages of 18-40 at 47 sites in the United States. The extension trial continues to follow a subset of over 300 patients for greater than one year.

If approved, SEASONALE will be indicated for the prevention of pregnancy in women who elect to use oral contraceptives as a method of contraception. In the clinical trial, our SEASONALE product was found to prevent pregnancy and adverse effects found in the clinical trial were comparable to those expected with traditional oral contraceptive use.

Our SEASONALE product represents the single most significant advance in oral contraception in the past 40 years. The SEASONALE product has been formulated using well-established ingredients, long recognized as safe and effective for the prevention of pregnancy. Under the SEASONALE extended regimen, women take active contraceptive tablets of 0.15 mg of levonorgestrel/0.03 mg of ethinyl estradiol for 84 consecutive days, followed by a seven-day interval during which placebo pills are taken to induce a withdrawal bleeding period. In contrast, traditional oral contraceptives follow a 21-day active regimen, followed by seven days of placebo each month. The SEASONALE regimen is designed to reduce the number of menstrual periods from 13 to 4 per year.

While the FDA review of the NDA continues, the Company continues planning for a launch of SEASONALE in the fall of calendar 2003.

### Additional Proprietary Activities

In August 2002, we expanded our Cenestin line with the launch of the 0.3 mg strength. We also continue to work closely with FDA to provide additional data to support the approval of our 0.45 mg strength of Cenestin.

In addition to the proprietary development activities related to SEASONALE and the expansion of Barr's Cenestin product line, we have five other projects in Phase III and Phase IV clinical development. These include the development of a low-dose version of SEASONALE, where a Phase IIIB clinical trial is underway and a NDA could be submitted during fiscal 2004; as well as the Company's DP3 extended cycle oral contraceptive. Trials for DP3 were initiated during the fourth quarter of fiscal 2002, and an application for the product could be filed with the FDA as early as fiscal 2005. Patent applications have been filed on this product.

We are continuing the development of our vaginal ring technology, with the first product for urinary incontinence being developed for Schering AG. Other products are also under development using this novel drug delivery technology.

### Progress with Adenovirus Vaccine

During fiscal 2003, we completed the construction of the dedicated adenovirus vaccine manufacturing facility required under the \$35.4 million, six-year contract from the United States Department of Defense (DOD), which was announced in September 2001. This contract covers the clinical development and production of Adenovirus Vaccine Types 4 and 7 tablets.

Adenovirus, a flu-like illness that is spread in the close quarters of military barracks, results in as many as 30% of all military recruits suffering lost time from critical training exercises. The Armed Forces have

been without a vaccine for this illness since 1999, when previously stockpiled supplies were exhausted. FDA approval of the adenovirus vaccine could be received as early as calendar 2007.

In addition to supporting a significant unmet medical need for the DOD, working with the adenovirus vaccine will provide us with substantial experience in the area of oral vaccine technology that may be transferable to the development and ultimate marketing of generic biologics, a \$16 billion pharmaceutical market that represents the next frontier for significant consumer savings.



From left to right: William T. McKee, Senior Vice President and Chief Financial Officer; Dr. Carole S. Ben-Maimon, President and Chief Operating Officer of Barr Research; Mr. Downey; and Paul M. Bisaro, President and Chief Operating Officer, Barr Laboratories.

### **Expanding Our Proprietary Sales & Marketing Team**

As critical as new product development is, the need for an agile and efficient sales and marketing capability will be critical to realizing the value of our proprietary development activities. We took a number of steps in this area to ensure that we have the sales and marketing power necessary to support the successful launch of our SEASONALE product upon approval. This team also continues to differentiate our Cenestin hormonal product from competitors.

During the year we added approximately 100 new sales representatives, bringing to approximately 246 the number focused on marketing our proprietary products. We have also defined a rheumatology/dermatology sales team to strengthen support of our Trexall™ (Methotrexate Tablets) product, as well as to support the introduction of our generic version of Roche Pharmaceutical's Accutane®, which is sold under the Claravis™ name, and detailed directly to dermatologists.

### **Improving Timely Access to Generic Drugs**

We continued to devote considerable time and resources to Congressional efforts to modernize Hatch-Waxman, and close the loopholes in this 20-year-old act that allow brand companies to prevent the timely launch of more affordable generic products.

We worked closely with the Senate, House and Bush Administration in efforts that led to the inclusion of an amendment in the historic Medicaid reform legislation pending before Congress. This amendment will remove some of the most serious market barriers to generic competition and result in billions of dollars in prescription pharmaceutical savings for American consumers. We are committed to working with Congress and the Administration on these reforms in the first half of fiscal 2004.

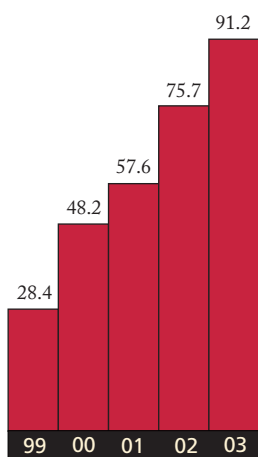
### **Strength in Our Management Team**

For the past decade, I have emphasized the importance of having a deep and talented team of managers who could ensure that we maximize opportunities in all areas of our business. When I became ill in January 2003, it became clear to me that our investment in recruiting and retaining a talented management team had been well-spent. While I recuperated, this team, led by Paul Bisaro and Dr. Carole Ben-Maimon, continued to

keep our organization focused on the day-to-day responsibilities of meeting our internal objectives and delivering on our commitments to our shareholders.

On behalf of all Barr shareholders, I would like to express my sincere gratitude for the efforts they, our extended management team, and our entire organization made to allow me to concentrate on recovery. I also want to thank our Board of Directors for their leadership during this time. I am more confident than ever of their commitment, expertise, and passion for success. I am sure you share my confidence in this enthusiastic and talented team.

Investing in R & D  
\$ millions invested



Restated to include historical financial data of Duramed.

### Corporate Governance

Our management team and our Board of Directors remain committed to the highest ethical standards in all areas of our business. Following last year's concern throughout American business, we have continued to implement those checks and balances as prescribed in the regulatory guidelines that will continue to ensure the complete and open disclosure of our financial results and meet the highest standards for corporate governance.

### New Administrative Headquarters

Finally, in July 2003, we relocated our Administrative Headquarters to a 90,000 square-foot office building in Bergen County, NJ. The new facility provides us with the ability to expand our administrative staff to meet the needs of our growing company and recruit and retain the highest caliber human resources, and features conference and training facilities with state-of-the-art audio/visual systems.

### Challenges in 2004

Our primary challenges in the coming fiscal year will include the final FDA approval and successful launch of our innovative SEASONALE, an extended cycle oral contraceptive; meeting our new product development, filing and launch commitments for both our generic and proprietary products; and working on both the federal and state levels to remove barriers to the timely introduction of generic pharmaceuticals and increase consumer access to these medicines. In addition, we will need to continue our ongoing efforts to maximize our capital and human resources to support our growth.

I am confident that we have the financial resources, management skills, scientific and regulatory expertise, and human resources that will enable us to succeed.

When I write to you next year, Barr will likely be a very different pharmaceutical company than it is today. The anticipated launch of SEASONALE, and the introduction of additional generic products – particularly additional oral contraceptives – will continue to power our growth. However, we will continue to emphasize the strategic decision-making and commitment to excellence that has resulted in our growth during fiscal 2003, and indeed, the last decade.

Thank you for your continued support and confidence in our ability to maximize the opportunities that result from our commitment to our core business strategy.

Sincerely,

Bruce L. Downey  
Chairman and Chief Executive Officer

# Highlights of the Year

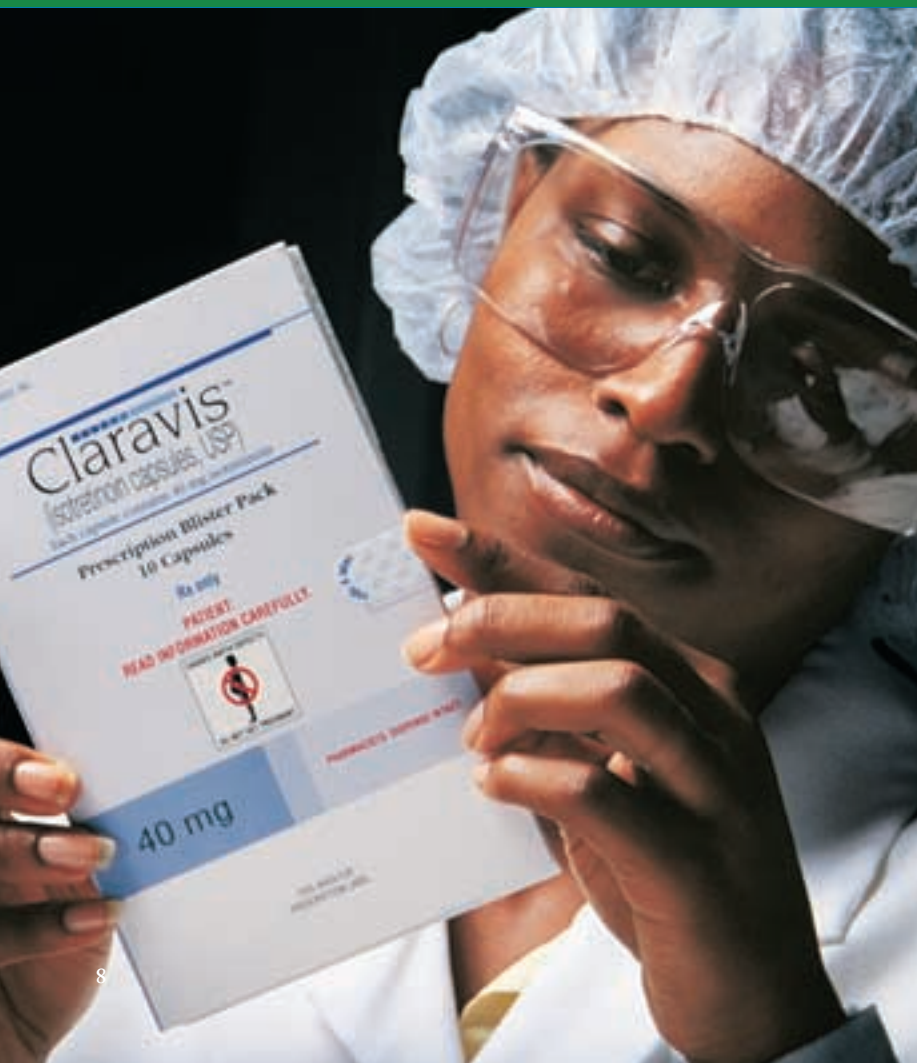


## Expanding Our Generic Adderall® Product Line

In March 2003, Barr launched three additional generic equivalent strengths of Shire's Adderall, which is used for treating attention deficit disorder with hyperactivity (ADHD). Barr launched the first generic version of Adderall in February 2002.

Barr was granted 180 days of generic exclusivity on the three strengths of the dextroamphetamine salts combination product, as a result of an uncontested patent challenge filed by Barr on the 7.5 mg, 12.5 mg and 15 mg tablet strengths.

The addition of these three strengths complements Barr's line of dextroamphetamine-based products, which also includes generic versions of GlaxoSmithKline's Dexedrine® Spansules® and Shire's Dextrostat® products.



## Generic Accutane® Launched

In May 2003, Barr launched a generic version of Roche Pharmaceutical's Accutane (Isotretinoin) Capsules for the treatment of severe acne. Barr markets generic Accutane under the trademark Claravis™ directly to dermatologists.

Because of the risks associated with use of Claravis, Barr developed a comprehensive education, risk assessment and management program for patients, pharmacists and physicians. The program includes a toll-free telephone number for a prescriber registration and education program, educational materials informing patients about the possible side effects, and a pregnancy prevention program. The risk management aspects include pregnancy testing, patient awareness and consent to avoid pregnancy, and awareness of psychiatric disorders.



## Building Proprietary Sales and Marketing Power

In March 2003, we completed an initiative designed to help ensure that our proprietary sales activities will maximize our position in female healthcare.

The Company added approximately 100 new sales representatives, bringing to approximately 226 the number detailing female healthcare products to physicians. This team markets Cenestin<sup>®</sup> and is preparing for the launch of SEASONALE<sup>®</sup> once FDA approval is granted.

We also have a rheumatology/dermatology sales team that supports the Trexall<sup>™</sup> product, as well as markets generic Accutane<sup>®</sup>, which is sold under the Claravis<sup>™</sup> name, directly to dermatologists.



## Adenovirus Vaccine Development Ongoing

As fiscal 2003 came to a close, we dedicated our new Adenovirus Vaccine Types 4 and 7 Manufacturing and Packaging facility. The 20,000 square-foot building was designed specifically to produce vaccines for recruits in the U.S. Armed Forces. The facility is part of a \$35.4 million, six-year contract from the United States Department of Defense (DOD) for the clinical development and production of Adenovirus Vaccine Types 4 and 7 tablets. FDA approval could come as early as calendar 2007.

The facility includes specialized manufacturing and packaging facilities and quality control laboratories that will allow the Company to isolate the adenovirus from contact with the outside environment and employees involved in the production process.

## Hatch-Waxman Reform and the Future of Patent Challenges

In June 2003, the U.S. Senate overwhelmingly approved legislation that would modernize the Hatch-Waxman Act and remove some of the most serious market barriers to generic competition. U.S. House of Representatives approval followed. While the legislation is subject to negotiation in a conference committee, it contains provisions that, if unchanged, preserve the value of the patent challenge process for American consumers and generic pharmaceutical companies.



## Cenestin® Portfolio Expansion

We continue to expand the Cenestin product family. In August of 2002, we launched the Cenestin 0.3 mg strength. We also continued to work with FDA regarding the approval of the Cenestin 0.45 mg strength.

We also initiated a Phase III clinical study to support a Cenestin cream product in October 2002, expect to file the application during fiscal 2004, and continue to pursue possible development of Cenestin products using our novel vaginal drug delivery technology.



## Opportunity for Leadership in Female Healthcare

During fiscal 2003, Barr continued to solidify its portfolio of generic female healthcare products. New product introductions have expanded the portfolio to 13 products, with seven additional generic oral contraceptive products pending. At year-end, Barr was ranked as the third largest supplier of oral contraceptives with nearly 20% of the total United States market, and the sole generic supplier of five oral contraceptives.

Beginning with the July 2002 launch of the generic version of Wyeth's Lo-Ovral® and Watson's Low-Ogestrel®, marketed

under the trademark Cryselle®, we received approval and launched five oral contraceptives. These included generic versions of Ortho McNeil Pharmaceutical's Ortho-Cyclen®, marketed under the Sprintec® label; Watson's NOR-QD®, marketed under the Camila® trademark; Ortho-Micronor®, which the Company markets as Errin®, and Ortho McNeil's Ortho Novum® 7/7/7, which was the subject of a patent challenge and is marketed as Nortrel® 7/7/7.



## Marketed Proprietary Products

We continue to expand our proprietary product portfolio which includes our Cenestin® hormone replacement product; Trexall™ (Methotrexate Tablets) product for rheumatoid arthritis; and the ViaSpan® organ transplant preservation agent.

At year-end an agreement with Wyeth resulted in the addition of four proprietary products: Diamox® Sequels® (glaucoma), Zebeta® (hypertension), Ziac® (hypertension) and Aygestin® (amenorrhea). Under the terms of the purchase and related agreements, Wyeth assigned Barr the regulatory approvals related to the products and will supply Barr with finished packaged products until manufacturing is transferred to a Barr facility. Barr will detail Aygestin directly to physicians using its female health-care sales force.



## Ciprofloxacin Launched

On June 9, 2003, Barr began shipping Ciprofloxacin 250 mg, 500 mg and 750 mg tablets, under a license agreement that resulted from the 1997 settlement of Barr's challenge to Bayer's Cipro® product patents.

We were granted the right to begin distributing Ciprofloxacin products six months prior to Cipro's patent expiration in December 2003. We purchase Ciprofloxacin products directly from Bayer and market them under the Barr label.



## Expansion of Facilities

During fiscal 2003, we invested approximately \$80.6 million in the facilities necessary to support our in-line generic and proprietary products, and support those products currently in various stages of development, as well as to relocate our administrative headquarters. Today, Barr has facilities in six locations – New Jersey, New York, Ohio, Pennsylvania, Virginia and Washington, DC. During the past year, the Company continued its investment in new facilities, including expansion of its Ohio and Virginia manufacturing facilities, expansion of laboratories in Virginia, and the construction of a dedicated facility to manufacture adenovirus vaccines.

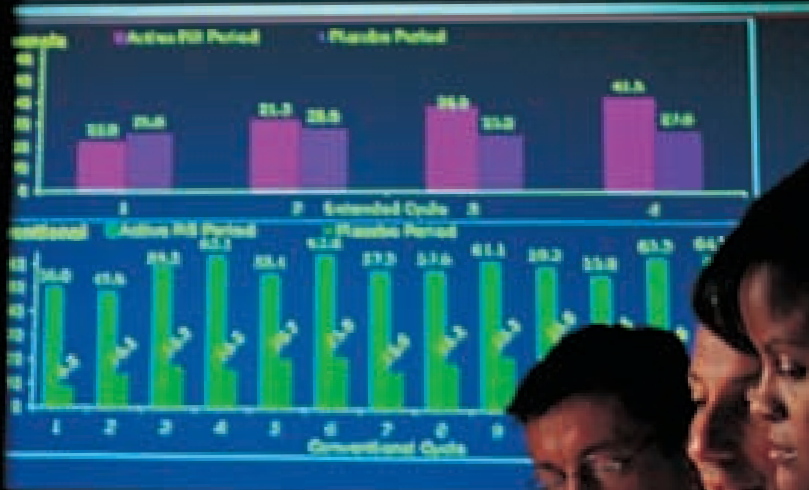


## Other Generic Product Approvals

During fiscal 2003, Barr received approval for the generic version of 3M Pharmaceutical's Tambocor® (Flecainide Acetate) cardiovascular medication; the generic version of Astra Zeneca's Nolvadex® (Tamoxifen Citrate), which the Company had distributed since 1994 as part of a patent challenge settlement; the generic version of King Pharmaceuticals Inc.'s Florinef® Acetate (Fludrocortisone Acetate) 0.1 mg tablets, which is used to treat symptoms associated with Addison's disease, among others; and Extended Phenytoin Sodium Capsules, the generic equivalent of Parke-Davis' Dilantin® Kapseals® seizure treatment.



## Distribution of Patients Who Reported, by Cycle



### Progress for Barr Research

Fiscal 2003 represented a year of significant progress for Barr Research, our proprietary product development organization headquartered near Philadelphia, PA. Less than two years after establishing this dedicated proprietary function, we have created a team of more than 60 that brings significant capabilities in formulation, process development, clinical operations, analytical chemistry, regulatory and quality assurance, data management and project management.

We have also taken steps to strengthen the integration between proprietary development and strategic planning and marketing. As fiscal 2003 came to a close, the Company had the expertise in product development and strategic marketing support functions necessary for long-term success.



## Conjugated Estrogens Application Filed

As the fiscal year came to a close, Barr renewed its decades-long effort to provide consumers with a generic version of Wyeth's Premarin® conjugated estrogens. In 1997, following extensive efforts by Wyeth to prove that its product, which is derived from the urine of pregnant horses, contained numerous, unidentified constituents that were missing from the synthetic raw materials, the FDA refused to approve generic versions of conjugated estrogens that were not equine-based. At that time, Barr had an application pending based on synthetically-derived conjugated estrogens.

In fiscal 2002, Barr signed a series of agreements with Natural Biologics, the first company to produce equine-based bulk conjugated estrogens specifically for use in a generic product. Barr used the Natural Biologics' equine-based raw material to develop its conjugated estrogens application.

## Barr's Patent Challenge Pipeline

Since it began challenging patents, Barr has successfully resolved patent litigation in seven separate cases. At the close of fiscal 2003, the Company had disclosed that 12 different patent challenge cases were in process, on a variety of products in such therapeutic categories as anti-allergy, female healthcare, heart disease, cancer, hemophilia, narcolepsy and attention deficit disorder. This pipeline of disclosed patent challenge projects involves brand products that currently have annual sales of nearly \$6 billion.

In addition to the cases disclosed (see chart), Barr has nearly two dozen additional patent challenge projects in various stages of development.

Products	Category	(\$ in millions)
Allegra® Capsules	Allergy	31
Allegra® Tablets	Allergy	1,558
Allegra® D	Allergy	438
Estrostep®/Estrostep Fe®	Oral Contraceptive	67
Fosamax® 70 & 35mg Weekly	Osteoporosis	1,591
FemHRT®	Menopause/Osteoporosis	74
Niaspan® (3 strengths)	Cholesterol/Cardiovascular	227
Remeron Sol Tab®	Cancer	127
Evista®	Osteoporosis	691
DDAVP®	Hemophilia	136
Adderall XR®	ADHD	425
Provigil®	Narcolepsy	247
<b>Total</b>		<b>\$5,612</b>

\* May 2003 IMS data

# Financial Review

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# Management's Discussion and Analysis of Financial Condition and Results of Operations *(dollars in thousands)*

## Forward-Looking Statements

The following sections contain a number of forward-looking statements. To the extent that any statements made in this report contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by their use of words such as "expects," "plans," "will," "may," "anticipates," "believes," "should," "intends," "estimates" and other words of similar meaning. These statements 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 difficulty in predicting the timing and outcome of legal proceedings, including patent-related matters such as patent challenge settlements and patent infringement cases;
- the difficulty of predicting the timing of U.S. Food and Drug Administration, or FDA, approvals;
- court and FDA decisions on exclusivity periods;
- the ability of competitors to extend exclusivity periods for their products;
- market and customer acceptance and demand for our pharmaceutical products;
- reimbursement policies of third party payors;
- our ability to market our proprietary products;
- the successful integration of acquired businesses and products into our operations;
- the use of estimates in the preparation of our financial statements;
- the impact of competitive products and pricing;
- the ability to develop and launch new products on a timely basis;
- the availability of raw materials;
- the availability of any product we purchase and sell as a distributor;
- the regulatory environment;
- the impact of product liability claims and the availability of product liability insurance coverage;
- fluctuations in operating results, including the effects on such results from spending for research and development, sales and marketing activities and patent challenge activities; and
- other risks detailed from time-to-time in our filings with the U.S. Securities and Exchange Commission.

## Overview

We operate in one business segment, which is the development, manufacture and marketing of pharmaceutical products. As discussed in Note 3 to the consolidated financial statements, on October 24, 2001, we completed our merger with Duramed Pharmaceuticals, Inc. ("Duramed"). The merger was treated as a tax-free reorganization and was accounted for as a pooling-of-interests for financial reporting purposes. On June 6, 2002, we acquired certain assets and assumed certain liabilities of Enhance Pharmaceuticals, Inc. On June 9, 2003, we purchased the rights to four currently marketed products from Wyeth and entered into a license and sublicense agreement for an oral contraceptive product currently in development.

Duramed's fiscal year-end was different than ours. Duramed had a calendar year-end, whereas our fiscal year ends on June 30th. Financial information for the fiscal year ended June 30, 2002 is presented as if we merged with Duramed on July 1, 2001. For the fiscal year ended June 30, 2001, financial information for our fiscal year ended June 30th was combined with financial information for Duramed's calendar year ended December 31st. Our consolidated statement of operations for the year ended June 30, 2001 was combined with Duramed's statement of operations for the year ended December 31, 2000. Our statement of cash flows for the fiscal years ended June 30, 2001 was combined with Duramed's statement of cash flows for the calendar year ended December 31, 2000.

## Critical Accounting Policies

The methods, estimates and judgments we use in applying the accounting policies most critical to our financial statements have a significant impact on our reported results. The U.S. Securities and Exchange Commission (SEC) has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments. Based on this definition, our most critical policies include the following: (1) provisions for estimated sales returns and allowances; (2) accrual of inventory reserves; (3) deferred taxes; (4) accrual for litigation; (5) accrual for self-insurance reserve; and (6) the assessment of recoverability of goodwill and other intangible assets. We also have other key accounting policies including policies for revenue recognition. We believe that these other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective as the six listed above, or are likely to have a material impact on our reported results of operations for a given period. For additional

information, see Note 1, "Summary of Significant Accounting Policies" in Item 8 of Part II, "Financial Statements and Supplementary Data," of this report. Although we believe that our estimates and assumptions are reasonable, they are based upon information available at the time the estimates and assumptions were made. Actual results may differ significantly from our estimates and our estimates could be different using different assumptions or conditions.

#### **Sales Returns and Allowances**

When we recognize revenue from the sale of our pharmaceutical products, we simultaneously record estimates for product returns, rebates, chargebacks and other sales allowances. These estimates serve to reduce our reported product sales. In addition, as discussed in detail below, we may record allowances for shelf-stock adjustments when the conditions are appropriate. We base our estimates for sales allowances such as product returns, rebates and chargebacks on a variety of factors, including the actual return experience of that product or similar products, rebate agreements for each product, and estimated sales by our wholesale customers to other third parties who have contracts with us. Actual experience associated with any of these items may differ materially from our estimates. We review the factors that influence our estimates and, if necessary, make adjustments when we believe actual product returns, credits and other allowances may differ from established reserves.

We often issue credits to customers for inventory remaining on their shelves following a decrease in the market price of a generic pharmaceutical product. These credits, commonly referred to in the pharmaceutical industry as "shelf-stock adjustments," can then be used by customers to offset future amounts owing to us. The shelf-stock adjustment is intended to reduce a customer's inventory cost to better reflect current market prices and is often used by us to maintain our long-term customer relationships. The determination to grant a shelf-stock credit to a customer following a price decrease is usually at our discretion rather than contractually required. We record allowances for shelf-stock adjustments at the time we sell products that we believe will be subject to a price decrease or when market conditions indicate that a shelf-stock adjustment is necessary to facilitate the sell-through of our product. When determining whether to record an amount for a shelf-stock adjustment, we analyze several variables including the estimated launch date of a competing product, the estimated decline in market price and estimated levels of inventory held by the customer at the time of the decrease in market price. As a result, a shelf-stock reserve depends on a product's unique facts and circumstances. We regularly monitor these and other factors for our significant products and evaluate and adjust, if applicable, our reserves and estimates as additional information becomes available.

Accounts receivable are presented net of allowances related to the above provisions of \$136,059 at June 30, 2003 and \$93,789 at June 30, 2002.

#### **Inventory Reserves**

We establish reserves for our inventory to reflect situations in which the cost of the inventory is not expected to be recovered. We regularly review our inventory for products close to expiration and therefore not expected to be sold, for products that have reached their expiration date and for products that are not expected to be saleable based on our quality assurance and control standards. The reserve for these products is equal to all or a portion of the cost of the inventory based on the specific facts and circumstances. In evaluating whether inventory is properly stated at the lower of cost or market, we consider such factors as the amount of product inventory on hand, estimated time required to sell such inventory, remaining shelf life and current and expected market conditions, including levels of competition. We monitor inventory levels, expiry dates and market conditions on a regular basis. We record provisions for inventory reserves as part of cost of sales.

Inventories are presented net of reserves of \$13,201 at June 30, 2003 and \$10,236 at June 30, 2002.

#### **Deferred Taxes**

Income taxes are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets which are "more-likely-than-not" to be unrealized. The recoverability of deferred tax assets is dependent upon our assessment of whether it is more-likely-than-not that sufficient future taxable income will be generated in the relevant tax jurisdiction to utilize the deferred tax asset. We review our internal forecasted sales and pre-tax earnings estimates to make our assessment about the utilization of deferred tax assets. In the event we determine that future taxable income will not be sufficient to utilize the deferred tax asset, a valuation allowance will be recorded. If that assessment changes, a benefit would be recorded on the statement of operations.

## Litigation

We are subject to litigation in the ordinary course of business and also to certain other contingencies (see Note 21 to the Consolidated Financial Statements). Legal fees and other expenses related to litigation and contingencies are recorded as incurred. Additionally, we assess, in consultation with counsel, the need to record a liability for litigation and contingencies on a case-by-case basis. Reserves are recorded when we, in consultation with counsel, determine that a loss related to a matter is both probable and reasonably estimable.

## Self-Insurance Reserve

We are primarily self-insured for potential product liability claims on products sold on or after September 30, 2002. We record a self-insurance reserve for each reported claim on a case-by-case basis, plus an allowance for the estimated future cost of incurred but not reported (“IBNR”) claims. In assessing the amounts to record for each reported claim, with the assistance of counsel and insurance consultants, we consider the nature and amount of the claim, our prior experience with similar claims, and whether the amount expected to be paid on a claim is both probable and reasonably estimable. In determining the allowance for the estimated future cost of both reported and IBNR claims as of June 30, 2003, we utilized projections of our outstanding estimated losses as determined by an independent actuary. As of June 30, 2003 we accrued \$1,333 for our estimate of potential claims and expenses. This amount is included in selling, general and administrative expenses. The costs of the ultimate disposition of both existing and IBNR claims may differ from these reserve amounts.

## Goodwill and Other Intangible Assets

In connection with acquisitions, we determine the amounts assigned to goodwill and other intangibles based on purchase price allocations. These allocations, including an assessment of the estimated useful lives of intangible assets, have been performed by qualified independent appraisers using generally accepted valuation methodologies. The valuation of intangible assets is generally based on the estimated future cash flows related to those assets, while the value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. Useful lives are determined based on the expected future period of benefit of the asset, which considers various characteristics of the asset, including projected cash flows. As required by SFAS 142, “Goodwill and Other Intangible Assets,” we review goodwill for impairment annually or more frequently if impairment indicators arise.

As a result of our June 2002 purchase of certain assets and the assumption of certain liabilities of Enhance Pharmaceuticals, Inc. (the “Enhance Purchase”), we have included \$14,118 and \$13,941 of goodwill on our balance sheet as of June 30, 2003 and 2002, respectively. As a result of the Enhance Purchase, together with our June 2003 acquisition of four products from Wyeth, we have included \$45,949 and \$28,200 as other intangible assets, net of accumulated amortization, on our balance sheet as of June 30, 2003 and 2002, respectively.

## Results of Operations

### Comparison of the fiscal years ended June 30, 2003 and June 30, 2002

#### Revenues – Overview

Total revenues in fiscal 2003 were \$902,864, a decrease of 24% compared to \$1,188,984 in fiscal 2002. This decrease in total revenues, which we anticipated, was primarily due to the sharp decline in sales of our 20 mg Fluoxetine product together with a reduction in sales of our distributed version of Tamoxifen. Partially offsetting the decline in sales of Fluoxetine and Tamoxifen was a 75% increase in sales of other products, led by higher sales of our oral contraceptive products, sales from our June 2003 launch of the distributed version of Ciprofloxacin tablets, and increased sales of our Dextro salt combo product (the generic equivalent of Shire Richwood, Inc.’s Adderall®).

#### Revenues – Product Sales

Product sales for fiscal 2003 were \$894,888, compared to \$1,171,358 in the prior year. Fluoxetine accounted for \$7,245 of product sales in fiscal 2003, down from \$367,539 in fiscal 2002, while Tamoxifen accounted for \$120,889 of product sales in fiscal 2003, down from \$366,314 in fiscal 2002. Sales of products other than Fluoxetine and Tamoxifen increased 75% from \$437,505 in fiscal 2002 to \$766,754 in the current year.

The increase in sales of products other than Fluoxetine and Tamoxifen was primarily attributable to increased sales of our oral contraceptive products, for which sales nearly tripled from the prior year, to sales from the launch of our distributed version of Ciprofloxacin tablets and to increased sales of our Dextro salt combo product. Partially offsetting these increases were lower sales of Cenestin, as discussed below.

Sales of oral contraceptives increased \$181,576 or 196% from fiscal 2002 to fiscal 2003. The increase in sales of the oral contraceptives reflects increasing market shares for existing products, including our Apri®, Aviane™, Kariva™ and Nortrel® products, and sales of seven new oral contraceptive products launched during fiscal 2003.

In June 2003 we began shipping Ciprofloxacin Hydrochloride pursuant to a license from Bayer Corporation ("Bayer"). Under a 1997 settlement of a patent challenge we initiated against Bayer's Cipro<sup>®</sup> antibiotic, we purchase, directly from Bayer, Ciprofloxacin products that are manufactured under Bayer's New Drug Application for Cipro and market them under our label. We have the non-exclusive right to distribute the Ciprofloxacin products until Bayer's patent protecting Cipro expires in December 2003. On June 9, 2003, we began distributing Ciprofloxacin tablets pursuant to the terms of the settlement and recorded sales of \$111,379 for the period from June 9, 2003 to June 30, 2003. We share one-half of our profits from the sale of Ciprofloxacin, as defined, with Aventis, the contractual successor to our joint venture partner in the Cipro patent challenge case.

We believe that Bayer intends to seek pediatric exclusivity for Cipro, which, if granted, could delay the introduction of generic versions for six months beyond the expiration of the patent. We are currently negotiating with Bayer to continue distributing Ciprofloxacin products during and after Bayer's anticipated pediatric exclusivity period for Cipro. If Bayer obtains a pediatric exclusivity extension and we continue distributing Ciprofloxacin during that extension period, Ciprofloxacin is expected to be our largest selling product in fiscal 2004.

We launched our Dextro salt combo product in February 2002 as the first generic manufacturer to enter the market. Sales of our Dextro salt combo product in fiscal 2003 were higher than in fiscal 2002 due to the inclusion of a full-year of sales in our fiscal 2003 results compared with approximately four months of sales in fiscal 2002. Partially offsetting this increase were lower prices in the current year due to the entry of competitors into the market.

Sales of Cenestin<sup>®</sup>, our plant derived conjugated estrogen product, declined approximately 17% from \$41,512 in fiscal 2002 to \$34,575 in fiscal 2003. The decline in Cenestin sales was due to declining Cenestin prescriptions, which more than offset higher prices for the product in fiscal 2003, and was consistent with reduced sales of several prominent hormone therapy products due to the July 9, 2002 release of the findings of the Women's Health Initiative (WHI) study. The WHI study involved the long-term usage of estrogen and progestin in healthy post-menopausal women. A portion of the study, which evaluated the use of a combination of conjugated equine estrogens and the progestin medroxyprogesterone acetate, was stopped early by the study's sponsor, because of increased health risks which the study sponsors felt outweighed the specified long-term benefits. The estrogen-only arm of the

study is continuing. Although Cenestin is not a combination product and was not part of the WHI study, the findings negatively impacted nearly all hormone therapy products. Though we experienced a decline in our Cenestin prescriptions, our decline was not as significant as other larger products in the hormone therapy market and, as a result, our market share has been increasing.

In August 2001, we launched our Fluoxetine 20 mg capsule with 180 days of exclusivity as the only generic manufacturer. Sales of Fluoxetine were \$367,539 for fiscal 2002, constituting approximately 31% of product sales in that year. On January 29, 2002, our 180-day generic exclusivity period ended and, as expected, the FDA approved several other competing Fluoxetine products. As a result, the selling price declined dramatically and we lost market share to competing products, causing our sales and profits from Fluoxetine to be substantially lower than those earned during the exclusivity period. For fiscal 2003, sales of Fluoxetine accounted for less than 1% of product sales and we expect this to be the case in fiscal 2004.

Tamoxifen sales decreased from \$366,314 for fiscal 2002 to \$120,889 for fiscal 2003. During the quarter ended December 31, 2002, we sold our remaining distributed Tamoxifen inventory previously purchased from AstraZeneca. AstraZeneca's pediatric exclusivity for its Nolvadex<sup>®</sup> brand version of Tamoxifen ended on February 20, 2003. We were unable to supply distributed Tamoxifen to our customers after the depletion of our inventory purchased from AstraZeneca until we launched our manufactured Tamoxifen product at the expiration of AstraZeneca's pediatric exclusivity period. At that time, several other generic competitors launched Tamoxifen products, causing the price to decline and causing us to lose market share. Sales of our manufactured version of Tamoxifen accounted for less than \$10,000 of our total Tamoxifen sales during fiscal 2003 and are expected to be less than 2% of total sales in fiscal 2004.

#### **Revenues – Development and Other Revenue**

For fiscal 2003, development and other revenue of \$7,976 includes royalty income earned under licensing agreements with third parties, our development agreement with the U.S. Department of Defense for the Adenovirus Vaccine, and our development agreement related to one of our vaginal ring products. For fiscal 2002, development and other revenue consisted primarily of amounts received from DuPont Pharmaceuticals Company for various development and co-marketing agreements entered into in March 2000. The assets of DuPont have since been acquired by Bristol-Myers Squibb ("BMS") and the March 2000 agreements that generated these revenues ended in April 2002. As we incurred research and other development activity costs, we recorded such expenses as research and development and invoiced and

recorded the related revenue from BMS as development and other revenue. We recorded revenue from these agreements of \$15,584 for fiscal 2002.

#### **Cost of Sales**

Cost of sales decreased 37% from \$676,323 for fiscal 2002 to \$424,099 for fiscal 2003, primarily due to lower sales of Fluoxetine and Tamoxifen. Cost of sales includes the profit split paid to Apotex, Inc., our partner in the Fluoxetine patent challenge, and royalties on certain other products paid to certain of our raw material suppliers.

As a percentage of product sales, cost of sales decreased from 58% for fiscal 2002 to 47% for fiscal 2003. This decrease reflects the fact that higher margin products constituted a larger portion of total product sales in fiscal 2003 compared to fiscal 2002. In addition, as a percentage of total product sales, Fluoxetine, which is subject to a profit split with a partner, decreased from fiscal 2002 to fiscal 2003, as discussed in *Revenues – Product Sales* above.

#### **Selling, General and Administrative Expense**

Selling, general and administrative expenses increased 44% from \$111,886 for fiscal 2002 to \$160,978 for fiscal 2003. The increase was primarily due to significant costs incurred for pre-launch activities related to our extended cycle oral contraceptive, SEASONALE<sup>®</sup>, which we expect to launch in fiscal 2004, and increased marketing and selling expenses for Cenestin. Also contributing to the increase were the amortization of intangible assets and higher legal costs, including a \$20,000 attorney fee made in connection with a litigation settlement with Wyeth. Partially offsetting these increases were somewhat lower marketing and administrative costs associated with synergies achieved as a result of the integration of Duramed.

#### **Research and Development Expense**

Research and development expenses increased 20% from \$75,697 for fiscal 2002 to \$91,207 for fiscal 2003. The increase reflected higher headcount and development costs in our proprietary development program, including costs associated with our vaginal ring product, as well as increased expenditures associated with the development of the Adenovirus Vaccine for the U.S. Department of Defense. Also contributing to the increase was the \$3,946 write off of in-process research and development associated with our June 9, 2003 purchase from Wyeth of four products and the product rights to an oral contraceptive in development. Research and development expenses for fiscal 2002 included a write off of in-process research and development of \$1,000 associated with the acquisition of certain assets and liabilities of Enhance Pharmaceuticals, Inc.

#### **Merger-Related Costs**

Merger-related costs in the prior year included direct transaction costs related to our merger with Duramed in October 2001 and include costs such as legal and accounting costs, costs associated with facility and product rationalization and severance costs (See Notes 3 and 19 to the Consolidated Financial Statements).

#### **Proceeds from Patent Challenge Settlement**

Under the terms of the contingent supply agreement entered into with Bayer to settle our patent challenge litigation regarding its Cipro antibiotic, Bayer had the option to either supply us with Ciprofloxacin at a predetermined discount for resale or make quarterly cash payments to us. Until June 9, 2003, Bayer elected to make payments to us rather than supply us with Ciprofloxacin. Accordingly, we have recognized proceeds from patent challenge settlement of \$31,958 for fiscal 2002 and \$31,396 for fiscal 2003. Fiscal 2003 is the last year we will recognize proceeds from the Cipro patent challenge.

#### **Interest Income**

Interest income decreased 19% from \$7,824 for fiscal 2002 to \$6,341 for fiscal 2003, primarily due to a decrease in market interest rates.

#### **Interest Expense**

Interest expense decreased 58% from \$3,530 for fiscal 2002 to \$1,474 for fiscal 2003, primarily due to an 11% decrease in our debt balances due to scheduled debt repayments combined with lower market interest rates on our adjustable rate borrowings.

#### **Other (Expense) Income, net**

Other income of \$7,656 for fiscal 2002 included \$5,600 received in restructuring the product development and co-marketing agreements entered into with BMS in March 2000 and \$2,000 received in settlement of litigation. There were no such items in fiscal 2003.

#### **Income Taxes**

Our income tax provision for fiscal 2003 reflected a 36% effective tax rate on pre-tax income, compared to 37% for fiscal 2002. The decrease in the effective tax rate for fiscal 2003 was due primarily to the increase in certain tax credits, the recognition of a deferred tax asset resulting from the identification of additional deductible state operating losses incurred in prior years and the reversal of certain valuation allowances previously established by Duramed.

## Comparison of the fiscal years ended June 30, 2002 and June 30, 2001

Total revenues increased 100% from \$593,151 in fiscal 2001 to \$1,188,984 in fiscal 2002 driven by increased product sales. Increased product sales were due mainly to new product launches in fiscal 2002, including Fluoxetine, our Dextro salt combo product, new oral contraceptive products and increased sales of our Tamoxifen product.

### Revenues – Product Sales

In August 2001, we launched our Fluoxetine 20 mg capsule, the generic equivalent of Eli Lilly's Prozac®. Sales of Fluoxetine were \$367,539, or 31% of product sales in fiscal 2002. On January 29, 2002, our 180-day generic exclusivity period on the Fluoxetine 20 mg capsules ended and, as expected, the FDA approved several other generic versions. As a result, the selling price declined dramatically and we lost market share to competing products causing our sales and profits from Fluoxetine to be substantially lower than those earned during the exclusivity period.

Sales of products other than Fluoxetine and Tamoxifen increased 72% from \$254,338 in fiscal 2001 to \$437,505 in fiscal 2002. The increase was primarily attributable to new product launches, including our Dextro salt combo product, and increased sales of our oral contraceptive products. The year-over-year increase in the oral contraceptive franchise reflected higher sales of existing oral contraceptives, including our Apri and Aviane products, combined with sales of our new oral contraceptive products, primarily Kariva, our generic equivalent to Organon, Inc.'s Mircette®. Also contributing to the increase was a 178% or \$26,570 year-over-year increase in sales of Cenestin. The increases described above were driven primarily by higher volumes due to increased market shares.

Tamoxifen sales increased 14% from \$322,318 in fiscal 2001 to \$366,314 in fiscal 2002. The increase reflected an approximately 4.5% price increase combined with higher volumes. During fiscal 2002, the increase in Tamoxifen volume appeared to reflect the timing of customer purchases rather than being driven primarily by increases in market size or market share. In fiscal 2002, Tamoxifen accounted for 31% of product sales versus 56% in fiscal 2001.

### Revenues – Development and Other Revenue

Development and other revenue consist primarily of amounts received from DuPont Pharmaceuticals Company for various development and co-marketing agreements entered into in March 2000. DuPont has since been acquired by BMS and the March 2000 agreements that generated these revenues terminated in April 2002 (See Note 4 to the Consolidated Financial Statements). As we incurred research and other development

activity costs, we recorded such expenses as research and development and invoiced and recorded the related revenue from BMS as development and other revenue. We recorded revenue from these agreements of \$15,584 in fiscal 2002 compared to \$17,570 in fiscal 2001. The revenues ended in fiscal 2002. For fiscal 2002, development and other revenue also included royalty income earned under licensing agreements with other third parties, our development agreement with the U.S. Department of Defense, and our development agreement related to one of our vaginal ring products.

### Cost of Sales

Cost of sales increased 73% from \$391,109 in fiscal 2001 to \$676,323 in fiscal 2002 due mainly to an increase in product sales. Cost of sales included the profit split paid to Apotex, Inc., our partner in the Fluoxetine patent challenge, and royalties on certain other products paid to certain of our raw material suppliers. As a percentage of product sales, cost of sales decreased from 68% in fiscal 2001 to 58% in fiscal 2002. The decrease in cost of sales as a percentage of product sales was due to an improved mix in product sales, as higher margin products such as Fluoxetine, our Dextro salt combo product, oral contraceptive products and Cenestin, made up a larger percentage of sales. Lower margin products such as Tamoxifen made up a smaller percentage of sales. Tamoxifen's margin was substantially lower than the margin we generally earn on products we manufacture because we only distributed the product as described above.

### Selling, General and Administrative Expense

Selling, general and administrative expenses increased 46% from \$76,821 in fiscal 2001 to \$111,886 in fiscal 2002. The increase was primarily due to higher marketing and selling expenses for Cenestin under our sales and marketing agreement with Solvay Pharmaceuticals, Inc., which we terminated as of June 30, 2002; increased legal costs, which include costs associated with patent challenge activity, class action lawsuits and other matters; and increased headcount costs and higher advertising and promotion costs associated with our expanding product line.

### Research and Development

Research and development expenses increased 31% from \$57,617 in fiscal 2001 to \$75,697 in fiscal 2002. The increase reflected higher costs associated with our proprietary development program, and higher biostudy and headcount costs related to our expanded generic activities. The fiscal 2002 amount also includes a \$1,000 charge for the write-off of acquired in-process research and development resulting from our June 2002 acquisition of certain assets and liabilities of Enhance Pharmaceuticals, Inc.

### Merger-Related Costs

Merger-related costs were \$31,449 in fiscal 2002. These costs related to our merger with Duramed in October 2001 and included direct transaction costs such as legal and accounting costs, costs associated with facility and product rationalization and severance costs (See Notes 3 and 19 to the Consolidated Financial Statements.)

### Proceeds from Patent Challenge Settlement

Proceeds from patent challenge settlement represents amounts earned under the terms of the supply agreement entered into with Bayer to settle our patent challenge litigation regarding Bayer's Cipro antibiotic. Under the terms of the supply agreement, Bayer, at its option, could either allow us to purchase Ciprofloxacin from Bayer at a predetermined discount or make quarterly cash payments to us. Until June 9, 2003, Bayer elected to make payments to us rather than supply us with Ciprofloxacin. Accordingly, we recognized proceeds from patent challenge settlement of \$28,313 and \$31,958 in fiscal 2001 and fiscal 2002, respectively.

### Interest Income

Interest income decreased 17% from \$9,423 in fiscal 2001 to \$7,824 in fiscal 2002, primarily due to a decrease in market rates on our short-term investments, which was partially offset by an increase in the average cash and cash equivalents balance and marketable securities balance.

### Interest Expense

Interest expense decreased 51% from \$7,195 in fiscal 2001 to \$3,530 in fiscal 2002, primarily due to a decrease in our debt balances, and a decrease in the rates we pay on our debt balances.

### Other (Expense) Income, net

Other income increased by 110% from \$3,648 in fiscal 2001 to \$7,656 in fiscal 2002. Other income in fiscal 2002 included \$5,600 received as part of the restructuring of the agreements with BMS and the receipt of \$2,000 in settlement of litigation. Other income in fiscal 2001 included a \$6,659 gain realized on the sale of our investment in Galen Holdings plc, partially offset by a \$2,450 charge related to the write-off of our investment in Gynetics, Inc.

### Income Taxes

Our income tax provision for the year ended June 30, 2002 reflected a 37% effective tax rate on pre-tax income, compared to 38% for the year ended June 30, 2001. The decrease in the effective tax rate was primarily due to a favorable mix in income among tax jurisdictions in fiscal 2002.

### Liquidity and Capital Resources

Our cash and cash equivalents balance increased \$35,885 or 11% from \$331,257 at June 30, 2002 to \$367,142 at June 30, 2003. In connection with the termination of an alternative collateral agreement between us and AstraZeneca, the innovator of Tamoxifen (See Note 1 to the Consolidated Financial Statements), we reduced the cash held in our interest-bearing escrow account from \$84,834 at June 30, 2002 to \$0 at June 30, 2003. In addition, our marketable securities increased \$28,953 from \$15,502 at June 30, 2002 to \$44,455 at June 30, 2003. Our primary source of cash is funds from operations, and our primary uses of cash are for operating expenses and capital expenditures.

The increase in cash from June 30, 2002 to June 30, 2003 was driven by \$160,328 in cash provided by operations in fiscal 2003 which more than offset significant fiscal 2003 cash outlays to expand plant and equipment (approximately \$80,617), acquire four proprietary products from Wyeth (approximately \$25,992) and purchase marketable securities (approximately \$29,400).

### Operating Activities

Cash provided by operating activities was \$160,328 for the year ended June 30, 2003, driven by net earnings of \$167,566, which more than offset an increase in working capital. Working capital, defined as current assets (excluding cash and cash equivalents) less current liabilities, increased by \$79,439 as increases in accounts receivable and inventories more than offset increases in accounts payable and accrued liabilities. The \$118,484 increase in accounts receivable is primarily attributable to sales of the distributed version of Ciprofloxacin, which we launched in early June 2003. The \$12,793 increase in inventories is due to decreased purchases of Tamoxifen which were more than offset by increased purchases of raw materials for products we expect to launch in fiscal 2004 and purchases of Ciprofloxacin. The \$77,973 increase in accounts payable is primarily due to the amounts due to Bayer for purchases of Ciprofloxacin. Accrued liabilities increased \$14,671 from June 30, 2002 to June 30, 2003, primarily due to amounts owed under royalty agreements related to products launched during fiscal 2003 and an increase in deferred revenues recorded for amounts reimbursed under our contract with the U.S. Department of Defense for the construction of a dedicated facility for the manufacture of the Adenovirus Vaccine.

Approximately \$24,438 of our fiscal 2003 cash flows from operations related to payments from our contingent non-exclusive supply agreement with Bayer related to our Ciprofloxacin patent challenge. We have recorded \$25,688 in other receivables for the proceeds from patent challenges we recognized prior to June 2003. We expect to collect these amounts in the first-half of fiscal 2004.

Cash flow increased by approximately \$10,500 due to the reduction in federal income taxes payable resulting from the utilization of a portion of Duramed's federal net operating losses incurred before the merger. We expect cash flows in fiscal 2004 to be favorably effected by approximately \$10,500 as a result of the continued utilization of Duramed's federal net operating loss. The annual limitation on the amount of the pre-merger net operating loss that may be deducted is governed by Section 382 of the Internal Revenue Code.

### **Investing Activities**

During fiscal 2002, we initiated a multi-year capital expansion program to increase our production, laboratory, warehouse and distribution capacity in Virginia and Cincinnati. In addition to continuing these programs in fiscal 2003, we also continued to add and upgrade equipment in all of our locations and renovated our new administrative offices. These capital programs are designed to help ensure that we have the facilities necessary to meet the expected future growth of the Company.

During fiscal 2003, we invested \$80,617 in capital expenditures and expect our capital expansion program will continue at a level of between \$50,000 and \$90,000 annually for the next few years. This estimate includes substantially completing the multi-year capital expansion programs noted above, completing the construction of a dedicated facility for the manufacture of the Adenovirus Vaccine, the cost of which is being reimbursed by the Federal government and for completing the renovation of our new administrative offices.

While we believe we have the cash resources to fund the capital spending described above from cash derived from operations, given the large scale and extended nature of some of the planned expenditures, we may consider financing a portion of our projects. We believe we have the capital structure and cash flow to complete any such financing.

In fiscal 2002, we entered into a Loan and Security Agreement (the "Loan Agreement") with Natural Biologics, the raw material supplier for our equine-based generic conjugated estrogens product for which we filed an ANDA with the FDA in June 2003. We believe that the raw material is pharmaceutically equivalent to raw material used to produce Wyeth's Premarin®. Natural Biologics is a defendant in litigation brought by Wyeth alleging that Natural Biologics misappropriated certain Wyeth trade secrets with respect to the preparation of this raw material. This case was tried in November 2002, and a decision may be rendered by the trial court at any time. An unfavorable decision for Natural Biologics could materially and adversely affect Natural Biologics' ability to repay the loans we have made to it. If that were to be the case, we may be required to write off all or a

portion of the loans made to Natural Biologics. As of June 30, 2003, our outstanding loan to Natural Biologics totaled approximately \$14,408, including accrued interest, which we have included on our balance sheet in other assets.

Under the terms of the Loan Agreement, absent the occurrence of a material adverse event (including an unfavorable court decision in the Wyeth matter), we could loan Natural Biologics up to \$35,000 over a three-year period, including \$8,300 and \$2,800 during fiscal 2004 and 2005, respectively. The Loan Agreement also provides for a loan of \$10,000 based upon the successful outcome of the pending legal proceeding between Wyeth and Natural Biologics, as discussed above. The loans mature on June 3, 2007.

In fiscal 2002, we also entered into a Development, Manufacturing and Distribution Agreement with Natural Biologics which could obligate us to make milestone payments totaling an additional \$35,000 to Natural Biologics based on achieving certain legal and product approval milestones, including the approval of a generic product.

As of June 30, 2003, we have invested \$44,400 in market auction debt securities, which are readily convertible into cash at par value, with maturity dates ranging from July 21, 2003 to July 13, 2004. We may continue to invest in extended maturity securities based on operating needs and strategic opportunities.

On June 9, 2003, we purchased the rights to four products from Wyeth and entered into a license and sublicense agreement for an oral contraceptive product in development, for initial cash consideration of \$25,992 and an agreement for future royalty payments based on our future sales of the products. We also entered into an interim supply agreement with Wyeth in relation to these products, which will terminate as to certain portions of the agreement on various dates over the next two fiscal years. The entire purchase price was allocated to the marketed products and the product in development. No value was assigned to the supply agreement for the acquired products as the product purchase prices under the agreement approximate the price the Company would expect to pay third party contract manufacturers. The products will be amortized over a weighted-average useful life of 8.75 years. We allocated \$3,946 to the product in development and expensed it as acquired in-process research and development upon acquisition because technological feasibility, through FDA or comparable regulatory body approval, had not been established and the projects had no alternative future use.

### **Financing Activities**

Debt balances decreased by approximately \$5,434 during fiscal 2003 due to debt repayments. Scheduled principal repayments on our existing debt will be approximately \$8,510 in fiscal 2004. We have a \$40,000 revolving credit facility that expires on February 27, 2005. We currently have approximately

\$29,312 available under this facility, with the balance of the facility committed as a \$10,688 letter of credit in support of our finite risk insurance arrangement described below.

There are warrants outstanding to purchase 2,250,000 shares of our common stock that expire in March 2004. The warrants were granted in 2000 as part of a strategic transaction with BMS. The exercise price for all such warrants is substantially below the current market price of our common stock. As such, we would anticipate that all or substantially all of these warrants will be exercised prior to their expiration. Warrants for approximately 1,125,000 shares have a “cashless” exercise feature, meaning the warrants could be exercised without cash payments to us by reducing the number of shares issued to the exercising holder (with such reduced number of shares based on the aggregate exercise price for the warrants). Warrants for the remaining 1,125,000 shares require cash payments for their exercise. If exercised in full, and based on current stock price levels, these warrants could provide cash proceeds of approximately \$26,000 and a tax benefit of approximately \$17,000.

#### **Product Liability Insurance**

Due to the significant increase in the cost of traditional product liability insurance, on September 30, 2002 we entered into a finite risk insurance arrangement (the “Arrangement”) with a third party insurer. We believe that the Arrangement is an effective way to insure against a portion of potential product liability claims. In exchange for \$15,000 in product liability coverage for certain products over a five-year term, the Arrangement provides for us to pay approximately \$14,250 in four equal annual installments of \$3,563, with the first installment having been made in October 2002. At any six-month interval, we may, at our option, cancel the Arrangement. In addition, at the earlier of termination or expiry, we are eligible for a return of all amounts paid to the insurer, less the insurer’s margin and amounts for any incurred claims. We are recording the payments, net of the insurer’s margin, as deposits included in other assets.

We continue to be self-insured for potential product liability claims between \$15,000 and \$25,000. We have purchased additional coverage from an insurance carrier that will offer coverage for claims between \$25,000 and \$50,000, subject to a \$10,000 limitation on some of our products and an exclusion on others.

Simultaneously with entering into our finite policy, we exercised the extended reporting period under our previous insurance policy that provides \$10,000 of product liability coverage for an unlimited duration for product liability claims on products sold from September 10, 1987 to September 30, 2002. Additionally, in connection with our merger with Duramed, we purchased a supplemental extended reporting policy under

Duramed’s prior insurance policy that provides \$10,000 of product liability coverage for an unlimited duration for product liability claims on products sold by Duramed between October 1, 1985 and October 24, 2001.

We are currently named as a defendant in several outstanding product liability claims. We have never been held liable for, or agreed to pay, a significant product liability claim. However, if we incur defense costs and liabilities in excess of our self-insurance reserve that are not otherwise covered by insurance, it could have a material adverse effect on our consolidated financial statements.

#### **Strategic Transactions**

To expand our business opportunities, we have increased our business development activities and continue to evaluate and enter into various strategic collaborations or acquisitions. The costs to evaluate these opportunities may be significant even if no agreement is entered into and the amount of cash required to enter into these collaborations as well as ongoing cash milestone payments may be significant but cannot be predicted.

We believe that our current cash balances, cash flows from operations and borrowing capacity, including unused amounts under our \$40,000 revolving credit facility, will be adequate to fund our operations and to capitalize on certain strategic opportunities as they arise. To the extent that additional capital resources are required, we believe that such capital may be raised by additional bank borrowings, debt or equity offerings or other means.

#### **Merger-Related Costs**

On October 24, 2001 we completed our merger with Duramed. In connection with the transaction, we incurred approximately \$31,449 in direct transaction costs such as legal and accounting costs, costs associated with facility and product rationalization and severance costs. As of June 30, 2002, all of the direct transaction costs and involuntary termination benefits had been paid and charged against the liability leaving a remaining liability of approximately \$1,600, of which \$700 related to severance and change in control payments and \$900 related to facility costs. As of June 30, 2003, the remaining liability balance of approximately \$700 relates to facility costs.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, other than operating leases in the normal course of business.

## Recent Accounting Pronouncements

### Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 supercedes APB opinion No. 17, "Intangible Assets." Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. The provisions of SFAS 142 are effective for fiscal years beginning after December 15, 2001.

We adopted SFAS 142 on July 1, 2002. SFAS 142 requires goodwill to be tested for impairment annually using a two-step process to determine the amount of impairment, if any, which is then written-off. The first step is to identify potential impairment, which is measured as of the beginning of the fiscal year. To accomplish this, we identified our reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and other intangible assets, to those reporting units. Under SFAS 142, to the extent a reporting unit's carrying amount exceeds its fair value, the reporting unit's goodwill may be impaired. During the second quarter of fiscal 2003, we completed the first step of this process and determined there was no indication of goodwill impairment.

### Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred with a corresponding increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. We adopted SFAS 143 effective as of July 1, 2002. The adoption of SFAS 143 did not have a material impact on our consolidated financial statements.

### Accounting for Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This statement addresses financial accounting and reporting for the impairment of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. We adopted SFAS 144 effective as of July 1, 2002, and any future impairments or disposals of long-lived assets will be subject to the provisions of this statement.

### Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS 145 also rescinds SFAS 44, "Accounting for Intangible Assets of Motor Carriers." SFAS 145 amends SFAS 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. This statement is effective for financial statements issued for fiscal years beginning after May 15, 2002. Upon adoption of SFAS 145 in July 2002, we reclassified the loss on early extinguishment of debt that was classified as an extraordinary item in the year ended June 30, 2002.

### **Accounting for Costs Associated with Exit or Disposal Activities**

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS 146 requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF 94-3. This statement is effective for exit or disposal activities initiated after December 31, 2002. We adopted SFAS 146 effective January 1, 2003 and have considered it in any actions involving exit or disposal costs initiated after that date. The adoption of SFAS 146 did not have a material impact on our consolidated financial statements.

### **Accounting for Stock-Based Compensation – Transition and Disclosure, An Amendment of FASB Statement No. 123**

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, An Amendment of FASB Statement No. 123" ("SFAS 148"). This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement No. 123 to require more prominent disclosures, in both interim and annual financial statements, about the method of accounting for stock-based employee compensation and the effect the method used has on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and the interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We will continue to account for stock-based compensation using the intrinsic value method and have adopted the disclosure requirements prescribed by SFAS 148 as of March 31, 2003. The additional required disclosures have been provided in Note 1 to the Consolidated Financial Statements.

### **Amendment of Statement 133 on Derivative Instruments and Hedging Activities**

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"), which is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of "underlying" to conform it to the language used in FASB Interpretation No. 45, "Guarantor Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," and amends certain other existing pronouncements. We currently have no derivative financial instruments, and therefore we do not anticipate that the adoption of SFAS 149 will have a material impact on our consolidated financial statements.

### **Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity**

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 modifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position and affects an issuer's accounting for (1) mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets, (2) instruments, other than outstanding shares, that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, or (3) obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares. In addition to its requirements for the classification and measurement of financial instruments within its scope, SFAS 150 also requires disclosures about alternative ways of settling those instruments and the capital structure of entities, all of whose shares are mandatorily redeemable. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We believe that the adoption of SFAS 150 will not have a material impact on our consolidated financial statements.

### **Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others**

In November 2002, the FASB issued Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, Interpretation of FASB Statement Nos. 5, 57 and 107 and Rescission of FIN 34" ("FIN 45"). FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under the guarantee. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002, while the initial recognition and measurement provisions are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. We adopted the disclosure and initial recognition and measurement provisions of FIN 45 effective for our periods ended December 31, 2002 and March 31, 2003, respectively. Our adoption of FIN 45 has not had a material effect on our consolidated financial statements.

### **Consolidation of Variable Interest Entities**

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51" ("FIN 46"). In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company (known as the "primary beneficiary") if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to variable interest entities that existed as of January 31, 2003, in the first fiscal year or interim period beginning after June 15, 2003. FIN 46 also requires certain disclosures by all holders of a significant variable interest in a variable interest entity that are not the primary beneficiary. We do not have any material investments in variable interest entities, and therefore, the adoption of FIN 46 had no material impact on our consolidated financial statements.

### **Environmental Matters**

We 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 our consolidated financial statements.

### **Effects of Inflation**

Inflation has had only a minimal impact on our operations in recent years.

# Consolidated Balance Sheets

<i>(in thousands, except share amounts)</i>	June 30, 2003	June 30, 2002
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 367,142	\$331,257
Marketable securities	29,400	—
Accounts receivable, net (including receivables from related parties of \$2,398 in 2003 and \$829 in 2002)	221,652	103,168
Other receivables	31,136	23,230
Inventories, net	163,926	151,133
Deferred income taxes	27,375	18,208
Prepaid expenses and other current assets	6,873	7,852
Total current assets	847,504	634,848
Property, plant and equipment, net	223,516	165,522
Deferred income taxes	5,589	21,270
Marketable securities	15,055	15,502
Other intangible assets	45,949	28,200
Goodwill	14,118	13,941
Other assets	29,206	9,271
Total assets	\$1,180,937	\$888,554
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 188,852	\$110,879
Accrued liabilities (including accrued liabilities to related parties of \$648 in 2003 and \$634 in 2002)	66,109	51,438
Current portion of long-term debt	7,029	3,642
Current portion of capital lease obligations	1,481	1,695
Income taxes payable	11,316	9,801
Total current liabilities	274,787	177,455
Long-term debt	30,629	37,657
Long-term portion of capital lease obligations	3,398	4,977
Other liabilities	4,128	1,933
Commitments & Contingencies (Note 21)		
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 67,066,196 and 43,792,170 in 2003 and 2002, respectively	671	438
Additional paid-in capital	326,001	291,637
Retained earnings	542,210	375,066
Accumulated other comprehensive (loss) income	(179)	99
Total shareholders' equity	868,703	667,240
Treasury stock at cost: 280,398 and 186,932 in 2003 and 2002, respectively	(708)	(708)
Total shareholders' equity	867,995	666,532
Total liabilities and shareholders' equity	\$1,180,937	\$888,554

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Operations

<i>(in thousands, except per share amounts)</i>	For the Years Ended June 30,		
	2003	2002	2001
<b>Revenues:</b>			
Product sales (including sales to related parties of \$12,727, \$16,472 and \$8,279 in 2003, 2002 and 2001, respectively)	\$894,888	\$1,171,358	\$576,656
Development and other revenue	7,976	17,626	16,495
Total revenues	902,864	1,188,984	593,151
<b>Costs and expenses:</b>			
Cost of sales (including amounts paid to related parties of \$5,023, \$180,013 and \$2,644 in 2003, 2002 and 2001, respectively)	424,099	676,323	391,109
Selling, general and administrative	160,978	111,886	76,821
Research and development	91,207	75,697	57,617
Merger-related costs	–	31,449	–
Earnings from operations	226,580	293,629	67,604
Proceeds from patent challenge settlement	31,396	31,958	28,313
Interest income	6,341	7,824	9,423
Interest expense	1,474	3,530	7,195
Other (expense) income, net	(128)	7,656	3,648
Earnings before income taxes	262,715	337,537	101,793
Income tax expense	95,149	125,318	38,714
Net earnings	167,566	212,219	63,079
Preferred stock dividends	–	457	338
Deemed dividend on convertible preferred stock	–	1,493	175
Net earnings applicable to common shareholders	\$167,566	\$ 210,269	\$ 62,566
Earnings per common share – basic	\$ 2.54	\$ 3.25	\$ 0.99
Earnings per common share – diluted	\$ 2.43	\$ 3.09	\$ 0.94
Weighted average shares	66,083	64,665	62,960
Weighted average shares – diluted	69,061	68,135	66,860

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

For the Years Ended June 30, 2003, 2002 and 2001

<i>(in thous, except share amounts)</i>	Common stock		Additional paid-in capital	Additional paid-in capital – warrants	Warrant subscription receivable	Retained earnings	Accumulated other comprehensive income/(loss)	Treasury stock		Total shareholders' equity
	Shares	Amount						Shares	Amount	
<b>Balance, July 1, 2000</b>	41,360,835	\$413	\$210,531	\$16,418	\$(1,835)	\$ 97,268	\$ 1,916	176,932	\$ (13)	\$ 324,698
Comprehensive income:										
Net earnings						63,079				63,079
Unrealized gain on marketable securities, net of tax of \$226							305			305
Reclassification adjustment							(1,884)			(1,884)
Total comprehensive income										61,500
Tax benefit of stock incentive plans			11,614							11,614
Issuance of stock in connection with benefit plans	14,231	–	346							346
Conversion of Series F Preferred Stock, net	331,503	4	4,914							4,918
Issuance of warrants in connection with Series G Preferred Stock			765							765
Preferred stock valuation adjustment			1,335							1,335
Issuance of common stock for exercised stock options and employees' stock purchase plans	626,955	7	10,272							10,279
Dividend on Preferred Stock			(513)							(513)
Proceeds applied to warrant receivable					1,835					1,835
<b>Balance, June 30, 2001</b>	42,333,524	424	239,264	16,418	–	160,347	337	176,932	(13)	416,777
Comprehensive income:										
Net earnings						212,219				212,219
Unrealized gain on marketable securities, net of tax of \$168							(238)			(238)
Total comprehensive income										211,981
Pooling adjustments	125,590	(1)	1,219			2,551				3,769
Tax benefit of stock incentive plans			5,611							5,611
Issuance of stock in connection with benefit plans	2,349	–	177							177
Issuance of common stock for exercised stock options and employees' stock purchase plans	797,380	8	19,882							19,890
Issuance of common stock for exercised warrants	21,565	2	762							764
Conversion of preferred stock	512,387	5	8,841							8,846
Deemed dividend on convertible preferred stock			(80)							(80)
Dividend on convertible preferred stock			(457)							(457)
Cash in lieu of fractional shares	(625)					(51)				(51)
Common stock acquired for treasury			–					10,000	(695)	(695)
<b>Balance, June 30, 2002</b>	43,792,170	438	275,219	16,418	–	375,066	99	186,932	(708)	666,532
Comprehensive income:										
Net earnings						167,566				167,566
Unrealized loss on marketable securities, net of tax of \$170							(278)			(278)
Total comprehensive income										167,288
Tax benefit of stock incentive plans			10,912							10,912
Issuance of common stock for exercised stock options and employees' stock purchase plans	1,020,032	10	23,453							23,463
Issuance of common stock for exercised warrants	83,940	1	(1)							–
Stock split (3-for-2)	22,170,054	222				(422)		93,466		(200)
<b>Balance, June 30, 2003</b>	67,066,196	\$671	\$309,583	\$16,418	\$ –	\$542,210	\$ (179)	280,398	\$(708)	\$ 867,995

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

<i>(in thousands of dollars)</i>	For the Years Ended June 30,		
	2003	2002	2001
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 167,566	\$ 212,219	\$ 63,079
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	22,713	15,290	14,324
Deferred income tax expense (benefit)	6,684	6,389	(4,159)
Write-off of intangible asset	1,330	–	–
Write-off of deferred financing fees associated with early extinguishment of debt	–	247	–
Loss on sale of assets	176	–	303
Gain on sale of marketable securities	–	–	(6,671)
Write-off of investments	250	–	2,750
Other	(64)	260	151
Tax benefit of stock incentive plans	10,912	5,611	11,614
Write-off of in-process research and development associated with acquisitions	3,946	1,000	–
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable and other receivables, net	(126,390)	(5,155)	(24,389)
Inventories, net	(12,793)	(8,304)	(29,916)
Prepaid expenses	923	(844)	39
Other assets	(11,279)	(179)	508
Increase (decrease) in:			
Accounts payable, accrued liabilities and other liabilities	94,839	8,766	13,642
Income taxes payable	1,515	(475)	6,226
Net cash provided by operating activities	160,328	234,825	47,501
<b>Cash Flows from Investing Activities:</b>			
Purchases of property, plant and equipment	(80,617)	(47,205)	(19,323)
Proceeds from sale of property, plant and equipment	2,997	395	27
Loans to Natural Biologics	(9,166)	(4,730)	–
Acquisitions	(25,992)	(46,288)	–
(Purchases) proceeds of marketable securities, net	(29,400)	(15,000)	10,839
Other	–	(500)	–
Net cash used in investing activities	(142,178)	(113,328)	(8,457)
<b>Cash Flows from Financing Activities:</b>			
Principal payments on long-term debt and capital leases	(5,528)	(12,166)	(17,405)
Net borrowings under line of credit	–	(20,316)	2,535
Long-term borrowings	–	–	20,799
Proceeds from issuance of preferred stock	–	–	9,700
Proceeds from issuance of common stock	–	–	1,163
Earnings under DuPont agreements applied to warrant receivable	–	–	1,835
Purchase of treasury stock	–	(695)	–
Proceeds from exercise of stock options and employee stock purchases	23,463	20,655	9,117
Dividends paid on preferred stock	–	(11)	(371)
Other	(200)	(50)	–
Net cash provided by (used in) financing activities	17,735	(12,583)	27,373
Increase in cash and cash equivalents	35,885	108,914	66,417
Cash and cash equivalents, beginning of year	331,257	222,343	155,926
Cash and cash equivalents, end of year	\$ 367,142	\$ 331,257	\$ 222,343
<b>Supplemental Cash Flow Data:</b>			
Cash paid during the year:			
Interest, net of portion capitalized	\$ 1,455	\$ 3,510	\$ 6,666
Income taxes	\$ 76,039	\$ 113,563	\$ 25,533
Non-cash transactions:			
Equipment under capital lease	\$ 94	\$ 5,318	\$ 1,383
Write-off of equipment & leasehold improvements related to closed facility	\$ –	\$ 5,307	\$ –

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

(in thousands of dollars, except per share amounts)

## Note 1 Summary of Significant Accounting Policies

### (a) Principles of Consolidation and Other Matters

Barr Laboratories, Inc., a New York corporation, is a specialty pharmaceutical company engaged in the development, manufacture and marketing of generic and proprietary pharmaceutical products primarily in the United States. The consolidated financial statements include the accounts of Barr Laboratories, Inc. and its wholly-owned subsidiaries (the “Company” or “Barr”). The Company, when used in the context of “the Company and Duramed,” refers to pre-merger Barr. All significant intercompany balances and transactions have been eliminated in consolidation.

Sherman Delaware, Inc. owned approximately 16% of the outstanding common stock of the Company at June 30, 2003. Dr. Bernard C. Sherman is a principal stockholder of Sherman Delaware, Inc. and was a Director of Barr Laboratories, Inc. until October 24, 2002 (See Note 14).

On October 24, 2001, the Company completed a merger with Duramed Pharmaceuticals, Inc. (“Duramed”), a developer, manufacturer and marketer of prescription drug products focusing on women’s health and the hormone therapy markets. The merger qualified as a tax-free reorganization and was accounted for as a pooling-of-interests for financial reporting purposes. Accordingly, in accordance with accounting principles generally accepted in the United States of America and pursuant to Regulation S-X of the U.S. Securities and Exchange Commission, all financial data of the Company presented in these financial statements has been restated as described below to include the historical financial data of Duramed (See Note 3).

The Company and Duramed had different fiscal year-ends. Duramed had a calendar year-end, whereas the Company’s fiscal year ends on June 30th. Financial information for the fiscal year ended June 30, 2002 is presented as if the Company and Duramed were merged on July 1, 2001. For the fiscal year ended June 30, 2001, financial information for Barr’s fiscal year ended June 30th was combined with financial information for Duramed’s calendar year ended December 31st. Barr’s consolidated statement of operations for the fiscal year ended June 30, 2001 was combined with Duramed’s statement of operations for the calendar year ended December 31, 2000. Barr’s statement of cash flows for the fiscal year ended June 30, 2001 was combined with Duramed’s statement of cash flows for the calendar year ended December 31, 2000.

This presentation of the combined financial information described above has the effect of excluding Duramed’s audited results from operations for the six-month period ended June 30, 2001. Net revenues and net income for Duramed for the six-month period ended June 30, 2001 were \$59,831 and \$49,038, respectively. On a stand alone basis, Duramed’s net income of \$49,038 reflects the benefit of reversing \$44,755 of the valuation allowance that Duramed previously established to offset certain deferred tax assets. The valuation allowance was reversed based on the expectation that, as a result of the merger, the combined company would be able to utilize a majority of these deferred tax assets (See Note 3). In addition, from July 1, 2001 through October 24, 2001, the date of the merger, Duramed reversed an additional \$1,732 of valuation allowance, bringing the total valuation allowance reversals to \$46,487. In accordance with SFAS 109 “Accounting for Income Taxes”, Duramed’s net earnings of \$49,038 less the \$46,487 reversal of valuation allowance, or \$2,551, has been reported as an increase to Barr’s retained earnings within the consolidated statements of shareholders’ equity for the year ended June 30, 2002. Duramed’s cash flows (used in) provided by operating, investing and financing activities for the six-months ended June 30, 2001 were (\$208), (\$1,446), and \$1,654, respectively.

On June 6, 2002, the Company completed the purchase of certain assets and assumption of certain liabilities of Enhance Pharmaceuticals, Inc. (“Enhance”). The operating results of Enhance are included in the consolidated financial statements subsequent to the June 6, 2002 acquisition date.

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, trade receivables and a loan receivable from Natural Biologics. The Company performs ongoing credit evaluations of its customers’ financial condition and generally does not require collateral from its customers.

### (c) Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, including market auction debt securities with maturities of three months or less and 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, 2003 and 2002, \$0 and \$84,834, respectively, of the Company’s cash was held in an interest bearing escrow account. Such amounts represented the portion of the Company’s payable balance with AstraZeneca that the

Company had decided to secure in connection with its cash management policy. On August 21, 2002, the Company's supply agreement with AstraZeneca expired.

#### (d) Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market. The Company establishes reserves for its inventory to reflect situations in which the cost of the inventory is not expected to be recovered. The Company regularly reviews its inventory, including when product is close to expiration and is not expected to be sold, when product has reached its expiration date, or when product is not expected to be saleable based on the Company's quality assurance and control standards. The reserve for these products is equal to all or a portion of the cost of the inventory based on the specific facts and circumstances. In evaluating whether inventory is stated at the lower of cost or market, management considers such factors as the amount of inventory on hand, estimated time required to sell such inventory, remaining shelf life and current and expected market conditions, including levels of competition. The Company monitors inventory levels, expiry dates and market conditions on a regular basis. The Company records provisions for inventory reserves as part of cost of sales.

#### (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. Amortization of capital lease assets is included in depreciation expense. 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	30-45
Building improvements	10
Machinery and equipment	3-10
Leasehold improvements	2-10

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

#### (f) Goodwill and Other Intangible Assets

In connection with acquisitions, the Company determines the amounts assigned to goodwill and intangibles based on purchase price allocations. These allocations, including an assessment of the estimated useful lives of intangible assets, have

been performed by qualified independent appraisers using generally accepted valuation methodologies. The valuation of intangible assets is generally based on the estimated future cash flows related to those assets, while the value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. Useful lives are determined based on the expected future period of benefit of the asset, which considers various characteristics of the asset, including historical cash flows. As required by Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company reviews goodwill for impairment annually, or more frequently if impairment indicators arise.

#### (g) Stock Based Compensation

The Company has three stock-based employee compensation plans, two stock-based non-employee director compensation plans and an employee stock purchase plan, which are described more fully in Note 16. The Company accounts for these plans under the intrinsic value method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under the intrinsic value method, no stock-based employee compensation cost is reflected in net income. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	For the Year Ended June 30,		
	2003	2002	2001
<b>Net income as reported</b>	<b>\$167,566</b>	\$210,269	\$62,566
Add:			
Stock-based employee compensation expense included in reported net income, net of related tax effects	-	387	174
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<b>6,577</b>	17,572	5,895
<b>Pro forma net income</b>	<b>\$160,989</b>	\$193,084	\$56,845
<b>Earnings per share:</b>			
Basic - as reported	<b>\$ 2.54</b>	\$ 3.25	\$ 0.99
Basic - pro forma	<b>\$ 2.44</b>	\$ 2.99	\$ 0.90
Diluted - as reported	<b>\$ 2.43</b>	\$ 3.09	\$ 0.94
Diluted - pro forma	<b>\$ 2.33</b>	\$ 2.83	\$ 0.85

The pro forma results for fiscal 2002 reflect the accelerated vesting of options as a result of the merger with Duramed as described in Note 3.

For all plans, the fair value of each option grant was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	Year Ended June 30,		
	2003	2002	2001
Average expected term (years)	4	3	3
Risk-free interest rate	2.29%	3.62%	5.25%
Dividend yield	0%	0%	0%
Volatility	53.73%	46.96%	51.30%
Fair value of options granted at market	\$15.77	\$17.11	\$13.66

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 \$28.01 per share.

#### (h) Research and Development

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

#### (i) Shipping and Handling Costs

Shipping and handling costs, which approximated \$1,591, \$1,533 and \$678 in fiscal 2003, 2002 and 2001, respectively, were included in selling, general and administrative expenses.

#### (j) Stock Split

On February 18, 2003, the Company's Board of Directors declared a 3-for-2 stock split effected in the form of a 50% stock dividend. Approximately 22.2 million additional shares of common stock were distributed on March 17, 2003 to shareholders of record at the close of business on February 28, 2003. All applicable prior year share and per share amounts have been adjusted for the stock split.

#### (k) Earnings Per Share

As discussed above, on October 24, 2001, the Company completed a merger with Duramed where the Company issued approximately 11.25 million shares of its common stock for all the outstanding common stock of Duramed and exchanged all options and warrants to purchase Duramed stock for options and warrants to purchase approximately 1.8 million shares of the Company's common stock.

All applicable prior year share and per share amounts have been adjusted for the merger.

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

<i>(in thousands, except per share amounts)</i>	2003	2002	2001
Net earnings	\$ 167,566	\$ 212,219	\$ 63,079
Dividends on preferred stock	–	457	338
Deemed dividend on convertible preferred stock	–	1,493	175
Numerator for basic and diluted earnings per share available for common shareholders	\$ 167,566	\$ 210,269	\$ 62,566
Earnings per common share – basic	66,083	64,665	62,960
Earnings available for common shareholders	\$ 2.54	\$ 3.25	\$ 0.99
Earnings per common share – diluted:			
Weighted average shares	66,083	64,665	62,960
Effect of dilutive options	2,978	3,470	3,900
Weighted average shares – diluted (denominator)	69,061	68,135	66,860
Earnings available for common shareholders	\$ 2.43	\$ 3.09	\$ 0.94
<i>(in whole share amounts)</i>	2003	2002	2001
Not included in the calculation of diluted earnings per share because their impact is antidilutive:			
Stock options outstanding	1,265,874	1,132,788	266,464
Warrants	–	–	22,284
Preferred if converted	–	759,486	759,486

#### (l) 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 2004, 2007 and 2010. Warrant issuance costs are being amortized on a straight-line basis over the terms of the related warrants. The total unamortized amounts of \$310 and \$454 at June 30, 2003 and 2002, respectively, are included in other assets in the Consolidated Balance Sheets.

#### (m) 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 8).

*Other Assets* – Investments 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.

*Long-Term Debt* – The fair value at June 30, 2003 and 2002 is estimated at \$40,000 and \$43,000, respectively (See Note 12 for carrying value). 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, 2003. 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.

#### **(n) Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates made by management include those made in the areas of sales returns and allowances, including shelf stock adjustments; inventory reserves; deferred taxes; litigation; self-insurance reserves; and the assessment of the recoverability of goodwill and other intangible assets.

Management periodically evaluates estimates used in the preparation of the consolidated financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based on such periodic evaluations.

#### **(o) Self-Insurance Reserve**

The Company is primarily self-insured for potential product liability claims on products sold on or after September 30, 2002. The Company records a self-insurance reserve for each reported claim on a case-by-case basis, plus an allowance for the estimated future cost of incurred but not reported (“IBNR”) claims. In assessing the amounts to record for each reported claim, with the assistance of its counsel and insurance consultants, the Company considers the nature and amount of the claim, its prior experience with similar claims, and whether the amount expected to be paid on a claim is both probable and reasonably estimable. In determining the allowance for the estimated future cost of both reported and IBNR claims as of June 30, 2003, the Company utilized projections of its

outstanding estimated losses as determined by an independent actuary. As of June 30, 2003, the Company had recorded self-insurance reserves and related expenses of \$1,333 in accrued liabilities and selling, general and administrative expenses. The costs of the ultimate disposition of both existing and IBNR claims may differ from this reserve amount.

#### **(p) Litigation**

The Company is subject to litigation in the ordinary course of business and also to certain other contingencies (See Note 21). Legal fees and other expenses related to litigation and contingencies are recorded as incurred. Additionally, the Company, in consultation with its counsel, assesses the need to record a liability for litigation and contingencies on a case-by-case basis. Accruals are recorded when the Company determines that a loss related to a matter is both probable and reasonably estimable.

#### **(q) Income Taxes**

Income taxes are accounted for under SFAS No. 109, “Accounting for Income Taxes.” Under this method, deferred tax assets and liabilities are recognized for the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets that are “more-likely-than-not” to be unrealized. Deferred tax assets and liabilities are measured using enacted tax rates and laws.

#### **(r) Revenue Recognition**

##### **Product sales**

The Company recognizes product sales revenue when title and risk of loss have transferred to the customer; when estimated provisions for product returns, rebates, chargebacks and other sales allowances are reasonably determinable; and when collectibility is reasonably assured. Accruals for these provisions are presented in the consolidated financial statements as reductions to revenues. Accounts receivable are presented net of allowances relating to the above provisions of \$136,059 and \$93,789 at June 30, 2003 and 2002, respectively.

##### **Development and other revenue**

The Company recognizes revenues under research and development agreements as it performs the related research and development. Amounts Barr receives under these agreements are not refundable. For the year ended June 30, 2001, development and other revenue included \$562 related to transition revenues under the ViaSpan Agreement (See Note 4).

#### **(s) Advertising and Promotion Costs**

Costs associated with advertising and promotion expenses are expensed in the period in which the advertising is first used and these costs are included in selling, general and administrative expenses. Advertising and promotion expenses totaled approximately \$21,377, \$4,678, and \$2,749 for the years ending June 30, 2003, 2002 and 2001, respectively.

#### (t) Sales Returns and Allowances

At the time of sale, the Company records estimates for various costs, which reduce product sales. These costs include estimates for product returns, rebates, chargebacks and other sales allowances. In addition, the Company may record allowances for shelf-stock adjustments when the conditions are appropriate. Estimates for sales allowances such as product returns, rebates and chargebacks are based on a variety of factors including actual return experience of that product or similar products, rebate arrangements for each product, and estimated sales by our wholesale customers to other third parties who have contracts with Barr. Actual experience associated with any of these items may be different than the Company's estimates. Barr regularly reviews the factors that influence its estimates and, if necessary, makes adjustments when it believes that actual product returns, credits and other allowances may differ from established reserves.

The Company often issues credits to customers for inventory remaining on their shelves following a decrease in the market price of a generic pharmaceutical product. These credits, commonly referred to in the pharmaceutical industry as "shelf-stock adjustments," can then be used by customers to offset future amounts owing to the Company under invoices for future product deliveries. The shelf-stock adjustment is intended to reduce a customer's inventory cost to better reflect current market prices and is often used by the Company to maintain its long-term customer relationships. The determination to grant a shelf-stock credit to a customer following a price decrease is usually at the Company's discretion rather than contractually required. Allowances for shelf-stock adjustments are recorded at the time Barr sells products it believes will be subject to a price decrease or when market conditions indicate that a shelf-stock adjustment is necessary to facilitate the sell-through of its product. When determining whether to record a shelf-stock adjustment and the amount of any such adjustment, the Company analyzes several variables including the estimated launch dates of a competing product, the estimated decline in market price and estimated levels of inventory held by the customer at the time of the decrease in market price. As a result, a shelf-stock reserve depends on a product's unique facts and circumstances. Barr regularly monitors these and other factors for its significant products and evaluates its reserves and estimates as additional information becomes available.

#### (u) Segment Reporting

The Company operates in one segment – the development, manufacture and marketing of pharmaceutical products. 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, Ohio and Virginia and its products are sold primarily in the United States to wholesale and retail distributors. In fiscal 2003, four customers accounted for at least 10% of product sales with 21%, 17%, 13% and 10%, respectively. In

fiscal 2002, three customers accounted for at least 10% of product sales with 18%, 13% and 12% of sales. In fiscal 2001, a single customer accounted for approximately 14% of product sales.

#### (v) Asset Impairment

The Company reviews the carrying value of its long-term assets 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.

#### (w) New Accounting Pronouncements

##### Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 supercedes APB opinion No. 17, "Intangible Assets." Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. The provisions of SFAS 142 are effective for fiscal years beginning after December 15, 2001.

The Company adopted SFAS 142 on July 1, 2002. SFAS 142 requires goodwill to be tested for impairment annually using a two-step process to determine the amount of impairment, if any, which is then written-off. The first step is to identify potential impairment, which is measured as of the beginning of the fiscal year. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. Under the first step of the process required by SFAS 142, to the extent a reporting unit's carrying amount exceeds its fair value, the reporting unit's goodwill may be impaired. During the second quarter of fiscal 2003, the Company completed the first step of this process and determined there was no indication of goodwill impairment.

##### Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred with a corresponding increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss

upon settlement. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS 143 effective as of July 1, 2002. The adoption of SFAS 143 did not have a material impact on the Company's consolidated financial statements.

#### [Accounting for Impairment or Disposal of Long-Lived Assets](#)

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This statement addresses financial accounting and reporting for the impairment of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement also amends ARB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS 144 effective as of July 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's consolidated financial statements.

#### [Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections](#)

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS 145 also rescinds SFAS 44, "Accounting for Intangible Assets of Motor Carriers." SFAS 145 amends SFAS 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. This statement is effective for financial statements issued for fiscal years beginning after May 15, 2002. Upon adoption of SFAS 145 in July

2002, the Company reclassified the \$160 loss on early extinguishment of debt that was reported as an extraordinary item, net of \$87 in tax, for the year ended June 30, 2002 to selling, general and administrative expenses and income tax expense.

#### [Accounting for Costs Associated with Exit or Disposal Activities](#)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS 146 requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF 94-3. This statement is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted SFAS 146 effective January 1, 2003 and has considered it in actions involving exit or disposal costs initiated after that date. The adoption of SFAS 146 did not have a material impact on the Company's consolidated financial statements.

#### [Accounting for Stock-Based Compensation – Transition Disclosure, An Amendment of FASB Statement No. 123](#)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, An Amendment of FASB Statement No. 123" ("SFAS 148"). This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement No. 123 to require more prominent disclosures, in both interim and annual financial statements, about the method of accounting for stock-based employee compensation and the effect the method used has on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and the interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company will continue to account for stock-based compensation using the intrinsic value method and has adopted the disclosure requirements prescribed by SFAS 148 as of March 31, 2003. The additional required disclosures have been provided in Note 1 to the consolidated financial statements.

#### [Amendment of Statement 133 on Derivative Instruments and Hedging Activities](#)

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"), which is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133, clarifies when a derivative contains a

financing component, amends the definition of “underlying” to conform it to the language used in FASB Interpretation No. 45, “Guarantor Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” and amends certain other existing pronouncements. The Company currently has no involvement with derivative financial instruments, and therefore it does not anticipate that the adoption of SFAS 149 will have a material impact on its consolidated financial statements.

#### Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS 150”). SFAS 150 modifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in statements of financial position and affects an issuer’s accounting for (1) mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets, (2) instruments, other than outstanding shares, that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, or (3) obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer’s shares. In addition to its requirements for the classification and measurement of financial instruments within its scope, SFAS 150 also requires disclosures about alternative ways of settling those instruments and the capital structure of entities, all of whose shares are mandatorily redeemable. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of SFAS 150 will have a material impact on its consolidated financial statements.

#### Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, Interpretation of FASB Statement Nos. 5, 57 and 107 and Rescission of FIN 34” (“FIN 45”). FIN 45 clarifies the requirements of SFAS No. 5, “Accounting for Contingencies,” relating to the guarantor’s accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires, that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under the guarantee. The disclosure provisions of FIN 45 are effective for

financial statements of interim or annual periods that end after December 15, 2002, while the initial recognition and measurement provisions are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Company adopted the disclosure and initial recognition and measurement provisions of FIN 45 effective for the period ended December 31, 2002 and as of March 31, 2003, respectively. The adoption of FIN 45 has not had a material effect on the Company’s consolidated financial statements.

#### Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation 46, “Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51” (“FIN 46”). In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company (known as the “primary beneficiary”) if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to variable interest entities that existed as of January 31, 2003 in the first fiscal year or interim period beginning after June 15, 2003. FIN 46 also requires certain disclosures by all holders of a significant variable interest in a variable interest entity that are not the primary beneficiary. The Company does not have any material investments in variable interest entities, and therefore, the adoption of FIN 46 had no impact on its consolidated financial statements.

#### Note 2 Acquisitions

##### Purchase of Products from Wyeth

On June 9, 2003, the Company acquired from Wyeth the rights to four products and a sublicense on a product currently being developed by Wyeth for initial cash consideration of \$25,992 and an agreement for future royalty payments based on future sales of the products. The Company also entered into an interim supply agreement with Wyeth in relation to these products that will terminate as to certain portions of the agreement on various dates over the next two fiscal years. Of the total \$25,992 purchase price, \$22,046 was allocated to the marketed products and \$3,946 was allocated to the in-process research and development project (See Note 9). No value was assigned to the supply agreement for the acquired products because the product purchase prices under the agreement approximate the price the Company would expect to pay third party contract manufacturers. The products will be amortized over a weighted-average useful life of 8.75 years.

The \$3,946 was written off as research and development expenses upon acquisition because technological feasibility, through FDA or comparable regulatory body approval, had not been established and the projects had no alternative future use.

### Acquisition of Enhance Pharmaceuticals, Inc.

On June 6, 2002, the Company acquired certain assets from and assumed certain liabilities of Enhance Pharmaceuticals, Inc. The acquisition was accounted for under the purchase method of accounting. The total purchase price, including acquisition costs of \$1,071, was \$46,288.

The fair values of assets acquired and liabilities assumed on June 6, 2002 were:

Current assets	\$ 1,252
Property and equipment	2,012
Intangible assets	28,200
Goodwill	13,941
In-process research and development	1,000
<u>Total assets acquired</u>	<u>\$46,405</u>
Current liabilities	89
Capital lease obligations	28
<u>Total liabilities assumed</u>	<u>117</u>
<u>Purchase price</u>	<u>\$46,288</u>
Total cash paid	\$45,217
Accrued acquisition costs	1,071
	<u>\$46,288</u>

Intangible assets included \$1,400 of patents and \$26,800 in product license agreements that are each subject to amortization over an estimated useful life of ten years (See Note 9). The fair value of net assets acquired was \$32,464, resulting in goodwill of \$13,941. The Company acquired Enhance to further its expansion into the female healthcare market. Certain of the factors contributing to the purchase price that resulted in goodwill were Enhance's proprietary vaginal ring drug delivery platform and its uses. The entire balance of goodwill is deductible for tax purposes. The operating results of Enhance are included in the consolidated financial statements subsequent to the June 6, 2002 acquisition date.

Acquired in-process research and development projects in the amount of \$1,000 were written off as research and development expenses upon acquisition because technological feasibility, through FDA or comparable regulatory body approval, had not been established and the projects had no alternative future use.

### Note 3 Merger with Duramed Pharmaceuticals, Inc.

On June 29, 2001, the Company announced the signing of a definitive merger agreement with Duramed, a developer, manufacturer and marketer of prescription drug products focusing on women's health and the hormone therapy markets. The merger was approved by the shareholders of Duramed and Barr, respectively, and on October 24, 2001, a wholly-owned subsidiary of Barr merged with and into Duramed, with

Duramed surviving as a wholly-owned subsidiary of the Company. The merger was treated as a tax-free reorganization and was accounted for as a pooling-of-interests for financial reporting purposes.

Under the terms of the merger agreement, Duramed common shareholders received a fixed exchange ratio of 0.3843 shares of Barr common stock for each share of Duramed common stock. Duramed preferred stock shareholders received 7.5948 shares of Barr common stock for each share of Duramed preferred stock. Based on these terms, Barr issued approximately 11.25 million shares of its common stock for all the outstanding common and preferred stock of Duramed and exchanged all options and warrants to purchase Duramed stock for options and warrants to purchase approximately 1.8 million shares of the Company's common stock.

The Company and Duramed had certain differences in the classification of expenses in their historical statements of operations and certain differences in the classification of assets and liabilities in their historical balance sheets. Reclassifications have been made to conform the combined companies' statement of operations and balance sheet classifications. In addition, the historical Duramed balance sheets included approximately \$50,000 in deferred tax assets, which had been fully offset by a valuation allowance. On a combined basis, Barr expects to utilize a majority of these deferred tax assets. Therefore, in accordance with SFAS No. 109, "Accounting for Income Taxes," the Company has restated Duramed's historical balance sheets to recognize the deferred tax asset that is more-likely-than-not expected to be utilized.

The combined amounts presented in the accompanying financial statements are based on the basis of presentation described in Note 1 and are summarized below:

	Twelve Months Ended June 30, 2001
<b>Total revenues:</b>	
Barr	\$509,686
Duramed	83,465
<u>Combined</u>	<u>\$593,151</u>
<b>Net earnings/(loss):</b>	
Barr	\$ 62,487
Duramed	164
Adjustments to reverse valuation allowance on deferred tax assets	(85)
<u>Combined</u>	<u>\$ 62,566</u>
	As of June 30, 2001
<b>Shareholders' equity:</b>	
Barr	\$365,642
Duramed	6,380
Cumulative effect of adjustments to reverse valuation allowance on deferred tax assets	44,755
<u>Combined</u>	<u>\$416,777</u>

#### Note 4 Strategic Alliance with DuPont Pharmaceuticals Company

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. The Company was 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.

DuPont has since been acquired by Bristol-Myers Squibb Company (“BMS”). In April 2002, the Company and BMS agreed to restructure and terminate both the proprietary product development funding agreement and the Trexall Marketing Agreement that were entered into between Barr and DuPont in March 2000.

Under the terms of the March 2000 proprietary product development funding agreement (“Product Development Agreement”), DuPont agreed to invest up to \$45,000 to support the ongoing development of Barr’s CyPat™ prostate cancer therapy and SEASONALE® and DP3 oral contraceptive proprietary products in exchange for co-marketing rights and royalties. Barr and BMS agreed to terminate this agreement and to cap BMS’s funding obligations at \$40,000. In return, BMS agreed to forego its royalty interest and other rights regarding the marketing of these three products. In connection with the Product Development Agreement, the Company earned \$0, \$15,343 and \$12,008 for the years ended June 30, 2003, 2002 and 2001, respectively.

Barr and BMS also agreed to terminate the Trexall Marketing Agreement, under which DuPont had agreed to promote, market and sell Barr’s Trexall™ product in exchange for a royalty. As a result of the termination, Barr has assumed BMS’ responsibilities to coordinate the promotion and sales activities for Trexall and BMS will forego its royalty interest in the product. BMS agreed to fulfill its existing obligation to fund the Trexall sales force costs during fiscal 2003 and 2004 and paid Barr \$600 to cover BMS’ other obligations during the term of the contract. For the year ended June 30, 2001, the Company earned \$5,000 related to this agreement.

In March 2000, Barr received from DuPont the right to market and distribute ViaSpan®, an organ transplant preservation agent, in the United States and Canada, through patent expiry in March 2006. 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 calculated on DuPont’s actual sales of ViaSpan during this transition period. For the year ended June 30, 2001, the Company earned \$562 during this transition period.

#### Note 5 Proceeds from Patent Challenge Settlement

In January 1997, Bayer AG, Bayer Corporation (collectively, “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, until June 9, 2003, Bayer, at its sole option could either (i) allow Barr and Aventis, the contractual successor to Barr’s joint venture partner in the Cipro patent challenge case, to purchase, at a predetermined discount to Bayer’s then selling price, quantities of Ciprofloxacin for resale under market conditions or (ii) make quarterly cash payments as defined in the Agreement. Bayer elected to make payments rather than supply the Company with Ciprofloxacin. Barr recognized the amounts due under the Supply Agreement as such amounts were realized based on the outcome of Bayer’s election. The amounts realized are reported as proceeds from patent challenge settlement.

On June 9, 2003, the Company began distributing Ciprofloxacin tablets. The Company shares one-half of its profits from the sale of Ciprofloxacin, as defined, with Aventis.

#### Note 6 Inventories, net

	June 30,	
	2003	2002
Raw materials and supplies	\$ 60,075	\$ 43,952
Work-in-process	18,561	12,897
Finished goods	85,290	94,284
	<b>\$163,926</b>	<b>\$151,133</b>

Inventories are presented net of reserves of \$13,201 and \$10,236 at June 30, 2003 and 2002, respectively. The Company’s distributed version of Ciprofloxacin, purchased as a finished product from Bayer, accounted for approximately \$48,300 of finished goods inventory as of June 30, 2003. As a result of the expiration of the Company’s supply agreement with AstraZeneca on August 21, 2002, the June 30, 2003 finished goods balance includes only Tamoxifen inventory manufactured by the Company. The June 30, 2002 finished goods balance included approximately \$69,655 of Tamoxifen purchased from AstraZeneca.

## Note 7 Property, Plant and Equipment, net

	June 30,	
	2003	2002
Land	\$ 5,819	\$ 4,870
Buildings and improvements	105,946	89,521
Machinery and equipment	144,676	123,908
Leasehold improvements	2,759	2,449
Automobiles and trucks	200	200
Construction in progress	64,430	31,993
	<b>323,830</b>	252,941
Less: accumulated depreciation & amortization	100,314	87,419
	<b>\$223,516</b>	\$165,522

For the years ended June 30, 2003, 2002 and 2001, \$1,761, \$1,072 and \$278 of interest was capitalized, respectively. The Company recorded depreciation expense of \$19,547, \$15,010 and \$13,631 for the years ended June 30, 2003, 2002 and 2001, respectively.

## Note 8 Marketable Securities

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

The amortized cost and estimated market values of marketable securities at June 30, 2003 and 2002 are as follows:

June 30, 2003	Amortized cost	Gross unrealized gains	Gross unrealized (losses)	Market value
Equity securities	343	-	(288)	55
Total securities	<b>\$ 44,743</b>	<b>\$ -</b>	<b>\$(288)</b>	<b>\$ 44,455</b>

June 30, 2002	Amortized cost	Gross unrealized gains	Gross unrealized (losses)	Market value
Equity securities	343	159	-	502
Total securities	<b>\$15,343</b>	<b>\$159</b>	<b>\$ -</b>	<b>\$15,502</b>

The Company received proceeds of \$12,873, which included a gain of \$6,671 on the sale of marketable securities in the year ended June 30, 2001. The cost of investments sold is determined by the specific identification method.

## Debt Securities

The Company has invested \$44,400 in market auction debt securities, which are readily convertible into cash at par value, which approximates cost. The par value of each of the securities held is equal to the market value, and the securities mature on various dates between July 21, 2003 and July 13, 2004.

## Equity Securities

In April 1999, the Company sold its rights to several pharmaceutical products to Halsey Drug Company in exchange for 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, 2003 and 2002, respectively: dividend yield of 0%; expected volatility of 69.47% and 103.3%; risk-free interest rate of 5.78%; and expected life of 0.75 and 1.75 years.

## Note 9 Other Intangible Assets

Intangible assets, excluding goodwill, which are comprised primarily of product licenses and product rights and related intangibles, consist of the following:

	June 30,	
	2003	2002
Patents	\$ -	\$ 1,400
Product licenses	26,800	26,800
Product rights and related intangibles	22,046	-
	<b>48,846</b>	28,200
Less: accumulated amortization	(2,897)	-
Intangible assets, net	<b>\$45,949</b>	<b>\$28,200</b>

In December 2002, the Company's management decided to suspend development of a product for which \$1,400 in patents had been recorded. As a result, on December 31, 2002, the Company wrote off the remaining \$1,330 of patents, net of accumulated amortization. This amount has been included in selling, general and administrative expense.

Estimated amortization expense on product licenses and product rights and related intangibles is as follows:

Year Ending June 30,	
2004	\$ 5,278
2005	5,278
2006	5,278
2007	5,278
2008	5,278

The Company's product licenses and product rights and related intangibles have weighted average useful lives of approximately 10.0 and 8.75 years, respectively.

## Note 10 Goodwill

Goodwill of \$14,118 and \$13,941 at June 30, 2003 and 2002, respectively, was attributable to the Company's acquisition of certain assets and assumption of certain liabilities of Enhance Pharmaceuticals, Inc. in June 2002. The increase in goodwill from June 30, 2002 is attributable to acquisition-related professional fees for which estimates at June 30, 2002 differed from actual amounts.

## Note 11 Accrued Liabilities

Included in accrued liabilities as of June 30, 2003 and 2002 is approximately \$33,335 and \$23,175, respectively, related to amounts due under various profit sharing agreements.

## Note 12 Long-Term Debt

A summary of long-term debt is as follows:

	June 30,	
	2003	2002
Senior Unsecured Notes <sup>(a)</sup>	\$22,858	\$24,285
Provident Bank mortgage notes <sup>(b)</sup>	14,800	16,400
Equipment Financing <sup>(c)</sup>	–	614
	<u>37,658</u>	<u>41,299</u>
Less: Current installments of Long-Term Debt	7,029	3,642
Total Long-Term Debt	<u>\$30,629</u>	<u>\$37,657</u>

<sup>(a)</sup>The Senior Unsecured Notes include a \$20,000, 7.01% Note due November 18, 2007 and \$2,858 of 6.61% Notes due November 18, 2004. Annual principal payments under the Notes total \$5,429 in fiscal 2004 and 2005, and \$4,000 in 2006 through 2008.

The Senior Unsecured Notes contain certain covenants including, among others, a restriction on dividend payments in excess of \$10 million plus 75% of consolidated net earnings subsequent to June 30, 1997. The Company was in compliance with all covenants under the senior unsecured notes as of June 30, 2003.

<sup>(b)</sup>In March 2000, Duramed refinanced existing notes payable with a \$12,000 note and an \$8,000 note payable to Provident Bank. Provident holds a first mortgage on the Company's Cincinnati, Ohio manufacturing facility. Both notes are guaranteed by Solvay America, the parent of Solvay Pharmaceuticals.

The \$12,000 note bears interest at the prime rate (4.25% at June 30, 2003) and requires monthly payments of \$100 plus interest for a ten-year period that commenced on April 1, 2000. The \$8,000 note bears interest at the prime rate and requires monthly payments of \$33 plus interest that commenced on April 1, 2000. Principal payments for the \$8,000 note are based upon a twenty-year amortization with a balloon payment due on March 1, 2010 of \$4,000.

<sup>(c)</sup>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 required no principal payment for the first two quarters; interest payable quarterly thereafter at a rate equal to the London Interbank Offer Rate (LIBOR) plus 125 basis points; and had a term of 72 months. LIBOR was 1.86% at June 30, 2002. During December 2002, the Company repaid all amounts outstanding under this loan.

The Company has a \$40,000 revolving credit facility that expires on February 27, 2005. As of June 30, 2003, there was \$29,312 available to the Company under this facility due to the issuance of a \$10,688 letter of credit in support of the

Company's product liability self-insurance program (See Note 21). The Company pays a fee on the committed portion of the credit facility equal to 1.00% of the outstanding balance. A fee of 0.25% is paid on the remainder.

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

Year Ending June 30,	
2004	\$7,029
2005	7,029
2006	5,600
2007	5,600
2008	5,600
Thereafter	6,800

## Note 13 Mandatorily Redeemable Convertible Preferred Stock

The following discussion is related to preferred stock issued by Duramed prior to the merger with Barr.

### Series G

On May 12, 2000, the Company completed a private placement of \$10,000 of Series G Convertible preferred stock with an institutional investor. The preferred shares were immediately convertible into shares of the Company's common stock at a fixed price of \$3.37 per share. The preferred stock paid a dividend of 5% annually, payable quarterly in arrears, on all unconverted preferred stock. The investor also received warrants which were valued at \$765 to purchase 192,157 shares of common stock at a price of \$14.31 per share, exercisable at any time before May 12, 2005. In conjunction with the Company's issuance of the Series G Convertible Preferred Stock, it recorded an adjustment of approximately \$1,300 to properly reflect deemed dividends beyond the stated 5% dividend rate and a beneficial conversion feature as required by EITF 98-5 and 00-27. This adjustment, which reduced the carrying amount of the Series G Convertible Preferred Stock and increased additional paid-in capital, was being amortized through May 12, 2004 and reflected as additional deemed dividends. On September 24 and 28, 2001, the preferred shares were converted to 303,795 and 455,691 shares, respectively, of common stock pursuant to the original terms of the preferred stock. At the election of the holder of the preferred stock, the dividend for the quarter ended September 30, 2001 of \$120 was satisfied by the issuance of 9,094 shares of common stock. The Company recorded both the dividend and the fair market valuation of \$337 associated with the shares issued to satisfy the dividend as adjustments to additional paid in capital. Additionally, the Company wrote-off the remaining unamortized deemed dividend valuation adjustment of \$913 and the unamortized Series G warrant valuation of \$500 as adjustments to additional paid in capital.

## Note 14 Related-Party Transactions

### Dr. Bernard C. Sherman

During the years ended June 30, 2003, 2002 and 2001, the Company purchased \$3,583, \$3,332 and \$2,644, respectively, of bulk pharmaceutical material from companies affiliated with Dr. Bernard C. Sherman, the Company's largest shareholder and a director until October 24, 2002. In addition, during the years ended June 30, 2003, 2002 and 2001, the Company sold \$12,727, \$16,472, and \$8,279, respectively, of its pharmaceutical products and bulk pharmaceutical materials to companies owned by Dr. Sherman. As of June 30, 2003 and 2002, the Company's accounts receivable included \$2,398 and \$829, respectively, due from such companies.

During fiscal 1996, the Company also entered into an agreement with a company owned by Dr. Sherman to share litigation and related costs in connection with its Fluoxetine patent challenge. For the years ended June 30, 2003, 2002 and 2001, the Company recorded \$585, \$919 and \$2,867, respectively, in connection with such agreement as a reduction to operating expenses. For the years ended June 30, 2003, 2002, and 2001, the Company recorded \$1,440, \$176,681, and \$0, respectively, as cost of sales related to this agreement.

As of June 30, 2003 and 2002, the Company's accounts payable included \$648 and \$634, respectively, related to transactions with these entities.

The Company also incurred \$55 and \$1,290 in expenses in the years ended June 30, 2002 and 2001, respectively, which were reimbursed by Dr. Sherman, related to a secondary stock offering, completed in May 2001, for the sale of 5.25 million shares of the Company's common stock, beneficially owned by Dr. Sherman.

### Edwin A. Cohen

In accordance with the provisions of a consulting agreement, which expired on June 30, 2002, the Company's founder and former Vice Chairman, Edwin A. Cohen, earned \$200 in each of the years ended June 30, 2002 and 2001.

### Harold M. Chefitz

Harold M. Chefitz, a member of the Company's Board of Directors, serves as the Chairman of GliaMed, Inc., in which the Company has made an investment of \$500 which is accounted for at cost and included in other assets at June 30, 2003 and 2002.

### William T. McKee

In connection with the Company's investment in GliaMed, Inc., William T. McKee, the Company's Chief Financial Officer, became a member of GliaMed's Board of Directors.

## Note 15 Income Taxes

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

	Year Ended June 30,		
	2003	2002	2001
Current:			
Federal	\$77,615	\$103,528	\$37,218
State	10,911	12,719	5,655
	<u>88,526</u>	<u>116,247</u>	<u>42,873</u>
Deferred:			
Federal	9,010	8,981	(3,603)
State	(2,387)	90	(556)
	<u>6,623</u>	<u>9,071</u>	<u>(4,159)</u>
Total	<u>\$95,149</u>	<u>\$125,318</u>	<u>\$38,714</u>

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,		
	2003	2002	2001
Federal income taxes at statutory rate	\$91,950	\$118,225	\$35,628
State income taxes, net of federal income tax effect	8,207	8,326	3,314
Tax credits	(1,000)	-	-
Other, net	(4,008)	(1,233)	(228)
Total	<u>\$95,149</u>	<u>\$125,318</u>	<u>\$38,714</u>

The temporary differences that give rise to deferred tax assets and liabilities as of June 30, 2003 and 2002 are as follows:

	2003	2002
Deferred tax assets:		
Net operating loss	\$ 16,205	\$ 26,599
Receivable reserves	24,514	17,282
Inventory	2,680	2,895
Goodwill amortization	2,131	2,736
Warrants issued	6,536	6,350
Tax credit carryforward	4,008	4,159
Capital loss carryforward	3,084	2,997
Amortization of intangibles	3,076	303
Investments	109	-
Other	3,866	2,346
Total deferred tax assets	<u>66,209</u>	<u>65,667</u>
Deferred tax liabilities:		
Plant and equipment	(14,631)	(9,328)
Proceeds from supply agreement	(10,225)	(7,243)
Investments	-	(133)
Other	(2,242)	(1,030)
Total deferred tax liabilities	<u>(27,098)</u>	<u>(17,734)</u>
Less valuation allowance	(6,147)	(8,455)
Net deferred tax asset	<u>\$ 32,964</u>	<u>\$ 39,478</u>

At June 30, 2003 and 2002, as a result of the merger with Duramed, the Company had cumulative regular net operating loss carryforwards of approximately \$38,800 and \$66,900, respectively, for federal and state income tax purposes, which will expire in the years 2011 to 2015. There is an annual limitation on the utilization of the net operating loss carryforward, which is calculated under Internal Revenue Code Section 382.

The tax credit carryforward is primarily comprised of credits related to research and development activities that expire in the years 2004 to 2021.

The Company has established a valuation allowance to reduce the deferred tax asset recorded for certain tax credits, capital loss carryforwards, and certain net operating loss carryforwards. A valuation allowance is recorded because, based on available evidence, it is more-likely-than-not that a deferred tax asset will not be realized. The valuation allowance reduces the deferred tax asset to the Company's best estimate of the net deferred tax asset that, more-likely-than-not, will be realized. The valuation allowance will be reduced when and if the Company determines that the deferred income tax assets are likely to be realized. Accordingly, during the year ended June 30, 2003, the Company reduced the valuation allowance by a net of \$2,308, due to the expiration of certain tax credits and after determining that it was more-likely-than-not that a deferred tax asset related to certain net operating losses would be realized.

## Note 16 Shareholders' Equity

### Employee Stock Option Plans

The Company has three employee stock option plans, the Barr Laboratories, Inc. 2002 Stock and Incentive Award Plan (the "2002 Option Plan"), the Barr Laboratories, Inc. 1993 Stock Incentive Plan (the "1993 Option Plan") and the Barr Laboratories, Inc. 1986 Option Plan (the "1986 Option Plan"), which were approved by the shareholders and which authorize the granting of options to officers and employees to purchase the Company's common stock. On February 20, 2003, all shares available for grant in the 1993 Option Plan were transferred to the 2002 Option Plan and all subsequent grants have been made under the 2002 Option Plan. Effective June 30, 1996, options were no longer granted under the 1986 Option Plan. For fiscal 2003, 2002 and 2001, 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 become 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. All options outstanding on October 24, 2001 became fully vested upon completion of the Duramed merger. Options granted after October 24, 2001 are exercisable between one 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, options for 45,000 shares 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 was being amortized over the five-year vesting period of the options. In fiscal 2001, the amortization of the discount totaled \$281. In fiscal 2002, these options fully vested as the result of the Duramed merger and the remaining discount of \$615 was expensed. Options granted after February 20, 2003 become exercisable between one and three years from the date of grant and expire ten years after the date of grant except in cases of death or termination of employment.

In addition, the Company has options outstanding under the terms of various former Duramed plans. These include the 1986 Stock Option Plan (the "Duramed 1986 Plan"), the 1988 Stock Option Plan (the "1988 Plan"), the 1997 Stock Option Plan (the "1997 Plan"), and the 2000 Stock Option Plan (the "2000 Plan"). All outstanding options under the Duramed plans, with the exception of options held by certain senior executives of Duramed, vested as of October 24, 2001, the effective date of the merger, as provided by the Plan. Such options were assumed by Barr under the same terms and conditions as were applicable under the Duramed stock option plans under which the options were granted. The number of options and related exercise prices have been adjusted to a Barr equivalent number of options and exercise price pursuant to the merger. Subsequent to October 24, 2001, additional options are no longer granted under these Duramed plans.

A summary of the activity for the three fiscal years ended June 30, 2003, adjusted for the March 2003 3-for-2 stock split is as follows:

	No. of Shares	Weighted-Average Exercise Price
Outstanding at July 1, 2000	4,707,456	\$11.85
Granted	1,241,698	32.55
Canceled	(124,637)	20.75
Exercised	(760,782)	9.27
Outstanding at June 30, 2001	5,063,735	17.09
Granted	1,005,013	52.89
Adjustment for pooling	(47,577)	21.97
Canceled	(83,834)	38.51
Exercised	(1,011,755)	14.58
Outstanding at June 30, 2002	4,925,582	24.64
Granted	1,406,222	40.11
Canceled	(138,698)	41.88
Exercised	(903,028)	18.85
Outstanding at June 30, 2003	5,290,078	\$29.26
Available for Grant (13,378,125 authorized)	4,944,098	
Exercisable at June 30, 2001	2,761,049	\$10.49
Exercisable at June 30, 2002	4,506,530	\$24.02
Exercisable at June 30, 2003	3,705,318	\$25.19

Available for grant and authorized amounts are for the 2002 Option Plan only, because, as of June 30, 2003, options are no longer granted under any of the other option plans discussed above.

#### Non-Employee Directors' Stock Option Plans

During fiscal year 1994, the shareholders approved the Barr Laboratories, Inc. 1993 Stock Option Plan for Non-Employee Directors (the "1993 Directors' Plan"). All options granted under the 1993 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.

On October 24, 2002, the shareholders approved the Barr Laboratories, Inc. 2002 Stock Option Plan for Non-Employee Directors (the "2002 Directors' Plan"). This plan, among other things, enhances the Company's ability to attract and retain experienced directors. On February 20, 2003, all shares available for grant under the 1993 Directors' Plan were transferred to the 2002 Directors' Plan. As of June 30, 2003, no options had been granted under the 2002 Directors' Plan.

Duramed had a Stock Option Plan for Non-Employee Directors (the "1991 Duramed Directors' Plan") under which each new non-employee director was granted, at the close of business on the date he or she first became a director, options to purchase 3,843 shares of common stock. Annually, each then serving non-employee director, other than a new director, was also automatically granted options to purchase 1,921 shares of common stock at a price equal to the closing market price on the date of grant. Options granted under the 1991 Duramed Directors' Plan expire 10 years after the date of grant. Subsequent to October 24, 2001, options will no longer be granted under this plan.

	No. of Shares	Weighted-Average Exercise Price
Outstanding at July 1, 2000	628,810	\$11.69
Granted	90,279	39.48
Canceled	(3,843)	21.67
Exercised	(88,313)	11.92
Outstanding at June 30, 2001	626,933	15.61
Granted	135,000	49.95
Adjustment for pooling	15,372	24.61
Canceled	(9,222)	22.35
Exercised	(33,372)	12.26
Outstanding at June 30, 2002	734,711	22.15
Granted	67,500	40.14
Canceled	(39,513)	49.31
Exercised	(309,374)	14.63
Outstanding at June 30, 2003	453,324	\$27.60
Available for grant (1,865,625 authorized)	713,063	
Exercisable at June 30, 2001	540,496	\$11.67
Exercisable at June 30, 2002	599,710	\$15.89
Exercisable at June 30, 2003	385,809	\$25.41

Available for grant and authorized amounts are for the 2002 Directors' Plan and the 1993 Directors' Plan only, because as of June 30, 2003, options are no longer granted under the 1991 Duramed Directors' Plan.

#### 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 1,012,500 shares of common stock at approximately 85% of the fair market value of such shares. Under the Purchase Plan, 77,136, 44,476 and 75,442 shares of common stock were purchased during the years ended June 30, 2003, 2002 and 2001, respectively.

#### Warrants

##### Warrants issued by Duramed prior to the merger with Barr

On September 13, 1996, in connection with the acquisition of the assets of Hallmark Pharmaceuticals, Inc., the Company issued warrants to purchase 153,720 shares of the Company's common stock at an exercise price of \$65.05 per share. These warrants were repriced on September 12, 1997 to \$26.02 per share. The warrants had a term of five years and were fully vested as of March 25, 1999. During calendar year 2000, based

on an antidilutive clause in the purchase contract, the exercise price was adjusted to \$22.86 and the number of warrants to purchase shares of the Company's common stock was adjusted to 174,763. As of June 30, 2002, these warrants were no longer outstanding.

On June 5, 1997, in connection with the issuance of Series E preferred stock, the Company granted warrants to purchase 7,686 shares of the Company's common stock at an exercise price of \$11.22 per share. The warrants vested immediately and, unless exercised, expired on June 5, 2000.

On February 4, 1998, in conjunction with the issuance of Series F preferred stock, the Company granted warrants to purchase 211,374 shares of the Company's common stock. Of the total amount, warrants for 192,159 shares were issued to investors of the Series F preferred stock at an exercise price of \$14.93 per share. These warrants vested on October 2, 1998 and were exercised on September 19, 2002 in a cashless exercise that resulted in the issuance of 125,910 shares of the Company's common stock. The remaining 19,215 warrants were granted at an exercise price of \$13.58 per share. The warrants vested immediately and expired on February 4, 2001. As of June 30, 2003, of the remaining warrants, 16,718 were exercised and 2,497 had expired.

During 1999, in conjunction with an amendment to a financing agreement, the Company granted to a bank warrants to purchase 42,273 shares of the Company's common stock at an exercise price of \$33.28. These warrants vested immediately and expire four years from the date of grant. In December 1999, the financing agreement was amended to reset the exercise price of 50% of the warrants to \$23.43 per share. During 2000, based on an antidilutive clause in the agreement, the number of warrants was adjusted to 44,227. The price of 22,284 warrants was adjusted to \$31.57 and the remaining 21,945 warrants were repriced to \$22.55. In November 2001 and January 2002, a total of 38,196 of the warrants were exercised. As of June 30, 2003, warrants for 6,031 shares were outstanding with an expiration of July 2009.

On May 12, 2000, in combination with the issuance of Series G preferred stock, the Company granted warrants to purchase 192,157 common shares at a price of \$14.31 per share. The warrants vested immediately and expire on May 12, 2005. As of June 30, 2003, all of these warrants remained outstanding.

#### DuPont Warrants

In March 2000, the Company issued warrants granting DuPont the right to purchase 1,125,000 shares of Barr's common stock at \$20.89 per share, and 1,125,000 shares at \$25.33 per share, respectively. Each warrant was immediately exercisable and expires in March 2004. As of June 30, 2003, DuPont has sold its rights to all the warrants to third parties and none of the warrants have been exercised.

The following table summarizes information about stock options and warrants outstanding at June 30, 2003:

Options and Warrants Outstanding			
Range of Exercise Prices	Number Outstanding at 6/30/03	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 4.07 – 5.06	616,533	1.82	\$ 4.54
7.67 – 10.08	343,233	3.44	8.52
11.55 – 18.70	1,844,334	5.28	15.11
20.17 – 31.90	2,317,120	0.87	23.12
34.15 – 40.27	1,955,775	8.49	38.98
41.95 – 57.37	1,114,595	8.20	51.61
	<b>8,191,590</b>		

Options and Warrants Exercisable			
Range of Exercise Prices	Number Exercisable at 6/30/03	Weighted Average Exercise Price	
\$ 4.07 – 5.06	616,533	\$ 4.54	
7.67 – 10.08	340,391	8.51	
11.55 – 18.70	1,719,008	15.68	
20.17 – 31.90	2,316,352	23.12	
34.15 – 40.27	613,279	37.06	
41.95 – 57.37	933,752	52.58	
	<b>6,539,315</b>		

#### Note 17 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 60% of their earnings before or after taxes, limited to a maximum of \$12,000 for pre-tax contributions. The Company is required, pursuant to the terms of its collective bargaining agreement, to contribute to each union employee's account an amount equal to the 2% minimum contribution made by such employee, which becomes fully vested at the time of the Company's contribution. The Company may, at its discretion, make cash contributions equal to 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.

Duramed had a defined contribution plan, the Duramed Pharmaceuticals, Inc. 401(k)/Profit Sharing Plan ("Duramed Plan" or "Plan") available to all employees. The Plan provided for Duramed to match 50% of employee contributions to a maximum of 3% of each employee's compensation. Prior to October 2001, Duramed's matching contribution was made with Duramed's common stock, as permitted by the Plan. The

Plan also had a profit sharing provision at the discretion of Duramed's board of directors. Duramed did not make a profit sharing contribution to the Plan. All full-time employees were eligible to participate in the deferred compensation and company matching provisions of the Plan. Employees were immediately vested with respect to the company matching provisions of the Plan.

On January 1, 2002 the Duramed Plan was merged with the Barr 401(k) Plan and the participants of the Duramed Plan became eligible for participation in the Barr 401(k) Plan. The Company's contributions to the 401(k) Plans were \$5,549, \$4,790 and \$3,304 for the years ended June 30, 2003, 2002 and 2001, 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 2003, 2002 and 2001, the Company chose to make contributions at the 10% rate to this plan. As of June 30, 2003 and 2002, the Company had an asset and matching liability for the Excess Plan of \$2,282 and \$1,394, respectively.

The Company has an unfunded pension plan covering two non-employee directors of Duramed who were elected prior to 1998 and who had served on Duramed's Board for at least five years. At the time of the merger with Barr, two Duramed directors were eligible to receive benefits. The plan provides an annual benefit, payable monthly over each director's life, from the time a participating director ceased to be a member of the Board, equal to 85% and 60%, respectively, of the director's most recent annual Board fee, as adjusted annually to reflect changes in the Consumer Price Index. As of June 30, 2003 and 2002, the Company has recorded \$487 and \$490, respectively, as a long-term liability representing the present value of the estimated future benefit obligation to the eligible directors. The right of a director to receive benefits under the plan is forfeited if the director engages in any activity determined by the Board to be contrary to the best interests of the Company.

#### Note 18 Other (Expense) Income, net

A summary of other (expense) income, net is as follows:

	Year Ended June 30,		
	2003	2002	2001
Net loss on sale of assets	\$ -	\$ -	\$ (302)
Net gain on sale of securities	-	-	6,671
Litigation settlement	-	2,000	-
Bristol-Meyers Squibb termination payments	-	5,600	-
Write-off of investment	(214)	-	(2,450)
Other	86	56	(271)
Other (expense) income, net	<b>\$(128)</b>	<b>\$7,656</b>	<b>\$ 3,648</b>

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.

#### Note 19 Merger-Related Costs

As a result of the Duramed merger, the Company incurred pre-tax merger-related expenses for the year ended June 30, 2002 of approximately \$31,449, which is included in the consolidated statements of operations as merger-related costs. Such expenses included approximately \$13,000 in direct transaction costs such as investment banking, legal and accounting costs, as well as approximately \$7,000 in costs associated with facility and product rationalization and \$11,000 in severance costs. Portions of these expenses were not tax deductible. The severance costs included approximately \$7,000 intended to satisfy the change in control payments under certain previously existing employment contracts along with the expected cost associated with terminating approximately 120 former Duramed employees primarily representing certain manufacturing and general and administrative functions.

As of June 30, 2002, all of the direct transaction costs and involuntary termination benefits had been paid and charged against the liability leaving a remaining liability of approximately \$1,600, of which \$700 related to severance and change in control payments and \$900 related to facility costs. As of June 30, 2003, the remaining liability balance of approximately \$700 relates to facility costs.

#### Note 20 Common Stock Repurchase

On September 17, 2001, the Securities and Exchange Commission ("SEC") issued an Emergency Order permitting companies to initiate common stock repurchase programs without impacting pooling-of-interests accounting. As a result, the Company's board of directors authorized the Company to spend up to \$100,000 for such a common stock repurchase program. Such authorization was limited to the time periods established by the SEC. On October 12, 2001, the SEC's order expired and the Company's repurchase program ended. During the period, the Company repurchased 15,000 shares of its common stock at a total cost of approximately \$695.

#### Note 21 Commitments and Contingencies

##### Leases

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 \$1,875, \$1,444 and \$2,043 in fiscal 2003, 2002 and 2001, 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, 2003. Such payments total \$25,507 for operating leases. The net present value of such payments on capital leases was \$4,878 after deducting executory costs and imputed interest of \$196 and \$1,043 respectively.

	Year Ending June 30,					
	2004	2005	2006	2007	2008	Thereafter
Operating leases	\$1,634	\$2,632	\$2,064	\$2,038	\$2,120	\$15,019
Capital leases	2,104	1,815	1,517	681	-	-
Minimum lease payments	3,738	4,447	3,581	2,719	2,120	15,019

### Business Development Venture

In fiscal 2002, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Natural Biologics, the raw material supplier for the Company's generic equine-based conjugated estrogens product for which the Company filed an ANDA with the FDA in June 2003. The Company believes that the raw material is pharmaceutically equivalent to raw material used to produce Wyeth's Premarin®. Natural Biologics is a defendant in litigation brought by Wyeth alleging that Natural Biologics misappropriated certain Wyeth trade secrets with respect to the preparation of this raw material. This case was tried in November 2002, and a decision may be rendered by the trial court at any time. An unfavorable decision for Natural Biologics could materially and adversely affect Natural Biologics' ability to repay the loans the Company has made to it. If that were to be the case, the Company may be required to write-off all or a portion of the loans made to Natural Biologics. As of June 30, 2003 and 2002, the Company had loaned Natural Biologics approximately \$14,408 and \$4,746, respectively, under this agreement, including accrued interest, and has included such amount in other assets on the consolidated balance sheets.

Under the terms of the Loan Agreement, absent the occurrence of a material adverse event (including an unfavorable court decision in the Wyeth matter), the Company could loan Natural Biologics up to \$35,000 over a three-year period, including \$8,300 and \$2,800 during fiscal 2004 and 2005, respectively. The Loan Agreement also provides for a loan of \$10,000 based upon the successful outcome of pending legal proceedings between Wyeth and Natural Biologics, as discussed above. The loans mature on June 3, 2007, are collateralized by a security interest in inventory and certain other assets of Natural Biologics, and bear interest at the applicable federal rate as defined by the Loan Agreement (3.03% at June 30, 2003).

In fiscal 2002, the Company also entered into a Development, Manufacturing and Distribution Agreement with Natural Biologics which could obligate the Company to make milestone payments totaling an additional \$35,000 to Natural Biologics based on achieving certain legal and product approval milestones, including the approval of a generic product.

### Employment Agreements

The Company has entered into employment agreements with certain key employees. These agreements terminate at various dates through 2006.

### Product Liability Insurance

On September 30, 2002, the Company entered into a finite risk insurance arrangement (the "Arrangement") with a third party insurer due to the significant increase in the cost of traditional product liability insurance. The Company believes that the Arrangement is an effective way to insure against a portion of potential product liability claims. In exchange for \$15,000 in product liability coverage over a five-year term, the Arrangement provides for the Company to pay approximately \$14,250 in four equal annual installments of \$3,563, with the first annual payment having been made in October 2002. Included in the initial payment is an insurer's margin of approximately \$1,000, which is being amortized over the five-year term. At any six-month interval, the Company may, at its option, cancel the Arrangement. In addition, at the earlier of termination or expiry, the Company is eligible for a return of all amounts paid to the insurer, less the insurer's margin and amounts for any incurred claims. The Company is recording the payments, net of the insurer's margin, as deposits included in other assets.

The Company is self-insured for potential product liability claims between \$15,000 and \$25,000. The Company has purchased additional coverage from an insurance carrier that will offer coverage for claims between \$25,000 and \$50,000, subject to a \$10,000 limitation on some of the Company's products and an exclusion on others.

Simultaneously with entering into the Arrangement, the Company exercised the extended reporting period under its previous insurance policy that provides \$10,000 of product liability coverage of unlimited duration for product liability claims on products sold from September 10, 1987 to September 30, 2002. Additionally, in connection with its merger with Duramed, the Company purchased a supplemental extended reporting policy under Duramed's prior insurance policy that provides \$10,000 of product liability coverage for an unlimited duration for product liability claims on products sold by Duramed between October 1, 1985 and October 24, 2001, and for product liability claims.

The Company has never been held liable for, or agreed to pay, a significant product liability claim. However, the Company is from time to time a defendant in several product liability actions. If the Company incurs defense costs and liabilities in excess of the Company's self-insurance reserve that are not otherwise covered by insurance, it could have a material adverse effect on the Company's consolidated financial statements.

### Indemnity Provisions

From time to time, in the normal course of business, we agree to indemnify our suppliers and customers concerning product liability and other matters.

## Litigation Settlement

On October 22, 1999 the Company reached a settlement agreement with Schein Pharmaceutical, Inc. (now part of Watson Pharmaceuticals, Inc.) relating to a 1992 agreement regarding the pursuit of a generic conjugated estrogens product. Under the terms of the settlement, Schein gave up any claim to rights in Cenestin® in exchange for a payment of \$15,000, which was paid to Schein in 1999. An additional \$15,000 payment is required under the terms of the settlement if Cenestin achieves total profits (product sales less product-specific cost of goods sold, sales and marketing and other relevant expenses) of greater than \$100,000 over any five year or less period prior to October 22, 2014.

## Class Action Lawsuits

### Ciprofloxacin (Cipro®)

To date the Company has been named as co-defendants with Bayer Corporation, The Rugby Group, Inc. and others in approximately 38 class action complaints filed in state and federal courts by direct and indirect purchasers of Ciprofloxacin (Cipro®) from 1997 to the present. The complaints allege that the 1997 Bayer-Barr patent litigation settlement agreement was anti-competitive and violated federal antitrust laws and/or state antitrust and consumer protection laws. A prior investigation of this agreement by the Texas Attorney General's Office on behalf of a group of state Attorneys General was closed without further action in December 2001.

The lawsuits include nine consolidated in California state court, one in Kansas state court, one in Wisconsin state court, one in Florida state court, and two in New York state court, with the remainder of the actions pending in the United States District Court for the Eastern District of New York for coordinated or consolidated pre-trial proceedings (the "MDL Case"). Fact discovery in the MDL case is currently scheduled to close on November 7, 2003, after which the parties will proceed with expert discovery, followed by anticipated summary judgment briefing. The direct purchaser and indirect purchaser plaintiffs also have filed motions for class certification in the MDL case, but briefing is not complete and the Court has indicated that it will defer ruling on the motions at the present time. The state court actions remain in a relatively preliminary stage generally, tracked to follow the MDL Case, although defendants have filed dispositive motions and plaintiffs have moved for class certification in certain of the cases.

On May 20, 2003, the District Court entered an order in the MDL Case holding that the Barr-Bayer settlement did not constitute a per se violation of the antitrust laws and restricting the scope of the legal theories the plaintiffs could pursue in the case.

The Company believes that our agreement with Bayer Corporation reflects 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 this matter, the Company intends to vigorously defend itself. We anticipate that this matter may take several years to resolve, but an adverse judgment could have a material adverse impact on the Company's consolidated financial statements.

### Tamoxifen

To date, approximately 31 consumer or third party payor class action complaints have been filed in state and federal courts against Zeneca, Inc., AstraZeneca Pharmaceuticals LP and the Company alleging, among other things, that the 1993 settlement of patent litigation between Zeneca and the Company violated the antitrust laws, insulated Zeneca and the Company from generic competition and enabled Zeneca and the Company to charge artificially inflated prices for Tamoxifen citrate. A prior investigation of this agreement by the U.S. Department of Justice was closed without further action.

The Judicial Panel on Multidistrict Litigation has transferred these cases to the United States District Court for the Eastern District of New York for pretrial proceedings. On May 13, 2003, the District Court entered an order dismissing the cases for failure to state a viable antitrust claim. Plaintiffs have filed a notice of appeal.

The Company believes that its agreement with Zeneca reflects 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 this matter, the Company intends to vigorously defend itself. It is anticipated that this matter may take several years to resolve, but an adverse judgment could have a material adverse impact on the Company's consolidated financial statements.

### Invamed/Apothecon Lawsuit

In February 1998 and May 1999, Invamed, Inc. and Apothecon, Inc., respectively, both of which have since been acquired by Geneva Pharmaceuticals, Inc., which is a subsidiary of Novartis AG, 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. On May 10, 2002, the District Court granted summary judgment in the Company's favor on all antitrust claims in the case, but found that the plaintiffs could proceed to trial on their allegations that the Company interfered with an alleged raw material supply contract between Invamed and Barr's raw material supplier. Invamed and Apothecon have appealed the District Court's decision to the United States Court of Appeals for the Second Circuit. Trial on the merits has been stayed pending the outcome of the appeal.

The Company believes that these suits are without merit and intends to vigorously defend its position, but an adverse judgment could have a material impact on the Company's consolidated financial statements.

### Desogestrel/Ethinyl Estradiol Suit

In May 2000, the Company filed an Abbreviated New Drug Application ("ANDA") seeking approval from the FDA to market the tablet combination of desogestrel/ethinyl estradiol tablets and ethinyl estradiol tablets, the generic equivalent of Organon Inc.'s Mircette® oral contraceptive regimen. The Company notified Bio-Technology General Corp. ("BTG"),

the owner of the patent for the Mircette product, pursuant to the provisions of the Hatch-Waxman Act and BTG filed a patent infringement action in the United States District Court for the District of New Jersey seeking to prevent Barr from marketing the tablet combination. In December 2001, the United States District Court for the District of New Jersey granted summary judgment in favor of Duramed, finding that Barr's product did not infringe the patent at issue in the case. BTG appealed the District Court's decision. In April 2002, the Company launched its Kariva® product, the generic version of Mircette. In April 2003, the U.S. Court of Appeals for the Federal Circuit reversed the District Court's decision granting summary judgment in Duramed's favor and remanded the case to the District Court for further proceedings.

In July 2003, BTG (now Savient) filed an amended complaint adding Organon (Ireland) Ltd. and Organon USA as plaintiffs and adding the Company as a defendant. The amended complaint seeks damages and enhanced damages based upon willful infringement. The Company believes that it has not infringed BTG's patent and continues to manufacture and market Kariva. If BTG and Organon are successful, the Company could be liable for damages for patent infringement, which could have a material adverse effect on our consolidated financial statements.

#### **Termination of Solvay Co-Marketing Relationship**

On March 31, 2002, Barr's Duramed subsidiary gave notice of its intention to terminate, as of June 30, 2002, the relationship between Barr and Solvay Pharmaceuticals, Inc. which covered the joint promotion of Barr's Cenestin tablets and Solvay's Prometrium® capsules. Solvay has disputed Duramed's right to terminate the relationship and claims it is entitled to substantial damages and has notified Barr that it has demanded arbitration of this matter. Discovery is underway and the arbitration hearing is currently scheduled to begin in January 2004. The Company believes its actions are well founded but if the Company is incorrect, an adverse decision in the matter could have a material adverse impact on the Company's consolidated financial statements.

#### **Lemelson**

In November 2001, the Lemelson Medical, Education & Research Foundation filed an action in the United States District Court for the District of Arizona alleging patent infringement against many defendants, including the Company, involving "machine vision" or "computer image analysis." In March 2002, the court stayed the proceedings, pending the resolution of another suit that involves the same patents, but does not involve the Company.

#### **Nortrel 7/7/7 Product Recall**

On July 9, 2003, the Company initiated a recall of three lots of its Nortrel® 7/7/7 oral contraceptive product after receiving two customer complaints that the tablets that had been dispensed to them were misconfigured. The Company has since received reports of pregnancies from approximately 16 women

who claim to have taken the product. The Company is in the process of investigating whether these women have taken affected product and whether their pregnancies are related to use of affected product. The Company anticipates that one or more of these women will commence formal legal actions against it. The Company does not have sufficient information at this time to evaluate the likelihood of success in these matters. However, an unfavorable outcome in one or more of these matters could have a material adverse effect on the Company's consolidated financial statements.

#### **PPA Litigation**

The Company is a defendant in three personal injury product liability lawsuits involving phenylpropanolamine ("PPA"). All three cases are in their initial stages. The Company believes it has strong defenses to all three cases and intends to vigorously defend against them. However, an unfavorable outcome could have a material adverse effect on the Company's consolidated financial statements.

#### **MPA Litigation**

The Company has been named as a defendant in at least ten personal injury product liability cases brought against the Company and other manufacturers by plaintiffs claiming that they suffered injuries resulting from the use of medroxyprogesterone acetate ("MPA") in conjunction with Premarin or other hormone therapy products. These cases are in a preliminary stage and the Company does not know whether any of these individuals took an MPA product manufactured by the Company. We intend to vigorously defend against these cases. However, an unfavorable outcome could have a material adverse effect on our consolidated financial statements.

#### **Medical Reimbursement Cases**

We have learned that we have been named as a defendant in separate actions brought by the County of Suffolk, New York and Westchester County, New York against numerous pharmaceutical manufacturers. The action seeks to recover damages and other relief for alleged overcharges for prescription medications paid for by Medicaid. We believe that we have not engaged in any improper conduct and intend to vigorously defend against the cases. However, an unfavorable outcome could have a material adverse effect on our consolidated financial statements.

#### **Other Litigation**

As of June 30, 2003, the Company was involved with other lawsuits incidental to its business, including patent infringement actions and personal injury claims. Management of the Company, based on the advice of legal counsel, believes that the ultimate disposition of such other lawsuits will not have a material adverse effect on the Company's consolidated financial statements.

## Administrative Matters

On June 30, 1999, the Company received a civil investigative demand (“CID”) and a subpoena from the FTC seeking documents and data relating to the January 1997 agreements resolving the patent litigation involving Ciprofloxacin Hydrochloride. The CID was limited to a request for information and did not allege any wrongdoing. The FTC is investigating whether Barr, through the settlement and supply agreements, has engaged in activities in violation of the antitrust laws. Barr continues to cooperate with the FTC in this investigation.

On August 17, 2001, the Oregon Attorney General’s Office, as liaison on behalf of a group of state Attorneys General, served the Company with a CID relating to its investigation of our settlement of the Tamoxifen patent challenge with AstraZeneca. The investigative demand requests the production of certain information and documents that may assist the Attorney General in its investigation. The Company is reviewing the demand and intends to fully cooperate with the Attorney General’s office in its investigation.

The Company believes that the patent challenge settlements being investigated represent a pro-consumer and pro-competitive outcome to the patent challenge cases. An investigation of the Tamoxifen settlement by the U.S. Department of Justice and an investigation of the Ciprofloxacin settlement by the Texas Attorney General’s Office on behalf of other state Attorneys General already have been satisfactorily resolved without further action and we expect these investigations to be satisfactorily resolved, as well. However, consideration of these matters could take considerable time, and any adverse judgment could have a material adverse impact on our consolidated financial statements.

In May 2001, the Company received a subpoena, issued by the Commonwealth of Massachusetts Office of the Attorney General, for the production of documents related to pricing and Medicaid reimbursement of select products in Massachusetts. Barr is one of a number of pharmaceutical companies that have received such subpoenas. Barr is cooperating with the inquiry and believes that all of its product agreements and pricing decisions have been lawful and proper.

## Note 22 Quarterly Data (Unaudited)

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

	Sept. 30	Three Month Period Ended		
		Dec. 31	Mar. 31	June 30
<b>Fiscal Year 2003:</b>				
Total revenues	\$220,428	\$209,035	\$171,923	\$301,478
Cost of sales	110,919	94,872	55,182	163,126
Net earnings applicable to common shareholders	41,857	42,747	45,874	37,088
Earnings per common share – diluted <sup>(1)(3)</sup>	\$ 0.61	\$ 0.63	\$ 0.66	\$ 0.53
<b>Price Range of Common Stock<sup>(2)(3)</sup></b>				
High	\$ 48.07	\$ 45.15	\$ 58.15	\$ 66.52
Low	32.93	36.84	43.39	51.40
	Sept. 30	Dec. 31	Mar. 31	June 30
<b>Fiscal Year 2002:</b>				
Total revenues	\$352,103	\$366,090	\$261,411	\$209,380
Cost of sales	203,834	227,064	139,142	106,283
Net earnings applicable to common shareholders	70,205	42,091	53,107	44,866
Earnings per common share – diluted <sup>(1)(3)</sup>	\$ 1.04	\$ 0.61	\$ 0.78	\$ 0.66
<b>Price Range of Common Stock<sup>(2)(3)</sup></b>				
High	\$ 60.40	\$ 60.00	\$ 53.33	\$ 48.23
Low	41.33	39.50	41.43	38.87

<sup>(1)</sup>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 did not pay any cash dividends.

<sup>(2)</sup>The Company’s common stock is listed and traded on the New York Stock Exchange under the symbol “BRL.” At June 30, 2003, there were approximately 1,569 shareholders of record of common stock. The Company believes that a significant number of beneficial owners hold their shares in street name.

<sup>(3)</sup>Adjusted for the March 17, 2003 3-for-2 stock split effected in the form of a 50% stock dividend (see Note 1).

# 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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2003. 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. The consolidated financial statements give retroactive effect to the merger of the Company and Duramed Pharmaceuticals, Inc. ("Duramed"), which has been accounted for as a pooling of interests as described in Note 3 to the consolidated financial statements. We did not audit the financial statements of Duramed for the six-month period ended June 30, 2001 or the year ended December 31, 2000, which statements reflect total assets of \$136,587,000 and \$81,966,000 as of June 30, 2001 and December 31, 2000, respectively, and total revenues of \$59,831,000 and \$83,465,000 for the respective periods then ended. The financial statements of Duramed for such periods were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Duramed for such periods, is based solely on the report of such other auditors. The financial statements of Duramed were combined with the financial statements of the Company as described in Note 1. Certain accounts of Duramed were reclassified to conform to the presentation method used by the Company and restated to give effect to pooling of interest adjustments of Duramed's tax valuation allowance in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barr Laboratories, Inc. and subsidiaries at June 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 3 that were applied to restate the June 30, 2001 and December 31, 2000 financial statements of Duramed. In our opinion, such adjustments are appropriate and have been properly applied.



Stamford, Connecticut  
August 6, 2003

# Report of Independent Auditors

The Board of Directors  
Duramed Pharmaceuticals, Inc.

We have audited the consolidated balance sheets of Duramed Pharmaceuticals, Inc. as of June 30, 2001 and December 31, 2000, and the related consolidated statements of operations, stockholders' equity (capital deficiency) and cash flows for the six months ended June 30, 2001 and for the year ended December 31, 2000 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Duramed Pharmaceuticals, Inc. at June 30, 2001 and December 31, 2000, and the consolidated results of its operations and its cash flows for the six months ended June 30, 2001 and for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



Ernst & Young LLP

Cincinnati, Ohio  
November 30, 2001

## Selected Financial Data

(in thousands of dollars, except per share amounts)	2003	Year Ended June 30,			
		2002 <sup>(1)</sup>	2001 <sup>(1)</sup>	2000 <sup>(1)</sup>	1999 <sup>(1)</sup>
<b>Statements of Operations</b>					
Total revenues	\$ 902,864	\$1,188,984	\$ 593,151	\$490,972	\$465,709
Earnings before income taxes	226,715	337,537	101,793	18,602	71,730
Income tax expense	95,149	125,318	38,714	8,042	27,988
Net earnings applicable to common shareholders	167,566	210,269	62,566	10,305	38,352
Earnings per common share – basic	2.54	3.25 <sup>(4)</sup>	0.99 <sup>(4)</sup>	0.17 <sup>(4)</sup>	0.67 <sup>(4)</sup>
Earnings per common share – diluted	2.43	3.09 <sup>(4)</sup>	0.94 <sup>(4)</sup>	0.17 <sup>(4)</sup>	0.64 <sup>(4)</sup>
	2003	2002 <sup>(1)</sup>	2001 <sup>(1)</sup>	2000 <sup>(1)</sup>	1999 <sup>(1)</sup>
<b>Balance Sheet Data</b>					
Working capital	\$ 572,717	\$ 457,393	\$313,101	\$212,275	\$169,919
Total assets	1,180,937	888,554	666,516	548,188	436,529
Long-term debt <sup>(2)</sup>	34,027	42,634	65,563	59,254	52,715
Shareholders' equity <sup>(3)</sup>	867,995	666,532	416,777	324,698	257,716

<sup>(1)</sup>Financial data presented has been restated to include the historical financial data of Duramed (See Note 1 to the consolidated financial statements).

<sup>(2)</sup>Includes capital leases and excludes current installments (See Note 12 to the consolidated financial statements).

<sup>(3)</sup>The Company has not paid a cash dividend in any of the above years.

<sup>(4)</sup>Amounts have been adjusted for the March 17, 2003 3-for-2 stock split effected in the form of a 50% stock dividend (See Note 1 to the consolidated financial statements.)

# Directory

## Management Team

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

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

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

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

**Michael J. Bogda**  
Senior Vice President, Manufacturing and  
Engineering

**Timothy P. Catlett**  
Senior Vice President, Sales and Marketing

**Catherine F. Higgins**  
Senior Vice President, Human Resources

**Frederick J. Killion, Esq.**  
Senior Vice President and General Counsel

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

**Christine A. Mundkur, Esq.**  
Senior Vice President, Quality and  
Regulatory Counsel

**Martin Zeiger, Esq.**  
Senior Vice President, Strategic Business  
Development

**Lance J. Bronnenkant, Ph.D.**  
Vice President, Research and Development,  
Operations

**Carol A. Cox**  
Vice President, Investor Relations and  
Corporate Communications

**Charles E. DiLiberti, M.S.**  
Vice President, Scientific Affairs

**Suzanne Donaghy**  
Vice President and Chief Information Officer

**David J. Furniss**  
Vice President, Internal Audit

**Phil Gioia**  
Vice President, Proprietary Sales

**Jake Hansen**  
Vice President, Government Affairs

**Howard I. Hait**  
Vice President, Data Management  
and Biostatistics  
Barr Research, Inc.

**Christopher Mengler, R.Ph.**  
Vice President, Strategic Planning

**Michael Moorshead**  
Vice President and General Manager,  
Virginia Facility

**Wayne S. Mulcahy, Ph.D.**  
Vice President, Clinical Operations  
Barr Research, Inc.

**Amy Niemann**  
Vice President, Proprietary Marketing

**Timothy B. Sawyer**  
Vice President, Sales for Generic Products

**Robert Williford**  
Vice President and General Manager,  
Ohio Facility

## Board of Directors

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

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

**Harold N. Chefitz**  
Chairman of Notch Hill Advisors; President of  
Chefitz Healthcare Investments

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

**Richard R. Frankovic**  
Pharmaceutical Industry Consultant

**James S. Gilmore, III**  
Partner, Kelley, Drye & Warren; Former Governor,  
Commonwealth of Virginia

**Jacob M. Kay**  
President of Apotex, Inc.; Chair of the Canadian  
Drug Manufacturers Association

**Peter R. Seaver**  
Healthcare Industry Consultant

**George P. Stephan, Esq.**  
Business Consultant; Director of Kollmorgen  
Corporation

## Shareholder Information

**Investor Relations Department**  
Contact: Carol A. Cox  
Vice President, Investor Relations and  
Corporate Communications  
Email: ccox@barrlabs.com  
Telephone: 1-800-BARRLAB  
Website: 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

**Annual Meeting**  
The annual meeting of shareholders will be held at  
10 am on October 23, 2003 at The Plaza Hotel,  
New York, NY.

## Trademarks

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## 10-K Report Available

The Company's 2003 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 headquarters.

**Design**  
Arnold Saks Associates, NYC

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**Product Photography**  
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**Printing**  
PonyXPress Printing Services



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