Barr Pharmaceuticals, Inc.

Generic and

Proprietary

Pharmaceuticals

Emphasis on

Female Healthcare

Annual Report 2004

This Is Barr Pharmaceuticals...

Barr Pharmaceuticals, Inc., (NYSE-BRL) is a holding company that operates through its principal subsidiaries, Barr Laboratories, Inc., and Duramed Pharmaceuticals, Inc. The Company is engaged in the development, manufacture and marketing of generic and proprietary pharmaceuticals.

In January 2004, the Company was reincorporated in Delaware as Barr Pharmaceuticals, Inc., and Barr Laboratories, Inc., **Duramed Pharmaceuticals, Inc. and Duramed Research Inc. were established as subsidiaries of Barr Pharmaceuticals. This action enabled the Company to take full advantage of Delaware corporate law and created a corporate structure more optimally aligned for future growth.**

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

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

barr Pharmaceuticals, Inc.

barr Laboratories, Inc.

DURAmed®

Selected Financial Highlights

(Financial data in thousands, except per share data and employee data)	Years Ended June 30, 2004	2003
Results of Operations		
Total Revenues	$1,309,088	$ 902,864
Earnings		
Earnings from Operations	192,848	226,580
Proceeds from Patent Challenge Settlement	–	31,396
Net Earnings	123,103	167,566
Earnings per Share Assuming Dilution	1.15	1.62
Financial Position		
Cash Flows from Operations	$ 258,099	$ 160,328
Working Capital	670,601	582,183
Total Assets	1,333,269	1,180,937
Shareholders' Equity	1,042,046	867,995
Statistics		
Research and Development Expenditures	$ 168,995	$ 91,207
Capital Expenditures	$ 46,907	$ 80,617
Number of Employees	1,480	1,224
Weighted Average Number of Common Shares Outstanding Assuming Dilution	106,661	103,592

All earnings per share and weighted average share information for the fiscal year ended June 30, 2003 reflect a three-for-two stock split effected in the form of a 50% stock dividend distributed on March 16, 2004 to shareholders of record at the close of business on February 23, 2004.

Key Fiscal 2004 Accomplishments

Generic Activities

- 12 Applications Filed
- 15 Approvals
- 9 Products Launched

Proprietary Activities

- SEASONALE® Oral Contraceptive Approved and Launched
- 10 Marketed Products
- 3 Applications Pending with FDA
- 6 Products in Clinical Development
  - 3 in Phase III Clinical Studies

Corporate Highlights

- Reincorporated as Barr Pharmaceuticals, Inc.
- 5th 3-for-2 Stock Split in 8 Years
- Completed 2 Major Acquisitions
  - Women's Capital Corp.
  - Endeavor Pharmaceuticals, Inc.

Chairman's Letter

Fellow Shareholders, Employees and Friends:

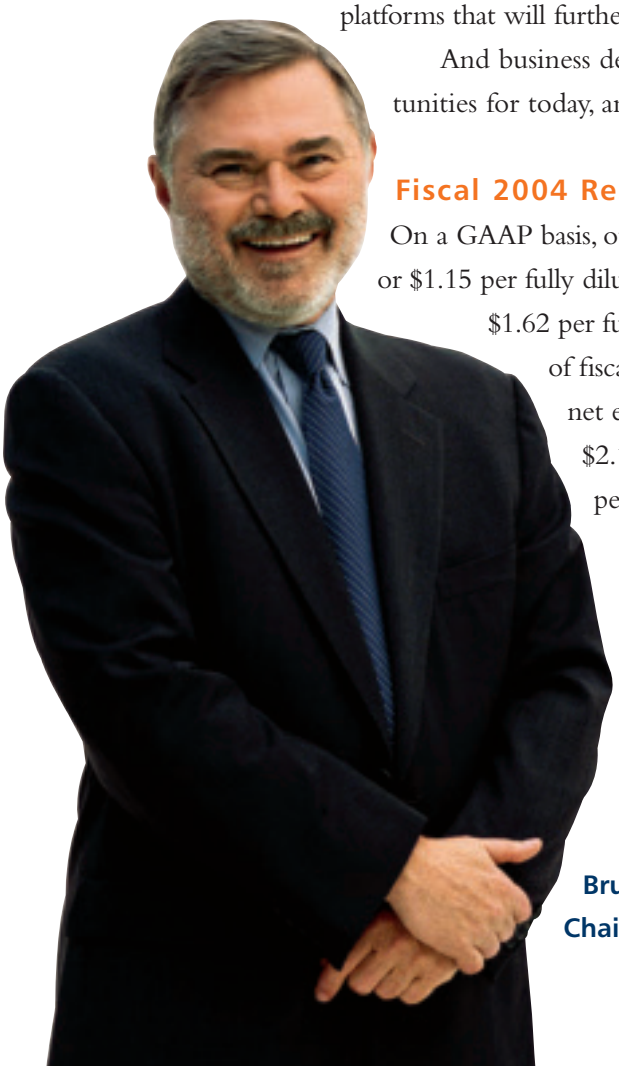
Fiscal 2004 represented another exciting year for your Company with record revenues and strong earnings driven by the power of our generic and proprietary strategies. We grew to a market leading position in sales of oral contraceptives; launched the innovative SEASONALE® extended-cycle oral contraceptive; invested at record levels in generic and proprietary research and development; and began to expand beyond the core strategies that have driven our success over the past decade.

For the past five years, we have been building a vibrant proprietary products research and development organization. During fiscal 2004, the return on this investment was realized with the approval and successful introduction of our SEASONALE extended-cycle oral contraceptive. This launch not only offered American women a new contraceptive option, it also created an entirely new category in the global oral contraceptive marketplace.

During fiscal 2004, we became the largest manufacturer of oral contraceptives – brand and generic – in the United States, and launched six new generic oral contraceptives. Considering that Barr had no presence in this therapeutic arena less than four years ago, our steady climb to leadership demonstrates our commitment to female healthcare.

We also extended our generic pharmaceutical product focus beyond our traditional activities in capsules and tablets, with product development initiatives in new technology platforms that will further broaden our generic product lines.

And business development initiatives brought us new product opportunities for today, and tomorrow.



Fiscal 2004 Results

On a GAAP basis, our net earnings for fiscal 2004 were $123.1 million, or $1.15 per fully diluted share, compared to net earnings of $167.6 million, or $1.62 per fully diluted share, in fiscal 2003. Excluding charges in each of fiscal 2004 and 2003, detailed elsewhere in this report, our net earnings for fiscal 2004 increased to $231.3 million, or $2.17 per fully diluted share, from $181.2 million, or $1.75 per fully diluted share, in fiscal 2003.

"The launch of our SEASONALE extended-cycle oral contraceptive created a new category in oral contraception."

Bruce L. Downey,
Chairman and Chief Executive Officer

Our results were driven by a 25% increase in generic product sales, to $765 million during the year, and by proprietary product sales of $146 million, a 153% increase over fiscal 2003. New generic oral contraceptive products launched during the year, a full year of sales of our distributed ciprofloxacin product, as well as the launch of SEASONALE and the contribution of other proprietary products were the drivers of growth.

Investment in new product development reached a record level of $169 million, which included costs associated with acquired in-process R&D and new product development activities. This investment produced new product filings, approvals and launches in both generic and proprietary products.

Also, in March 2004 we announced our fifth 3-for-2 stock split in eight years.

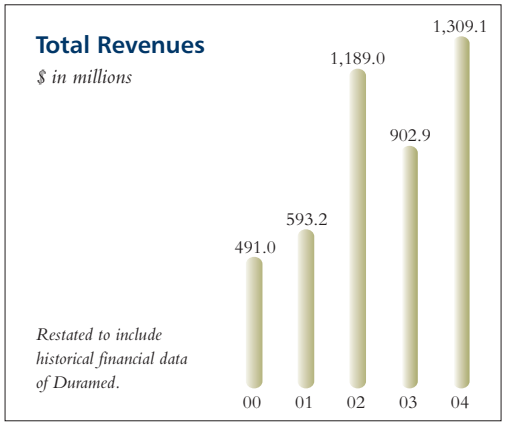
Successful SEASONALE Launch

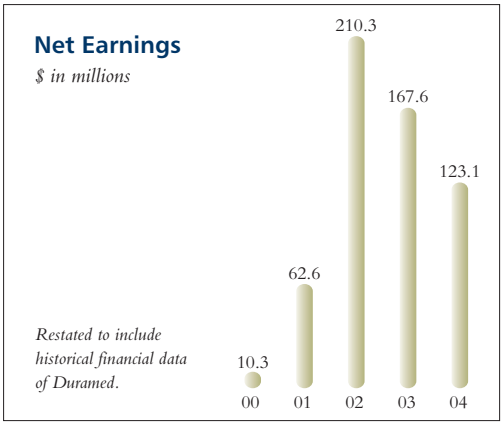
The approval and launch of SEASONALE represented the best of Barr across the board – research and development, regulatory affairs, quality, manufacturing, distribution, sales and marketing. Our sales team detailed thousands of physicians, providing them with the data they need to prescribe this safe and effective contraceptive with confidence.

SEASONALE offers women just four periods a year.

Our 250-person women's healthcare sales force was armed with extensive educational materials, data from our clinical studies demonstrating the safety and efficacy of the extended-cycle regimen, and product sample kits that contained extensive information for patients. Detailing efforts were complemented by a coordinated and extensive professional advertising campaign focused on the advantages of "just four" menstrual periods per year.

During the second half of fiscal 2004, we initiated our direct-to-consumer (DTC) advertising campaign, first in leading general interest publications, and then with television advertising. As a result of these efforts, we achieved more than 170,000 prescriptions and generated sales of $25 million in the first seven months after launch, and we ended the fiscal year with total prescription rates equivalent to $50 million in annualized sales.





Generic Product Activities

Investment in research and development for new generic products resulted in the filing of 12 generic product applications, the approval – including tentative approvals related to patent challenges – of 15 products, and the launch of nine new products including six additional generic oral contraceptives. Despite increased generic competition in this category, which we anticipated, we are committed to further expanding our presence in this $2.9 billion market and further extending our leadership position.

Six new generic oral contraceptives, launched during the year, expanded our category leadership.

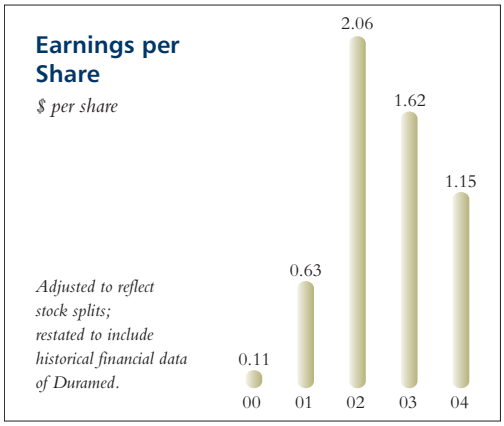
Another key launch during the year was our mirtazapine product, the generic version of Organon, Inc.'s Remeron Soltabs® which is indicated for the treatment of depression. The mirtazapine approval demonstrated our ability to develop barrier-to-entry products that utilize an orally-disintegrating technology and represented the first generic oral disintegrating tablet to be launched.

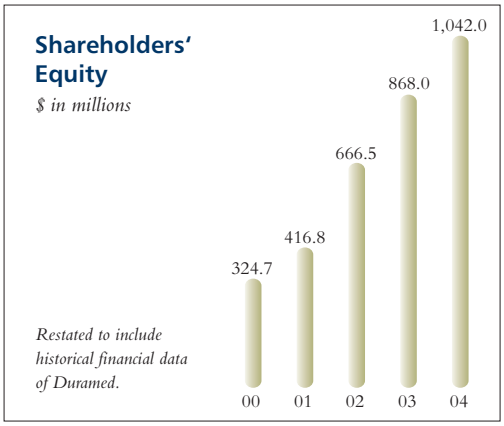
We received tentative approvals for five products. These include generic versions of Cephalon's Provigil® Tablets for narcolepsy; and Ortho-McNeil's Topamax® Tablets and Topamax® Sprinkle Capsules used to treat seizures.

Other Proprietary Development Activities

In addition to launching SEASONALE, our proprietary products team added a new, lower dosage strength to our Cenestin® (synthetic conjugated estrogens, A) product family. Our business development team completed the acquisition of Women's Capital Corporation and the Plan B® emergency contraceptive; forged an agreement that provided us with the U.S. and Canadian rights to Galen Holdings PLC's Loestrin® and Loestrin® Fe oral contraceptive franchise; and concluded the acquisition of the assets of Endeavor Pharmaceuticals, Inc., including its Enjuvia™ (synthetic conjugated estrogens, B) products.

We ended fiscal 2004 with three proprietary product applications pending at the FDA and six proprietary products in clinical development, three of which are in Phase III studies.





Generic Biologics – Creating a New Revolution

We are actively pursuing initiatives to open an exciting new frontier for future growth: generic biopharmaceuticals. Unfortunately, a clearly defined regulatory pathway for the approval of generic versions of biopharmaceuticals does not exist today. Barr and the generic pharmaceutical industry are working with Congress and FDA to define an abbreviated approval pathway that will ultimately result in the more timely and cost-effective approval of generic biopharmaceuticals. We are confident that we have the scientific, regulatory and manufacturing expertise to bring safe and effective generic biopharmaceutical products to market.

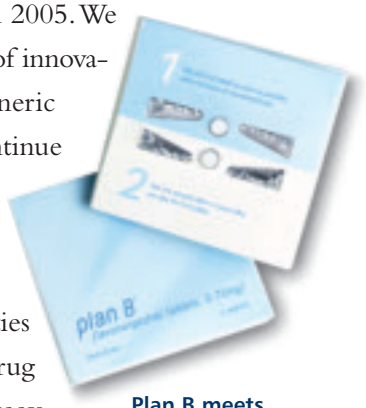
Objectives for Fiscal 2005

To ensure continued growth, we are focused on several key objectives for fiscal 2005. We must meet our proprietary development deadlines to ensure an ongoing flow of innovative proprietary products. We must continue to identify, develop and introduce generic pharmaceuticals that capitalize on our unique skills and expertise. We must continue to work to remove regulatory obstacles to participation in the $34 billion generic biopharmaceuticals arena. We must also continue to invest in the human resources that will bring additional skills and energy to our Company.

We remain committed to seeking those business development opportunities that expand our product lines, enhance our technological skills, provide new drug delivery capabilities, and support our emerging generic biopharmaceutical strategy.

We continue to focus on those strategies that we believe will deliver long-term growth, profitability and value for our shareholders, and will not be deterred from continuing our investment in these strategies by short-term distractions such as market and quarter-over-quarter earnings fluctuations.

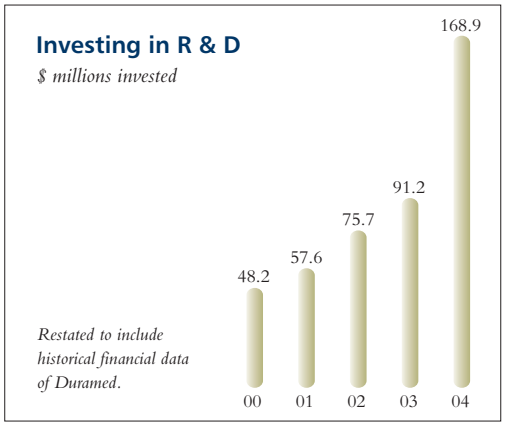
Thank you for your continued support and confidence in our ability to maximize the opportunities that result from our commitment to the business strategies that have created sustained growth for Barr.



Plan B meets an important medical need for emergency contraception.

Sincerely,

Bruce L. Downey
Chairman and Chief
Executive Officer



"Expertise in product identification, formulation, quality, manufacturing and distribution is the engine driving growth for our generic and proprietary activities."

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

Highlights

Our generic operations continued to add new products to the generic product portfolio during fiscal 2004; set the stage for additional product launches with Abbreviated New Drug

Application (ANDA) filings with FDA; and aggressively began the development of products based on new technology platforms that will extend beyond our historic strength in tablet and capsule products. Simultaneously, the generic operations provided the development, manufacturing, quality, and distribution expertise to support our expanding presence in proprietary products, including the successful launch of our SEASONALE extended-cycle oral contraceptive product.

Today, our team has more than 1,400 employees dedicated to developing, manufacturing and distributing pharmaceuticals that meet the highest standards in the industry.

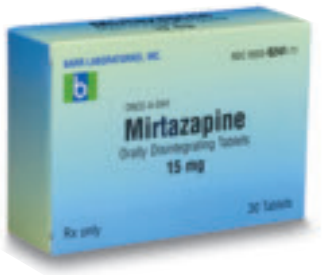
Investing in Our Infrastructure

Over the past four fiscal years, a significant capital investment in manufacturing capabilities has enabled us to nearly double our capsule and tablet production. Our manufacturing, packaging and national distribution center in Forest, Virginia, produced more than two

We have significant expertise and capabilities in manufacturing pharmaceuticals that require special handling. These skills form an important foundation upon which we have built a franchise of unique generic pharmaceuticals.

billion doses of product during the fiscal year. At our next largest manufacturing facility, a 290,000 square-foot complex in Cincinnati, Ohio, we completed a $45 million, multi-year capital expansion program. Total company-wide capital investment in fiscal 2004 totaled $46.9 million.

In addition to bricks and mortar, we initiated a multi-year, multi-million dollar investment in information technology. Our new information management system will increase our ability to manage an increasingly diverse product line, more efficiently manage logistics, and provide the foundation for enhanced integration following mergers and acquisitions. We also believe it will help us create the foundation for managing global operations, as we seek to expand into product marketing in other world markets. The project is expected to be completed within the next two fiscal years.



Our mirtazapine utilizes orally-disintegrating tablet technology, a new delivery system for our products.

Our emphasis on female healthcare includes an oral contraceptive portfolio of 19 generic products. We achieved the leadership position in the United States during fiscal 2004, and continue to pursue additional products in this category.

Part of our generic strategy includes targeting branded pharmaceuticals that have patents that we believe are invalid, unenforceable or not infringed by our generic products. As of the end of fiscal 2004, we had a number of patent challenges in various stages of litigation. These included challenges for Allegra® antihistamine products; Niaspan® cardiovascular products; Evista®, for the treatment and prevention of osteoporosis; DDAVP® for diabetes; Adderall® XR for the treatment of attention deficit and hyperactivity disorder; Provigil® for the treatment of narcolepsy; Prefest® hormone therapy; and Ortho Tri-Cyclen® Lo oral contraceptive. As of June 2004, these products had combined annual sales of more than $4.2 billion.

Expanding into New Dosage Forms

While we have traditionally focused on the development of capsule and tablet dosage form products with barriers-to-entry, during fiscal 2004 we took a number of steps to expand our generic strategy into new dosage forms based on new technology platforms.

We have built significant expertise in the area of orally-disintegrating tablets and liquid fill capsules. Our mirtazapine, the generic version of Remeron Soltabs®, an orally-disintegrating tablet indicated for the treatment of depression, was launched in December 2003. In the liquid fill dosage form arena, we currently market our Claravis™ isotretinoin product, the generic version of Roche Pharmaceutical's Accutane® acne treatment. We currently have several products in development that use both these new technologies.

Our barrier-to-entry generic strategy reached a new level during fiscal 2004, as we initiated research and development on new products that will utilize such delivery technologies as patches, creams and ointments, nasal sprays, and sterile ophthalmics. Our development portfolio in these areas totals more than a dozen products.

Our generic team remains focused on the development and marketing of unique generic products, expanding beyond our traditional strengths as a developer and manufacturer of tablet and capsule products into new technologies, and pursuing business development activities that will bring us new products, technologies and capabilities. We also remain committed to providing the support that will ensure continued growth of our pipeline of proprietary pharmaceuticals.

"We have proven that we have the scientific, regulatory, manufacturing, sales and marketing expertise to succeed in the proprietary pharmaceuticals business."

Carole Ben-Maimon, M.D., President and Chief Operating Officer, Duramed Research Inc.

Highlights

Proof of our success in proprietary drug development can be summed up in one word: SEASONALE. The approval and successful launch of this innovative extended-cycle oral contraceptive demonstrated

our commitment to provide American consumers with innovative proprietary drugs that build on our extensive expertise in formulation, development, manufacturing, marketing, sales and distribution.

Our proprietary product activities rely heavily on formulation, manufacturing and distribution expertise we have developed through generic product activities. This expertise is augmented by a depth of talent in our proprietary group which includes more than 80 professionals, many of whom have managed clinical development programs for industry-leading brand pharmaceutical companies prior to joining our team. This group is complemented by experienced regulatory affairs, biostatistics and biotechnology personnel.

At fiscal year-end, we marketed 10 proprietary products in addition to SEASONALE, including the Plan B emergency contraceptive, the Cenestin product for the treatment of vasomotor symptoms associated with menopause, the Aygestin® product for the treatment of amenorrhea and dysfunctional uterine bleeding, the ViaSpan® agent for organ transplant preservation, and the Trexall™ product for the treatment of rheumatoid arthritis.

Our proprietary development activities are currently focused on expanding our portfolio of female healthcare products including oral contraceptives and treatments for menopause, perimenopause and endometriosis. We are also developing products to treat female healthcare conditions using the transvaginal ring technology.

R & D Pipeline

Projected Approval	Proprietary Product
FY 2005	Vaginal Cream Enjuvia 0.3, 0.45, 0.9mg
FY 2006	DP-3 Oral Contraceptive SEASONALE Lo Oral Contraceptive
FY 2007	Proprietary Progestin Fertility Products (2) Endometriosis Product Labor/Delivery Product
FY 2008	Oxybutynin TVR CyPat TMG/EE Oral Contraceptive Fibroids Product
FY 2009	Endometriosis Product

Expanding Proprietary Oral Contraceptive Franchise

The successful launch of SEASONALE, while a highlight of the year, represented only one facet of our activities in proprietary oral contraceptive development. We have a strong portfolio of traditional regimen and extended-cycle oral contraceptives currently under development, and are complementing our internal development activities through select product acquisitions.

During fiscal 2004, we acquired Women's Capital Corporation and its FDA-approved Plan B emergency contraceptive. We continue to market Plan B as a prescription-only product, while working with FDA to remove the prescription-only barrier, thus affording more timely access to this important therapy.

Further expanding our proprietary oral contraceptive line, we acquired the U.S. and Canadian rights to Galen's Loestrin® and the Loestrin Fe® oral contraceptives.

In addition to product acquisitions, we expanded internal development activities. As part of the commitment to build a portfolio of extended-cycle oral contraceptives, work progressed on our SEASONALE Lo oral contraceptive, a lower dosage form of SEASONALE that is in Phase IIIB clinical trials with a supplemental NDA (sNDA) submission targeted for the second half of fiscal 2005. We also expect to file a New Drug Application (NDA) in the first half of fiscal 2005 for DP-3, a 91-day extended-cycle oral contraceptive regimen that includes seven days of unopposed estrogen. Clinical trials to support the filing of a NDA for DP-3 were completed during the fiscal year. We are also developing a 28-day

Our SEASONALE extended-cycle oral contraceptive, launched in November 2003, represents an exciting new choice in oral contraception for consumers and healthcare providers. With SEASONALE, the way American women will think about oral contraception has changed forever, as they now have a birth control option that reduces the number of periods to only four times a year.

dosage oral contraceptive regimen product using trimegesterone and ethinyl estradiol (TMG/EE) as well as proprietary contraceptive products using patch delivery technology.

Expanding Offerings in Hormone Therapy

Although the Women's Health Initiative findings, released in 2002, caused physicians to modify prescribing patterns, more than 25 million prescriptions are written annually for hormone therapy. As a result, we remain committed to growing our line of estrogen hormone therapies.

During fiscal 2004, we expanded our Cenestin product family with the addition of the 0.45mg strength. Cenestin is now available in five dosage strengths, which allows physicians the flexibility to prescribe the lowest appropriate dose for the shortest treatment period. At year-end, we filed a NDA for a vaginal cream for the treatment of vaginal atrophy associated with menopause.

We acquired the assets of Endeavor Pharmaceuticals, Inc. including Endeavor's Enjuvia (synthetic conjugated estrogens, B) product during the year. Enjuvia has the nine major components of Wyeth's Premarin® conjugated estrogens product, as well as Delta 8,9, dehydroestrone, an estrogenic compound found only in Premarin. In May 2004, our NDA for Enjuvia 0.625mg and 1.25mg tablets was approved by FDA. We continue to work with FDA to secure approval of the 0.3mg and 0.45mg dosage strengths and we are also completing the product line by developing a 0.9mg strength.

We currently market the Aygestin product, which we acquired from Wyeth, for the treatment of amenorrhea and dysfunctional uterine bleeding. We also have in development Aygestin for acute non-emergent dysfunctional uterine bleeding.

In addition, we are actively developing products in other female healthcare categories, including endometriosis, labor and delivery, fertility, fibroids, and diseases associated

We invested at record levels, more than $167 million, in fiscal 2004 to develop new generic products in tablet and capsule form, expand into new dosage forms, and further develop and acquire a pipeline of distinctive proprietary products to ensure ongoing new product introductions.

with menstrual disorders. Our patented vaginal ring technology (VRT) drug delivery system is being utilized in some of these development activities.

Urology

In March 2004, Barr acquired the rights from Schering AG for an oxybutynin urinary incontinence product under development that utilizes our vaginal ring technology. The vaginal ring offers the potential to deliver higher doses of oxybutynin to the bladder neck with much lower systemic exposure. This product is in Phase IIB development.

We are also conducting the clinical trials for our CyPat™ product intended to reduce hot flashes in men who are surgically or chemically castrated due to prostate cancer therapy.

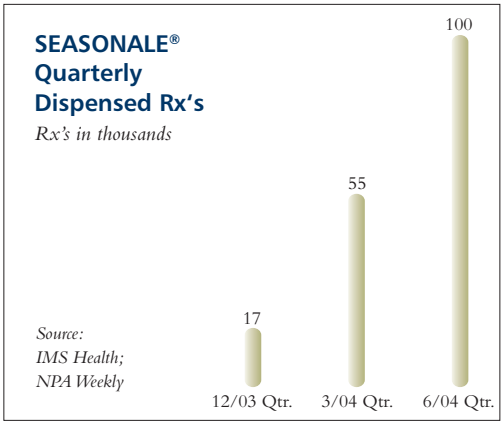
Vaccines

Our adenovirus vaccine project continues to progress. The Investigational New Drug (IND) application for the adenovirus vaccine was filed in June 2004 and clinical trials are anticipated during the first half of fiscal 2005. The vaccine, which is being developed under contract with the Department of Defense, is intended to prevent a highly contagious upper respiratory infection in military recruits, which can disrupt training cycles, and in some cases is fatal. In addition to meeting the needs of the U.S. Armed Services, we have rights to develop the vaccine for other populations, such as immunosuppressed patients, and for foreign markets.

Poised for Growth

We are poised to provide a steady stream of proprietary products through the next five years, and we continue to expand our portfolio of products in female healthcare, while taking the steps necessary to expand into additional therapeutic categories.

We continually evaluate business development initiatives that will further expand our product portfolio or take us into new therapeutic categories. Initiatives in this area include the identification and strategic acquisition of new products, technology platforms and drug delivery systems, and other opportunities to grow our presence in proprietary products.




barr

Financial Review

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

Executive Overview

We are a specialty pharmaceutical company that develops, markets and sells both generic and proprietary (or branded) pharmaceutical products. Over the past few years, we have continued to build a deep, diverse and profitable generic product portfolio while strategically diversifying our operations by developing and acquiring several proprietary products. While sales of generic products still account for a great majority of our overall revenues, sales of our proprietary products have grown from $62 million in fiscal 2002 to $146 million in fiscal 2004.

Generic Products

For many years, we have successfully utilized a strategy of developing the generic versions of branded products that possess some combination of unique factors that we believe have the effect of limiting competition for generics. Such factors include difficult formulation, complex and costly manufacturing requirements or limited raw material availability. By targeting products with some combination of the unique factors set forth above, we believe that our generic products will, in general, be less affected by the intense and rapid pricing pressure often associated with more commodity-type generic products. As a result of this focused strategy, we have been able to successfully identify, develop and market generic products that generally have few competitors or that are able to enjoy longer periods of limited competition and thus generate profit margins higher than those often associated with commodity-type generic products. The development and launch of our generic oral contraceptive products is an example of our generic development strategy.

Challenging the patents covering certain brand products is another facet of our generic product activities. For many products, the patent provides the unique factor that we seek to identify in our product selection process. We try to be the first company to initiate a patent challenge because, in certain cases, we are able to obtain 180 days of exclusivity for selling the generic version of the product. For example, this occurred with fluoxetine, our generic version of Eli Lilly's Prozac®. If we do receive exclusivity for a product, we typically experience significant revenues and profitability associated with that product for the six-month exclusivity period, but at the end of that period experience significant decreases in our revenues and market share associated with the product as other generic competitors enter the market. This happened with our fluoxetine product after expiration of our generic exclusivity period. Our record of successfully resolving patent challenges has contributed to our growth, but has created periods of revenue and earnings volatility and will likely do so in the future. Despite the volatility, challenging patents continues to be an important component of our generic product strategy.

Macroeconomic factors favoring generic products have also helped to grow sales. The aging population, rising health care costs and the vigilance of health care providers, insurance companies and others to lower such costs have helped drive an increase in the substitution of lower-cost generic products for higher-cost brand products. As evidence of this, the percentage of overall prescriptions filled with generic products grew from 43% in 2000 to 47% by 2003, and is predicted to continue to rise in the future.

Proprietary Products

To help diversify our long-term opportunities, we initiated a program more than five years ago to develop and market proprietary pharmaceutical products. We formalized this program in 2001 by establishing Duramed Research and today have over 80 professionals dedicated to the development of a wide range of proprietary products focused primarily on women's healthcare products.

Our growth in proprietary product sales has been accomplished through product acquisitions and through the November 2003 launch of our first internally-developed proprietary product, SEASONALE®, a novel extended-cycle oral contraceptive.

Our proprietary products are promoted directly to physicians by our 250 person sales force and are sold under the Duramed label.

Competition

As with any successful business, the greatest challenge we face is continuing to stay ahead of the competition, both for generic and proprietary products. Our successful generic product strategy has attracted new competitors seeking to launch competing generic products. For example, we know that other generic pharmaceutical companies have recently started developing and marketing competing generic oral contraceptives in order to capture some of our market share.

Also, as a challenge to the value of our patent challenge strategy, brand pharmaceutical companies have begun to partner with certain generic drug companies to license a so-called "authorized generic" to the generic drug company. The use of authorized generics by certain brand and generic companies undermines the value of the 180-day exclusivity period enjoyed

by the first company to file an Abbreviated New Drug Application ("ANDA") containing a Paragraph IV certification by providing another generic drug company with the ability to have the product on the market at the same time.

Finally, as our proprietary pharmaceutical products grow, we anticipate that competing generic pharmaceutical companies will challenge the patents protecting our branded products. For example, our SEASONALE extended-cycle oral contraceptive product was recently targeted for a patent challenge by one of our principal competitors.

To address these and other challenges, we continue to (1) invest aggressively in research and development, (2) develop and launch new generic and proprietary products and (3) maintain an active acquisition and licensing effort to complement our internal development activities.

Comparison of the fiscal years ended June 30, 2004 and June 30, 2003

The following table sets forth revenue data for the fiscal years ended June 30, 2004 and 2003:

	2004	2003	Change $	Change %
Generic products:				
Distributed alternative brands:[3]				
Ciprofloxacin	$ 385.3	$111.4	$ 273.9	246%
Tamoxifen[1]	–	112.5	(112.5)	(100)%
Oral contraceptives	403.9	274.4	129.5	47%
Other generic[2]	361.4	338.9	22.5	7%
Total generic products	1,150.6	837.2	313.4	37%
Proprietary products	146.1	57.7	88.4	153%
Total product sales	1,296.7	894.9	401.8	45%
Development and other revenue	12.4	8.0	4.4	55%
Total revenues	$1,309.1	$902.9	$ 406.2	45%

[1] Reflects sales of Tamoxifen product acquired from innovator.

[2] Includes sales of Tamoxifen product manufactured by Barr.

[3] Distributed alternative brands are distributed by us under terms of agreements entered into as part of patent challenge settlements. Therefore, for reporting purposes, they are classified under Generic products.

Revenues — Product Sales

Product sales for the year ended June 30, 2004 increased as compared to the prior year primarily due to the sales of our distributed version of Ciprofloxacin and to increased sales of our generic and proprietary products, which more than offset the large decline in sales of our distributed version of Tamoxifen.

Generic Products

Ciprofloxacin

On June 9, 2003, we began distributing Ciprofloxacin hydrochloride tablets and oral suspension pursuant to a license from Bayer obtained under a 1997 settlement of a patent challenge we initiated against Bayer's Cipro® antibiotic. In September 2003, we signed an Amended Supply Agreement with Bayer that enabled us to distribute Ciprofloxacin during and after Bayer's period of pediatric exclusivity, which ended on June 9, 2004. As a result, Ciprofloxacin was our largest selling product in fiscal 2004. We have shared one-half of our profits, as defined, from the sale of Ciprofloxacin with Aventis, the contractual successor to our partner in the Cipro patent challenge case. Bayer's period of pediatric exclusivity expired on June 9, 2004 and, as we expected, several other competing Ciprofloxacin products were launched. As a result of these additional competitors, our market share and product pricing declined dramatically thereby lowering our sales of Ciprofloxacin in the quarter ended June 30, 2004 compared to earlier quarters in the fiscal year. Our sales of Ciprofloxacin are expected to be less than $2 million in fiscal 2005.

Tamoxifen

For most of the first six months of fiscal 2003 we sold a distributed version of Tamoxifen that we purchased from AstraZeneca under the terms of a 1993 Supply and Distribution Agreement entered into as part of a patent challenge settlement. This Agreement ended in December 2002. We began selling our manufactured Tamoxifen product when AstraZeneca's pediatric exclusivity for Nolvadex® ended on February 20, 2003. Therefore, we recorded no sales from a distributed version of Tamoxifen in fiscal 2004.

Oral Contraceptives

The following table sets forth oral contraceptive data for the fiscal years ended June 30, 2004 and 2003:

	2004	2003	Change $	Change %
Oral contraceptive sales	$403.9	$274.4	$129.5	47%
Number of marketed products at end of period	19	13		

Sales of our generic oral contraceptive products increased throughout fiscal 2004 and by June 2004, we became the largest supplier of oral contraceptives in the U.S. as determined by prescription market share data provided by IMS America.

The revenue growth in fiscal 2004 was fueled by (1) increasing volumes resulting from growth in market share by products launched in prior periods and (2) first year sales of new generic oral contraceptives launched during fiscal 2004. The largest new product addition was Tri-Sprintec®, our generic equivalent to Ortho's Tri-Cyclen oral contraceptive. We launched Tri-Sprintec in December 2003 in accordance with the terms of a patent challenge settlement we entered into with Ortho.

Since the beginning of fiscal 2002, sales of our generic oral contraceptive products have more than quadrupled. This growth has been fueled by new product launches, the addition of new customers and by increasing rates of generic substitution. At the end of fiscal 2004, our generic oral contraceptive portfolio totaled 19 products representing a generic version of nearly all oral contraceptive products on the market. In addition, the percentage of prescriptions filled with a generic version, the generic substitution rate, for many of our oral contraceptives reached 60-70% by the end of the year. As a result, while we believe the substitution rates for many of these products will eventually reach 80% or more over the next 12 months, we will not be able to gain market share as rapidly as we have over the past few years.

We have also recently noted a decline in the total number of prescriptions being written for the branded versions of many of our generic oral contraceptives. This decline is common for products that have generic equivalents available to consumers because demand for pharmaceutical products and the resulting prescriptions are significantly influenced by brand companies use of promotional activities, including the use of sales representatives to market products directly to physicians. When a generic version of a product is launched, brand companies substantially reduce or eliminate sales and promotion programs and refocus those efforts on other products that are not subject to generic competition. In the contraceptive market, the brand companies impacted by the launch of our generics have either stopped sales and promotional activities or have shifted their efforts to other contraceptive products which still enjoy patent protection, including low dose oral contraceptives and patch products. In fiscal 2004, we were able to offset the impact of these declining prescriptions with growth in our market share, but as we previously discussed, our rate of growth in the future will slow.

Finally, over the past three years, the generic oral contraceptive market has included us and only one other generic competitor. However, two additional competitors have entered during the second half of fiscal 2004. As a result, we anticipate some loss of market share and lower pricing on certain oral contraceptive products during fiscal 2005.

Despite these challenges, we believe our generic oral contraceptive sales will increase in fiscal 2005 compared to 2004 though at a much lower growth rate than we experienced during the past year. Our forecast for fiscal 2005 primarily reflects our expectations that: (1) sales of Tri-Sprintec will increase year-over-year due to a full year contribution in fiscal 2005; (2) most of our products will continue to gain additional market share through increased generic substitution which will offset the negative effects of additional market competitors and declining prescriptions for some of these products; (3) in fiscal 2005, we will receive approval for and launch two new oral contraceptive products; and (4) we will add new customers during the year.

Generic Products – Other

Sales of other generic products increased approximately 7% in fiscal 2004 as compared to the prior year period, primarily due to sales of our Mirtazapine Orally Disintegrating Tablet (the generic equivalent of Akzo Nobel and Organon, Inc.'s Remeron® Soltab™), which we launched in December 2003, and sales of Claravis® (a generic equivalent of Roche Pharmaceutical's Accutane®), which we launched in May 2003. These increases were partially offset by a significant decline in sales of our Dextro salt combo product (a generic equivalent of Shire Richwood, Inc.'s Adderall®) due to lower pricing and lower volumes resulting from the entry of two additional generic competitors.

Proprietary Products

Sales of our proprietary products more than doubled in fiscal 2004 as compared to the prior year. This increase relates primarily to: (1) sales from the four products we purchased from Wyeth in June 2003; (2) the launch of SEASONALE, our extended-cycle oral contraceptive; (3) increased sales of Cenestin; and (4) sales of Loestrin and Loestrin Fe, which we purchased from Galen (Chemicals) Limited ("Galen") in March 2004.

In September 2003 we received approval for our SEASONALE extended-cycle oral contraceptive. We began promoting SEASONALE directly to physicians in November 2003 and initiated our direct-to-consumer television and print advertising program during our fourth quarter. Since we launched SEASONALE, demand for the product as measured

by prescription data obtained from IMS America has risen from 1,736 per week for the week ended December 26, 2003 to 12,731 for the week ended July 30, 2004. The consistent increases in number of prescriptions drives our expectation that sales of SEASONALE will be significantly higher in fiscal 2005 than they were in fiscal 2004.

Sales of Cenestin increased at a higher than expected rate of 36% in fiscal 2004 compared to fiscal 2003 primarily due to year-over-year price increases of approximately 24%, the launch of one additional strength and customer buying patterns, which more than offset a 9% decline in Cenestin prescriptions. Prescription declines began after the results of the Women's Health Initiative ("WHI") study was published in July 2002 and continued through fiscal 2004. However, recent prescription data suggests this decline may be slowing or stopping. Since July 2002, Cenestin prescriptions have declined at a slower rate than those written for competing conjugated estrogen products, thus allowing us to increase our market share to 6.8% as of June 30, 2004 compared to 5.6% as of June 30, 2003.

Price increases are expected to continue in fiscal 2005, though they are not expected to be as significant as they were in fiscal 2004. Therefore, while we expect fiscal 2005 Cenestin sales to be relatively consistent with fiscal 2004 levels, the change in Cenestin sales in fiscal 2005 will depend on several factors including prescription trends, customer inventory levels and buying patterns and the extent of additional price increases.

Cost of Sales

Our cost of sales includes our acquisition cost for the distributed versions of products we purchase from third parties, our manufacturing and packaging costs for products we manufacture, profit sharing payments made to raw material suppliers and any changes to our inventory reserve. Product mix plays a significant role in our quarterly and annual overall gross margin percentage. Though this is true for many companies, our overall margins have been substantially impacted by the contribution from sales of our distributed versions of products such as Tamoxifen and Ciprofloxacin, which were manufactured for us by the innovator and distributed by us under the terms of patent challenge settlement agreements.

The following table sets forth cost of sales data in dollars as well as the resulting gross margins, for the two years ended June 30, 2004 and 2003:

			Change	
	2004	**2003**	$	%
Cost of sales:				
Generic products[1]	$604.6	$415.0	$189.6	46%
Gross margin	47%	50%		
Proprietary products	$ 28.1	$ 9.1	$ 19.0	209%
Gross margin	81%	84%		
Total cost of sales	$632.7	$424.1	$208.6	49%
Gross margin	51%	53%		

[1] Includes cost of sales of distributed alternative brand products.

The increase in total cost of sales, on a dollar basis, for year ended June 30, 2004, as compared to the prior year was primarily due to increased product sales, principally relating to Ciprofloxacin.

Margins on our generic products declined slightly in fiscal 2004 due mainly to the higher percentage of Ciprofloxacin sales in fiscal 2004 compared to fiscal 2003. As a distributed product that has a profit split paid to our partner, Ciprofloxacin has a higher cost of sales and a lower margin than our other products.

Margins on our proprietary products declined in fiscal 2004 compared to fiscal 2003 as increased sales of somewhat lower margin products, including the products acquired from Wyeth in late fiscal 2003, more than offset higher sales of Cenestin and SEASONALE.

Selling, General and Administrative Expense

The following table sets forth selling, general and administrative expense data for the two years ended June 30, 2004 and 2003:

			Change	
	2004	**2003**	$	%
Selling, general and administrative	$314.5	$161.0	$153.5	95%
Charges included in selling, general and administrative	$ 96.6	$ 20.0	$ 76.6	383%

Selling, general and administrative expenses for the year ended June 30, 2004 included charges related to strategic acquisitions or other similar activities including: (1) a $16 million valuation allowance we established in September 2003 for our loans to Natural Biologics, LLC, the raw material supplier for our generic equine-based conjugated estrogens product, as the result of an unfavorable court decision rendered in September 2003; (2) the February 2004 write-off of $4.2 million associated with the acquisition of certain emergency contraception assets from Gynétics, Inc.; (3) an arbitration panel's decision in June 2004 to award Solvay Pharmaceuticals, Inc. $68 million in damages on a claim that we improperly terminated an agreement with Solvay; and (4) an $8.5 million charge in June 2004 related to costs associated with our settlement of the Estrostep and Femhrt patent challenge litigation against Galen. Included in the year ended June 30, 2003 is a $20 million contingent attorney fee paid in connection with a litigation settlement with Wyeth.

The remaining increase in selling, general and administrative expenses for the year ended June 30, 2004 as compared to the prior year period was primarily due to: (1) increased marketing costs for SEASONALE; (2) higher costs associated with the nearly doubling of our women's healthcare sales force ; (3) higher legal costs, primarily related to patent matters, the Solvay arbitration and product liability matters; and (4) increased information technology costs, including consulting costs related to the initial phases of designing and implementing our new enterprise resource planning system.

Research and Development

The following table sets forth research and development expenses for the two years ended June 30, 2004 and 2003:

	2004	2003	Change $	Change %
Research and development	$169.0	$91.2	$77.8	85%
Charges included in research and development	$ 68.2	$ 3.9	$64.3	1649%

For the year ended June 30, 2004 our total research and development costs reflected charges relating to strategic acquisitions or similar activities including: (1) a write-off of $22 million in March 2004 resulting from our agreement to acquire Schering's rights and obligations under a Product Development and License Agreement that had been capitalized at the time of our acquisition of Enhance Pharmaceuticals, Inc. in June 2002; (2) a write-off of $10 million for in-process research and development acquired in connection with our acquisition of Women's Capital Corporation in February 2004; and (3) the write-off of $36 million of in-process research and development costs in connection with our purchase of substantially all of the assets of Endeavor Pharmaceuticals, Inc. in November 2003. Included in the year ended June 30, 2003 is a $3.9 million write-off of in-process research and development associated with our June 2003 purchase from Wyeth of four products and the product rights to an oral contraceptive in development.

The remaining increase in research and development for the year ended June 30, 2004 as compared to the prior year was primarily due to: (1) higher third party development costs; (2) higher headcount costs; and (3) higher raw material costs in support of internal development projects.

Income Taxes

The following table sets forth income tax expense and the resulting effective tax rate stated as a percentage of pre-tax income for the two years ended June 30, 2004 and 2003:

	2004	2003	Change $	Change %
Income tax expense	$71.3	$95.1	$(23.8)	(25)%
Effective tax rate	36.7%	36.2%		

The effective tax rate for fiscal 2004 was unfavorably impacted by the write-off of in-process research and development costs associated with our February 2004 acquisition of Women's Capital Corporation, which was not deductible for federal and state income tax purposes. Offsetting the unfavorable impact of the in-process research and development costs was a favorable impact of a tax benefit of $3.7 million related to the completion of several tax audits and the Internal Revenue Service's approval of a change in our method of computing certain tax credits.

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

The following table sets forth revenue data for the fiscal years ended June 30, 2003 and 2002:

	2003	2002	Change $	Change %
Generic products:				
Distributed alternative brands:[3]				
Ciprofloxacin	$111.4	$ –	$ 111.4	N/A
Tamoxifen[1]	112.5	366.3	(253.8)	(69)%
Oral contraceptives	274.4	92.8	181.6	196%
Other generic[2]	338.9	650.2	(311.3)	(48)%
Total generic products	837.2	1,109.3	(272.1)	(25)%
Proprietary products	57.7	62.1	(4.4)	(7)%
Total product sales	894.9	1,171.4	(276.5)	(24)%
Development and other revenue	8.0	17.6	(9.6)	(55)%
Total revenues	$902.9	$1,189.0	$(286.1)	(24)%

[1] Reflects sales of Tamoxifen product acquired from innovator.

[2] Includes sales of Tamoxifen product manufactured by Barr.

[3] Distributed alternative brands are distributed by us under terms of agreements entered into as part of patent challenge settlements. Therefore, for reporting purposes, they are classified under Generic products.

Revenues — Product Sales

Product sales for fiscal 2003 declined from the prior year primarily due to significant decreases in sales of Tamoxifen and Fluoxetine. Fluoxetine sales, which are included in the other generic line in the table above, accounted for $7.2 million of product sales in fiscal 2003, down from $367 million in fiscal 2002, while our distributed version of Tamoxifen accounted for $113 million of product sales in fiscal 2003, down from $366 million in fiscal 2002. Partially offsetting these declines were higher sales of our generic oral contraceptive products and sales from the June 2003 launch of our distributed version of Ciprofloxacin.

Generic Products

Ciprofloxacin

In June 2003 we began shipping Ciprofloxacin hydrochloride pursuant to a license from Bayer. Under a 1997 settlement of a patent challenge we initiated against Bayer's Cipro antibiotic, we purchased directly from Bayer Ciprofloxacin products that were manufactured under Bayer's New Drug Application for Cipro and marketed them under our label. We had the non-exclusive right to distribute the Ciprofloxacin products until Bayer's patent protecting Cipro expired in December 2003. On June 9, 2003, we began distributing Ciprofloxacin pursuant to the terms of the settlement and recorded sales of $111 million 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.

Tamoxifen

Sales of our distributed version of Tamoxifen decreased substantially in 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® 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 totaled less than $10 million during fiscal 2003.

Oral Contraceptives

The following table sets forth oral contraceptive data for the fiscal years ended June 30, 2003 and 2002:

	2003	2002	Change $	Change %
Oral contraceptive sales	$274.4	$92.8	$181.6	196%
Number of marketed products at end of period	13	6		

The increase in sales of oral contraceptives reflected 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.

Generic Products - Other

In August 2001, we launched our Fluoxetine 20 mg capsule with 180 days of exclusivity as the only generic manufacturer. Sales of Fluoxetine were $368 million 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. Somewhat offsetting the decline in Fluoxetine sales were higher sales of our Dextro salt combo product. 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 full year contribution were lower prices in fiscal 2003 due to the entry of competitors into the market.

Proprietary Products

Lower proprietary product sales in fiscal 2003 compared to fiscal 2002 were primarily the result of lower sales of Cenestin. Sales of Cenestin declined approximately 17% from $42 million in fiscal 2002 to $35 million in fiscal 2003. The decline in Cenestin sales was due to declining Cenestin prescriptions, which more than offset higher prices for the product and was consistent with reduced sales of several prominent hormone therapy products due to the July 9, 2002 release of the findings of the 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 sponsor felt outweighed the specified long-term benefits. 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 increased.

Cost of Sales

The following table sets forth cost of sales data in dollars as well as the resulting gross margins for the two years ended June 30, 2003 and 2002:

	2003	2002	Change $	Change %
Cost of sales:				
Generic products[1]	$415.0	$663.6	$(248.6)	(37)%
Gross margin	50%	40%		
Proprietary products	$ 9.1	$ 12.7	$ (3.6)	(28)%
Gross margin	84%	80%		
Total cost of sales	$424.1	$676.3	$(252.2)	(37)%
Gross margin	53%	42%		

[1]Includes cost of sales of distributed alternative brand products.

The decrease in cost of sales, on a dollar basis, was 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.

Margins on our generic products increased in fiscal 2003 due mainly to 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.

Margins on our proprietary products increased in fiscal 2003 compared to fiscal 2002 due mainly to the reduction in profit splits paid on our Viaspan organ preservation agent.

Selling, General and Administrative Expense

The following table sets forth selling, general and administrative expense data for the two years ended June 30, 2003 and 2002:

	2003	2002	Change $	Change %
Selling, general and administrative	$161.0	$111.9	$49.1	44%
Charges included in selling, general and administrative	$ 20.0	$ –	$20.0	N/A

The increase in selling, general and administrative expenses was primarily due to significant costs incurred for pre-launch activities related to SEASONALE, which we launched 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 charge of $20 million relating to a contingent attorney fee paid 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

The following table sets forth research and development expenses for the two years ended June 30, 2003 and 2002:

	2003	2002	Change $	Change %
Research and development	$91.2	$75.7	$15.5	20%

The increase in research and development expenses 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.

Proceeds from Patent Challenge Settlement

Under the terms of the contingent supply agreement we entered into with Bayer to settle our Cipro patent challenge litigation, 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 recognized proceeds from patent challenge settlement of $31 million for fiscal 2003 and $32 million for fiscal 2002. Fiscal 2003 was the last year we recognized proceeds from the Cipro patent challenge.

Income Taxes

The following table sets forth income tax expense and the resulting effective tax rate stated as a percentage of pre-tax income for the two years ended June 30, 2003 and 2002:

	2003	2002	Change $	Change %
Income tax expense	$95.1	$125.3	$(30.2)	(24)%
Effective tax rate	36.2%	37.1%		

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.

Liquidity and Capital Resources

Overview

The following table highlights selected balance sheet and cash flow components as of June 30, 2004 and 2003:

	2004	2003	Change $	Change %
Cash & cash equivalents	$419.9	$367.1	$52.8	14%
Marketable securities:				
Short-term	32.4	31.7	0.7	2%
Long-term	89.1	15.1	74.0	490%
Debt/Capital lease obligations:				
Short-term	8.4	8.5	(0.1)	(1)%
Long-term	32.4	34.0	(1.6)	(5)%
Cash flow from operations	258.1	160.3	97.8	61%
Working capital	670.6	582.2	88.4	15%

Our primary source of cash from operations is the collection of accounts receivable related to product sales and our primary uses of cash include funding our research and development programs, marketing and selling our proprietary and generic products, financing the production of inventories, funding capital projects and investing in business development activities.

Our cash flows from operations have been more than sufficient to fund our operations, capital expenditures and business development activities. As a result, our cash and cash equivalents balances have increased.

Investment in Marketable Securities

During fiscal 2004, we increased our investments in short and long-term marketable securities to provide a greater return on our cash balances. Our investments in marketable securities are governed by our investment policy which seeks to optimize our returns while preserving our capital, maintaining adequate liquidity and investing in tax advantaged securities, as appropriate. Our short-term portfolio includes $29 million in market auction debt securities that are readily convertible into cash at par value with maturity dates ranging from July 2004 to February 2005 while our long-term portfolio includes $89 million of municipal and corporate debt securities with maturity dates ranging from July 2005 to June 2007.

Operating Activities

Our operating cash flows have increased from $160 million in fiscal 2003 to $258 million in fiscal 2004, though over the past couple of years, our operating cash flow levels have fluctuated and are subject to many of the same risks and uncertainties that impact our earnings. Our operating cash in fiscal 2004 was generated principally by our net earnings, adjusted for in-process research and development charges totaling $46 million and non-cash charges including depreciation and amortization which more than offset increases in certain of our working capital components.

Working Capital

Working capital as of June 30, 2004 and 2003 consisted of the following:

	2004	2003	Change $	Change %
Cash & cash equivalents	$419.9	$367.1	$52.8	14%
Accounts receivable	153.9	221.7	(67.8)	(31)%
Inventories	150.3	163.9	(13.6)	(8)%
Prepaid & other current assets	154.1	97.1	57.0	59%
Subtotal	878.2	849.8	28.4	3%
Accounts payable & accrued liabilities	179.1	247.8	(68.7)	(28)%
Income taxes payable	20.1	11.3	8.8	78%
Current portion of long-term debt & capital leases	8.4	8.5	(0.1)	(1)%
Subtotal	207.6	267.6	(60.0)	(22)%
Working capital	$670.6	$582.2	$88.4	15%

Working capital increased from June 30, 2003 to June 30, 2004. Accounts receivable were lower at June 30, 2004 primarily due to the balance at June 30, 2003 being unusually high because we launched Ciprofloxacin in mid-June 2003. By June 30, 2003, we had not collected any of the receivables associated with the sales from our Ciprofloxacin launch. In contrast, additional competitors entered the generic Ciprofloxacin market in early June 2004, causing our sales of Ciprofloxacin in the month of June and for the quarter ended June to decline significantly compared to last year's fourth quarter. The decline in our accounts payable and accrued liabilities was mainly due to a reduction in accounts payable owed to Bayer for Ciprofloxacin purchases, partially offset by higher accrued liabilities resulting from current amounts due Solvay under the arbitration award and current amounts of revenue deferred from a product licensing agreement we entered into in April 2004, which we will recognize over a five year period. Prepaid and other current assets increased from June 30, 2003 to June 30, 2004, primarily reflecting a receivable of approximately $48 million due from Bayer as a price adjustment to reduce the cost of our June 2004 inventory of Ciprofloxacin purchased from Bayer during the second half of our fiscal year.

Cash flows in fiscal 2004 were favorably impacted by approximately $21 million in part due to a change in the method used to calculate the annual limitation under Section 382 of the Internal Revenue Code. As a result of this change, we have utilized all of the federal net operating losses incurred by Duramed Pharmaceuticals, Inc. prior to our merger with Duramed in October 2001.

In June 2004, an arbitration panel ruled against the Company in its arbitration with Solvay Pharmaceuticals and awarded Solvay $68 million in damages. This award is required to be paid out in six installments. The first payment of $18 million was made on July 23, 2004 and five additional quarterly payments of $10 million will be due over the five quarters ending October 15, 2005. We have filed a petition with the U.S. District Court in Cincinnati seeking to vacate the award.

SEASONALE Royalty

Our current royalty obligation to the SEASONALE patentholder is a perpetual royalty based on a percentage of net profits, as defined. However, our license agreement gives us the option, at any time prior to September 2004, to make a one-time payment of approximately $19 million to the patent holder in lieu of future royalty payments. We expect to exercise this option.

Investing Activities

Capital Expenditures

During the three fiscal years ended June 30, 2004, we have invested approximately $175 million in upgrades and expansions to our property, plant and equipment. This investment has significantly expanded our production, laboratory, warehouse and distribution capacity in our facilities and was designed to help ensure that we have the facilities necessary to manufacture, test, package and distribute our current and future products.

During the twelve months ended June 30, 2004, we invested $47 million in capital projects and expect that our capital investments will be between $60 million and $80 million over the next twelve months. Our estimate reflects lower spending on our facility expansion programs and higher investments in information technology projects including the purchase and implementation of a new enterprise resource planning system.

We believe we can continue funding our capital requirements using cash provided by operations. However, we may consider obtaining long-term debt to finance a portion of our projects. We believe we have the capital structure and cash flow to complete any such financing.

Strategic Transactions

Our investment in strategic product and company acquisitions was $91 million in fiscal 2004 and approximately $162 million for the three years ended June 30, 2004. In fiscal 2004, these transactions included the acquisition of Women's Capital Corporation, certain assets of Gynétics, Inc., substantially all the assets of Endeavor Pharmaceuticals, Inc. and certain product rights from Galen. We continuously evaluate strategic transactions to further improve our business and long-range prospects and expect to make additional investments over the next twelve months. We are unable to predict the timing of potential transactions, though the cash required to complete them could equal or exceed the average amounts invested over the past three years. These transactions typically range from product development and license agreements to asset or corporate acquisitions.

Loans to Natural Biologics

In fiscal 2002, we entered into a Loan and Security Agreement (the "Loan Agreement") with Natural Biologics, LLC ("Natural Biologics"), the raw material supplier for our generic equine-based conjugated estrogens product for which we filed an ANDA with the FDA in June 2003. In September 2003, as a result of an adverse legal decision in a lawsuit brought by Wyeth against Natural Biologics, we reserved $16 million for all loans made to Natural Biologics since the inception of our loan agreement. Natural Biologics is appealing the decision and, pending the outcome of the appeal, we agreed to provide Natural Biologics advances totaling $1.4 million over four quarters beginning in May 2004, to defray the costs of maintaining the existing conjugated estrogen raw material. We are fully reserving these advances. If Natural Biologics prevails on its appeal, we expect to resume making loans to Natural Biologics on the terms contained in our Loan Agreement.

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 million to Natural Biologics based on achieving certain legal and product approval milestones, including the approval of a generic product.

Investment in Venture Funds

During the second quarter of fiscal 2004, we made investments, as a limited partner, in two separate venture capital funds as part of our continuing efforts to identify new products, new technologies and new licensing opportunities. We have committed up to a total of $15 million for each of these funds over a five and 10-year period, as defined by each fund. As of August 15, 2004, we have contributed a total of $8 million to these funds.

Financing Activities

Debt Repayments and Credit Availability

Debt balances decreased by approximately $1.7 million from June 30, 2003 to June 30, 2004 reflecting principal repayments of $8.5 million, offset by our issuance of a $6.5 million note to finance a portion of our acquisition of Women's Capital Corporation. Scheduled principal repayments on existing debt will be $8.5 million during the next twelve months.

We have a $40 million revolving credit facility that expires on February 27, 2005. We currently have $33 million available under this facility due to the issuance of a $7.1 million letter of credit in support of our product liability self-insurance program. We expect to replace the existing revolving credit facility with a larger one before it expires in February 2005.

Proceeds from Equity Transactions

Over the three years ending June 30, 2004, we received proceeds of approximately $70 million from the exercise of employee stock options and share purchases under our employee stock purchase plan. The timing and sustainability of such proceeds are very difficult to predict because they are highly dependent upon our stock price, which can be volatile.

During March 2004, holders of warrants to purchase an aggregate of 3,375,000 shares of our common stock, consisting of 1,687,500 shares at $13.93 per share and 1,687,500 shares at $16.89 per share, exercised the warrants, in full, through a cashless exercise. As a result, we issued 2,340,610 shares of our common stock. We did not receive any proceeds from the issuance of the shares but we expect to realize a cash tax benefit of approximately $15 million from this transaction.

Share Repurchase Program

In August 2004, our Board of Directors authorized the repurchase of up to $300 million of the Company's common stock in open market or in privately negotiated transactions, pursuant to terms we deem appropriate and at such times as we designate through the end of December 2005. The Company will hold repurchased shares as treasury shares and may use them for general corporate purposes, including but not limited to acquisition related transactions and for issuance upon exercise of outstanding stock options.

Funding of Employee Savings Plan
On September 23, 2003, we committed to make a minimum aggregate contribution of $11 million to the Barr Pharmaceuticals, Inc. Savings and Retirement Plan ("401(k) Plan") for the fiscal year ending June 30, 2004. We fully funded the contribution commitment during the fiscal year. We expect to make a similar minimum contribution commitment in September 2004 for fiscal 2005.

Sufficiency of Cash Resources

We believe our current cash and investment balances, cash flows from operations and un-drawn amounts under our revolving credit facility are adequate to fund our operations and planned capital expenditures and to capitalize on strategic opportunities as they arise. We have and will continue to evaluate our capital structure as part of our goal to promote long-term shareholder value. To the extent that additional capital resources are required, we believe that such capital may be raised by additional bank borrowings or debt offerings or other means.

Contractual Obligations

Payments due by period for our contractual obligations at June 30, 2004 are as follows:

	Payments due by period				
	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	Thereafter
Long-term debt	$ 37.1	$ 7.0	$23.3	$ 6.8	$ -
Capital leases	4.3	1.8	2.5	–	–
Operating leases	36.4	3.7	10.7	3.2	18.8
Purchase obligations[1]	76.8	62.1	11.8	2.2	0.7
Venture Funds commitment	21.5	21.5	–	–	–
Annual interest on fixed rate debt	1.7	0.8	0.9	–	–
Other long-term liabilities	5.6	4.6	1.0	–	–
Total	$183.4	$101.5	$50.2	$12.2	$19.5

[1]Purchase obligations consist mainly of commitments for raw materials used in our manufacturing and research and development operations.

In addition to the above, we have committed to make potential future "milestone" payments to third parties as part of licensing and development programs. Payments under these agreements generally become due and payable only upon the achievement of certain developmental, regulatory and/or commercial milestones.

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 Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and results, and/or require us to make our most difficult and subjective judgments. Based on this definition, our most critical policies are the following: (1) revenue recognition and related provisions for estimated sales returns and allowances; (2) inventories and related inventory reserves; (3) deferred taxes; (4) contingencies; and (5) the assessment of recoverability of goodwill and other intangible assets. 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. We review the factors that influence our estimates and, if necessary, adjust them. Actual results may differ significantly from our estimates.

Revenue Recognition and Sales Reserves and Allowances

We recognize revenue from product sales when title and risk of loss have transferred to our customers and when collectibility is reasonably assured. We simultaneously record estimates for price adjustments (including shelf-stock adjustments), product returns, chargebacks, rebates, including Medicaid rebates, prompt payment discounts and other sales allowances. Accruals for these estimates reduce our reported product sales and accounts receivable and, in the case of Medicaid rebates, are recorded in our accrued liabilities. If we believe we have not met the requirements for recognizing revenue, we defer the recognition of product sales. In November 2003, we launched our extended-cycle oral contraceptive product, SEASONALE, but did not recognize the revenue immediately. We monitored SEASONALE's prescription data and other information during the months following our launch and recognized revenues once we concluded that the product had achieved market acceptance. All of the revenues associated with the initial launch were recognized by the end of the year.

Provisions for estimated discounts, rebates, promotional and other credits require a lower degree of subjectivity and are less complex in nature; yet combined, they represent a significant portion of the overall provisions. Other provisions, such as shelf stock adjustments, returns and chargebacks, require more subjective judgments. These provisions are discussed in further detail below.

Shelf-stock Adjustments
Shelf stock adjustments are credits issued to reflect decreases in the selling prices of our products and are intended to reduce a customer's inventory cost to better reflect current market prices. 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 determine 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 deciding whether to record a reserve 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 our customers at the time of the decrease in market price. As a result, a shelf-stock adjustment depends on a product's unique facts and circumstances.

Returns

Consistent with industry practice, we maintain a return policy that allows our customers to return product within a specified period prior to and subsequent to the expiration date. Our estimate of the provision for returns is based upon our historical experience with actual returns. Additionally, we consider factors including product dating and expiration period when we establish our provision for returns.

Chargebacks

The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. We market and sell products directly to wholesalers, distributors, warehousing pharmacy chains, mail order pharmacies and other direct purchasing groups. We also market products indirectly to independent pharmacies, non-warehousing chains, managed care organizations, and group purchasing organizations, collectively referred to as "indirect customers." We enter into agreements with some indirect customers to establish contract pricing for certain products. These indirect customers then independently select a wholesaler from which to purchase the products at these contracted prices. Alternatively, we may pre-authorize wholesalers to offer specified contract pricing to other indirect customers. Under either arrangement, we provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credit is called a chargeback. The provision for chargebacks is based on expected sell-through levels by our wholesaler customers to indirect customers, as well as estimated wholesaler inventory levels.

Accounts receivable are presented net of allowances related to the above provisions of $142 million at June 30, 2004 and $136 million at June 30, 2003. Accrued liabilities include $11 million and $9.5 million at June 30, 2004 and 2003, respectively, for estimated Medicaid rebates.

Inventory Reserves

Inventories are stated at the lower of cost, determined on a first-in, first-out basis or market and consist of finished goods purchased from third party manufacturers and held for distribution, as well as raw materials, work-in-process and finished goods manufactured by us. We also capitalize inventory costs associated with certain products prior to regulatory approval and/or resolution of patent infringement litigation, based on management's judgment of probable future commercial use and net realizable value. If final regulatory approval for such products is denied or delayed, or if patent litigation is not resolved in our favor, or if a patent litigation decision is delayed, we may be required to expense such previously capitalized costs.

We establish reserves for our inventory to reflect situations in which the cost of the inventory is not expected to be recovered. We 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 record provisions for inventory reserves as part of cost of sales.

Inventories are presented net of reserves of $24 million at June 30, 2004 and $13 million at June 30, 2003.

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 sales forecasts 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, we will record a valuation allowance. If that assessment changes, we would record a benefit on the consolidated statement of earnings.

Deferred income taxes are presented net of a valuation allowance of $4.7 million at June 30, 2004 and $6.1 million at June 30, 2003.

Contingencies

We are subject to litigation in the ordinary course of business, including patent, product liability and other litigation and contingencies. Legal fees and other costs related to such litigation and contingencies are expensed as incurred. Additionally, we assess, in consultation with counsel, the need to record a liability for litigation and contingencies. Reserves are recorded when we determine that a loss related to a matter is both probable and reasonably estimable.

We are primarily self-insured for potential product liability claims on products sold on or after September 30, 2002, and we maintain self-insured retentions and deductibles on policies covering periods prior to September 30, 2002. We maintain a self-insurance reserve, which provides an estimate of our potential product liability claims not covered by our insurance and an estimate of the future cost of incurred but not reported ("IBNR") claims. We develop these estimates in consultation with outside counsel, our insurance consultants and an independent actuary. The self-insurance reserve does not include estimated administrative or defense costs, which are expensed as incurred.

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 No. 142, "Goodwill and Other Intangible Assets," we review goodwill for impairment annually or more frequently if impairment indicators arise.

As a result of our acquisitions, we included goodwill of $18 million on our balance sheet as of June 30, 2004 and $14 million as of June 30, 2003.

As a result of our acquisition of product rights and related intangibles and certain product licenses, we have included $65 million and $46 million as other intangible assets, net of accumulated amortization, on our balance sheet as of June 30, 2004 and June 30, 2003, respectively.

Recent Accounting Pronouncements

Amendment of Statement 133 on Derivative Instruments and Hedging Activities

In April 2003, the Financial Accounting Standards Board ("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 the circumstances under which 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 an "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 involvement with derivative financial instruments, and therefore the adoption of SFAS 149 did not 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 predominately 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 adoption of SFAS 150 did not have a 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; Seasonality

Inflation has had only a minimal impact on our operations in recent years. Similarly, our business is generally not affected by seasonality.

Forward-Looking Statements

The preceding 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, in no particular order:

- 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 outcome of litigation arising from challenging the validity or non-infringement of patents covering our products;
- 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;
- our ability to complete product development activities in the timeframes and for the costs, we expect;
- market and customer acceptance and demand for our pharmaceutical products;
- our dependence on revenues from significant customers;
- reimbursement policies of third party payors;
- our dependence on revenues from significant products;
- the use of estimates in the preparation of our financial statements;
- the impact of competitive products and pricing on products, including the launch of authorized generics;
- the ability to launch new products in the timeframes we expect;
- the availability of raw materials;
- the availability of any product we purchase and sell as a distributor;
- the regulatory environment;
- our exposure to product liability and other lawsuits and contingencies;
- the increasing cost of insurance and the availability of product liability insurance coverage;
- our timely and successful completion of strategic initiatives, including integrating companies and products we acquire and implementing our new enterprise resource planning system;
- 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 Securities and Exchange Commission.

We wish to caution each reader of this report to consider carefully these factors as well as specific factors that may be discussed with each forward-looking statement in this report or disclosed in our filings with the SEC, as such factors, in some cases, could affect our ability to implement our business strategies and may cause actual results to differ materially from those contemplated by the statements expressed herein. Readers are urged to carefully review and consider these factors. We undertake no duty to update the forward-looking statements even though our situation may change in the future.

Consolidated Balance Sheets

(in thousands, except share amounts)	June 30, 2004	June 30, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 419,878	$ 367,142
Marketable securities	32,376	31,682
Accounts receivable, net	153,890	221,652
Other receivables	60,848	31,136
Inventories, net	150,252	163,926
Deferred income taxes	46,077	27,375
Prepaid expenses and other current assets	14,925	6,873
Total current assets	878,246	849,786
Property, plant and equipment, net	236,831	223,516
Deferred income taxes	35,016	5,589
Marketable securities	89,143	15,055
Other intangible assets	64,897	45,949
Goodwill	18,211	14,118
Other assets	10,925	26,924
Total assets	$1,333,269	$1,180,937
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 61,089	$ 188,852
Accrued liabilities	117,970	58,925
Current portion of long-term debt and capital lease obligations	8,447	8,510
Income taxes payable	20,139	11,316
Total current liabilities	207,645	267,603
Long-term debt and capital lease obligations	32,355	34,027
Other liabilities	51,223	11,312
Commitments & Contingencies (Note 23)		
Shareholders' equity:		
Preferred stock $1 par value per share; authorized 2,000,000; none issued	–	–
Common stock $.01 par value per share; authorized 200,000,000; issued 104,916,103 and 67,066,196 in 2004 and 2003, respectively	1,049	671
Additional paid-in capital	377,024	326,001
Retained earnings	664,681	542,210
Accumulated other comprehensive loss	–	(179)
	1,042,754	868,703
Treasury stock at cost; 420,597 and 280,398 shares in 2004 and 2003, respectively	(708)	(708)
Total shareholders' equity	1,042,046	867,995
Total liabilities and shareholders' equity	$1,333,269	$1,180,937

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

(in thousands, except per share amounts)	For the Years Ended June 30, 2004	2003	2002
Revenues:			
Product sales	$1,296,709	$894,888	$1,171,358
Development and other revenue	12,379	7,976	17,626
Total revenues	1,309,088	902,864	1,188,984
Costs and expenses:			
Cost of sales	632,745	424,099	676,323
Selling, general and administrative	314,500	160,978	111,886
Research and development	168,995	91,207	75,697
Merger-related costs	–	–	31,449
Earnings from operations	192,848	226,580	293,629
Proceeds from patent challenge settlement	–	31,396	31,958
Interest income	5,768	6,341	7,824
Interest expense	2,643	1,474	3,530
Other (expense) income, net	(1,533)	(128)	7,656
Earnings before income taxes	194,440	262,715	337,537
Income tax expense	71,337	95,149	125,318
Net earnings	123,103	167,566	212,219
Preferred stock dividends	–	–	457
Deemed dividend on convertible preferred stock	–	–	1,493
Net earnings applicable to common shareholders	$ 123,103	$167,566	$ 210,269
Earnings per common share – basic	$ 1.21	$ 1.69	$ 2.17
Earnings per common share – diluted	$ 1.15	$ 1.62	$ 2.06
Weighted average shares	101,823	99,125	96,998
Weighted average shares – diluted	106,661	103,592	102,203

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the Years Ended June 30, 2004, 2003 and 2002

(in thousands, except share amounts)	Common stock Shares	Common stock Amount	Additional paid-in capital	Additional paid-in capital – warrants	Retained earnings	Accumulated other comprehensive income/(loss)	Treasury stock Shares	Treasury stock Amount	Total shareholders' equity
Balance, July 1, 2001	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)
Balance, June 30, 2002	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)
Balance, June 30, 2003	67,066,196	671	309,583	16,418	542,210	(179)	280,398	(708)	867,995
Comprehensive income:									
Net earnings					123,103				123,103
Reclassification adjustment						179			179
Total comprehensive income									123,282
Tax benefit of stock incentive plans and warrants			25,262						25,262
Issuance of common stock for exercised stock options and employees' stock purchase plans	1,456,808	14	25,784						25,798
Issuance of common stock for exercised warrants	2,340,610	23	16,395	(16,418)					0
Stock split (3-for-2)	34,052,489	341			(632)		140,199		(291)
Balance, June 30, 2004	104,916,103	$1,049	$377,024	$ –	$664,681	$ –	420,597	$(708)	$1,042,046

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)	For the Years Ended June 30, 2004	2003	2002
Cash Flows from Operating Activities:			
Net earnings	$123,103	$167,566	$212,219
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	32,059	22,713	15,290
Deferred income tax (benefit) expense	(44,330)	6,684	6,389
Write-off of intangible asset	22,333	1,330	–
Provision for losses on loans to Natural Biologics	16,079	–	–
Other	17,699	362	507
Tax benefit of stock incentive plans and warrants	25,262	10,912	5,611
Write-off of in-process research and development associated with acquisitions	45,900	3,946	1,000
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable and other receivables, net	38,081	(126,390)	(5,155)
Inventories, net	13,771	(12,793)	(8,304)
Prepaid expenses	(8,052)	923	(844)
Other assets	(201)	(10,391)	368
Increase (decrease) in:			
Accounts payable, accrued liabilities and other liabilities	(32,428)	93,951	8,219
Income taxes payable	8,823	1,515	(475)
Net cash provided by operating activities	258,099	160,328	234,825
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(46,907)	(80,617)	(47,205)
Acquisitions, net of cash acquired	(90,563)	(25,992)	(46,288)
Purchases of marketable securities, net	(73,443)	(29,400)	(15,000)
Other	(4,935)	(6,169)	(4,835)
Net cash used in investing activities	(215,848)	(142,178)	(113,328)
Cash Flows from Financing Activities:			
Principal payments on long-term debt and capital leases	(8,522)	(5,528)	(12,166)
Net borrowings under line of credit	–	–	(20,316)
Principal payment on note assumed in acquisition	(6,500)	–	–
Purchase of treasury stock	–	–	(695)
Proceeds from exercise of stock options and employee stock purchases	25,798	23,463	20,655
Dividends paid on preferred stock	–	–	(11)
Other	(291)	(200)	(50)
Net cash provided by (used in) financing activities	10,485	17,735	(12,583)
Increase in cash and cash equivalents	52,736	35,885	108,914
Cash and cash equivalents at beginning of period	367,142	331,257	222,343
Cash and cash equivalents at end of period	$419,878	$367,142	$331,257
Supplemental Cash Flow Data:			
Cash paid during the period:			
Interest, net of portion capitalized	$ 2,658	$ 1,455	$ 3,510
Income taxes	$ 80,733	$ 76,039	$113,563

See accompanying notes to the consolidated financial statements.

NOTE 1 Summary of Significant Accounting Policies

(a) Principles of Consolidation and Other Matters

Barr Pharmaceuticals, Inc. ("BPI"), a holding company that operates through its principal subsidiaries, Barr Laboratories, Inc. and Duramed Pharmaceuticals, Inc., is engaged in the development, manufacture and marketing of generic and proprietary pharmaceuticals. BPI is a Delaware corporation that was formed in December 2003, in connection with the reincorporation of Barr Laboratories, Inc., a New York corporation ("Barr-NY"). The reincorporation was accomplished by the merger of Barr-NY into BPI on December 31, 2003, with BPI as the surviving entity. Prior to the merger, Barr-NY contributed its principal operating assets to Barr Laboratories, Inc., a newly formed, wholly-owned subsidiary incorporated in Delaware. References to "Barr" or the "Company" herein include BPI and its subsidiaries.

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 9.9% of the outstanding common stock of the Company at June 30, 2004. 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 17).

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. 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.

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.

On November 20, 2003, the Company completed the purchase of substantially all of the assets of Endeavor Pharmaceuticals, Inc. ("Endeavor"). The operating results of Endeavor are included in the consolidated financial statements subsequent to the November 20, 2003 acquisition date.

On February 25, 2004, the Company completed the purchase of 100% of the outstanding shares of Women's Capital Corporation ("WCC"). The operating results of WCC are included in the consolidated financial statements subsequent to the February 25, 2004 acquisition date.

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

(b) 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 revenue recognition and sales returns and allowances, including shelf stock adjustments and chargebacks; inventory reserves; deferred taxes; contingencies; 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.

(c) 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, including Medicaid 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 $141,873 and $136,059 at June 30, 2004 and 2003, respectively. Included in accrued liabilities are $11,413 and $9,468 relating to estimated Medicaid rebates at June 30, 2004 and 2003, respectively.

Development and other revenue
Development and other revenue includes: reimbursements relating to research and development contracts; licensing fees; and royalties and profit splits on certain products. The Company recognizes revenues under: (1) research and development agreements as it performs the related research and development; (2) license fees over the life of the product license; and (3) royalties based upon the amounts earned in specific periods.

(d) Sales Returns and Allowances

At the time of sale, the Company simultaneously records estimates for various costs, which reduce product sales. These costs include estimates for price adjustments, product returns, chargebacks, rebates, including Medicaid rebates, prompt payment discounts and other sales allowances. In addition, the Company records 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. The determination to grant a shelf-stock adjustment 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.

(e) 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 records provisions for inventory reserves as part of cost of sales.

(f) 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.

(g) Litigation

The Company is subject to litigation in the ordinary course of business and also to certain other contingencies (see Note 23). 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.

(h) Self-Insurance

The Company is primarily self-insured for potential product liability claims on products sold on or after September 30, 2002, and it maintains self-insured retentions and deductibles on policies covering periods prior to September 30, 2002. The Company maintains a self-insurance reserve, which provides an estimate of potential product liability claims not covered by

insurance and an estimate of the future cost of incurred-but-not-reported ("IBNR") claims. The Company develops these estimates in consultation with outside counsel, its insurance consultants and an independent actuary. The self-insurance reserve does not include estimated administrative or defense costs which are expensed as incurred.

(i) 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 estimated 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.

(j) Credit and Market Risk

Financial instruments that potentially subject the Company to credit risk consist principally of interest-bearing investments and trade receivables. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from its customers.

(k) 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.

(l) 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.

(m) 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 19. 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,		
	2004	**2003**	**2002**
Net income as reported	$123,103	$167,566	$210,269
Add:			
Stock-based employee compensation expense included in reported net income, net of related tax effects	–	–	387
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	12,714	6,577	17,572
Pro forma net income	$110,389	$160,989	$193,084
Earnings per share:			
Basic – as reported	$ 1.21	$ 1.69	$ 2.17
Basic – pro forma	$ 1.08	$ 1.63	$ 1.99
Diluted – as reported	$ 1.15	$ 1.62	$ 2.06
Diluted – pro forma	$ 1.03	$ 1.55	$ 1.89

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

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,		
	2004	2003	2002
Average expected term (years)	4	4	3
Risk-free interest rate	2.19%	2.29%	3.62%
Dividend yield	0%	0%	0%
Volatility	54.11%	53.73%	46.96%
Fair value of options granted at market	$16.78	$15.77	$17.11

(n) Research and Development

Research and development costs, which consist principally of product development costs as well as in-process research and development costs as they relate to acquired products which have not received approval from the U.S. Food and Drug Administration ("FDA"), are charged to operations as incurred.

(o) Shipping and Handling Costs

Shipping and handling costs, which approximated $1,702, $1,591 and $1,533 in fiscal 2004, 2003 and 2002, respectively, were included in selling, general and administrative expenses.

(p) Stock Split

On February 13, 2004, the Company's Board of Directors declared a 3-for-2 stock split to be effected in the form of a 50% stock dividend payable on March 16, 2004. On that date, approximately 34.5 million additional shares of common stock were distributed to shareholders of record at the close of business on February 23, 2004.

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 period share and per share amounts have been adjusted for the stock splits.

(q) Earnings Per Share

As discussed above, on October 24, 2001, the Company completed a merger with Duramed where the Company issued approximately 16.875 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 2.7 million shares of the Company's common stock.

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:

(in thousands, except per share amounts)	2004	2003	2002
Net earnings	$123,103	$167,566	$212,219
Dividends on preferred stock	-	–	457
Deemed dividend on convertible preferred stock	-	–	1,493
Numerator for basic and diluted earnings per share – earnings available for common stockholders	$123,103	$167,566	$210,269
Earnings per common share – basic:			
Numerator: earnings available for common shareholders	$123,103	$167,566	$210,269
Denominator: weighted average shares	101,823	99,125	96,998
Earnings per common share - basic	$ 1.21	$ 1.69	$ 2.17
Earnings per common share – diluted:			
Numerator: earnings available for common shareholders	$123,103	$167,566	$210,269
Denominator: weighted average shares – diluted	106,661	103,592	102,203
Earnings per common share – diluted	$ 1.15	$ 1.62	$ 2.06
Calculation of weighted average common shares - diluted			
Weighted average shares	101,823	99,125	96,998
Effect of dilutive options and warrants	4,838	4,467	5,205
Weighted average shares – diluted	106,661	103,592	102,203

(in whole share amounts)	2004	2003	2002
Not included in the calculation of diluted earnings per share because their impact is antidilutive:			
Stock options outstanding	56,841	1,898,811	1,699,182
Preferred if converted	–	–	1,139,229

(r) 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 2007 and 2010. The total unamortized amounts of $194 and $310 at June 30, 2004 and 2003, respectively, are included in other assets in the consolidated balance sheets.

(s) 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, 2004 and 2003 is estimated at $38,000 and $40,000, respectively (see Note 15 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, 2004. 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.

(t) Advertising and Promotion Costs

Costs associated with advertising and promotion are expensed in the period in which the advertising is used and these costs are included in selling, general and administrative expenses. Advertising and promotion expenses totaled approximately $45,637, $21,377 and $4,678 for the years ending June 30, 2004, 2003 and 2002, respectively.

(u) 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.

(v) New Accounting Pronouncements

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 an "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 the adoption of SFAS 149 did not 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 adoption of SFAS 150 did not have a material impact on the Company's consolidated financial statements.

Note 2 Acquisitions

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
Total assets acquired	46,405
Current liabilities	89
Capital lease obligations	28
Total liabilities assumed	117
Purchase price	$46,288
Total cash paid	$45,217
Accrued acquisition costs	1,071
	$46,288

Intangible assets included $1,400 of patents and $26,800 in product license agreements that were each subject to amortization over an estimated useful life of ten years (see Note 9) and were subsequently written off. 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.

As part of the Enhance acquisition, the Company acquired a Product Development and License Agreement with Schering AG pursuant to which Barr has been developing a vaginal ring urinary incontinence product that Schering intended to market and distribute worldwide. On March 31, 2004, Barr and Schering agreed that Barr would (i) acquire the worldwide rights to the product, (ii) forgo all remaining expense reimbursements, development milestones and royalties, (iii) assume all remaining responsibilities for the development and marketing of the product and (iv) pay Schering a milestone payment upon product approval and a royalty on future product sales. As a result of this agreement, the cash payments Barr expected to receive pursuant to the Product Development and License Agreement terminated as of March 31, 2004. Accordingly, the Company wrote-off, as research and development expense, the remaining $22,333 of net book value associated with the initial intangible asset for the product license agreements referred to above.

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 in development 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 (see Note 9) and $3,946 was allocated to an in-process research and development project. 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 are being amortized over a weighted-average useful life of 8.75 years.

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

Acquisition of Endeavor Pharmaceuticals, Inc.

On November 20, 2003, the Company completed the acquisition of substantially all of the assets of Endeavor Pharmaceuticals, Inc. ("Endeavor"). The Company acquired Endeavor to broaden its line of hormone therapy and other female healthcare products. In the transaction, the Company acquired the currently pending New Drug Applications and intellectual property related to Endeavor's Enjuvia™ synthetic conjugated estrogens product and two other female healthcare products in early-stage development.

The total purchase price, including transaction costs of $517, was $35,600 and was allocated to acquired in-process research and development. This amount was written-off upon acquisition as research and development expense because the projects to develop the acquired products, which had not received approval from the FDA, were incomplete and had no alternative future use.

The operating results of Endeavor are included in the Company's consolidated financial statements subsequent to the November 20, 2003 acquisition date.

Acquisition of Women's Capital Corporation

On February 25, 2004, the Company acquired 100% of the outstanding shares of Women's Capital Corporation ("WCC"), a privately held company that marketed the prescription version of Plan B®, an emergency oral contraceptive product and filed an application with the FDA for an over-the-counter version of Plan B. The Company acquired WCC to further its expansion into the emergency contraception segment of the female healthcare market.

The total purchase price, including acquisition costs of $198 and net of cash acquired, was $12,273. In addition, at the time of the purchase, the Company made a payment of $6,690, including principal and interest, to settle a note payable assumed from WCC as part of the acquisition. The fair values of the assets acquired and liabilities assumed on February 25, 2004 were:

Current assets	$ 885
Deferred tax assets	3,201
Intangible assets	2,200
Goodwill	4,610
In-process research and development	10,300
Total assets acquired	$21,196
Current liabilities	1,423
Debt	7,500
Total liabilities assumed	8,923
Net assets acquired	$12,273
Cash paid, net of cash acquired	$ 5,773
Note issued to WCC stockholders	6,500
Purchase price	$12,273

An intangible asset of $2,200 representing the fair value of the currently marketed prescription version of Plan B is being amortized over one year (see Note 9). An acquired in-process research and development asset in the amount of $10,300, representing the estimated fair value of the unapproved over-the-counter version of Plan B, was written-off upon acquisition as research and development expense because the project was incomplete and had no alternative future use. The difference between the fair value of the net assets acquired and the purchase price resulted in goodwill of $4,610. The goodwill and in-process research and development amounts are not deductible for tax purposes.

The operating results of WCC are included in the Company's consolidated financial statements subsequent to the February 25, 2004 acquisition date. WCC's results of operations prior to the acquisition date were not significant in relation to the Company's results of operations.

Acquisition of Certain Assets from Gynétics, Inc.

On February 26, 2004, the Company paid $4,200 to purchase certain assets from Gynétics, Inc. that were being used to develop, manufacture, distribute, promote, market, use and sell the emergency oral contraceptive known as Preven® and all rights to an additional emergency oral contraceptive product. The transaction also terminated the Company's obligations under a non-compete agreement between Barr and Gynétics that would have prevented the Company from acquiring WCC. As part of the purchase, the Company agreed to pay Gynétics a royalty on Plan B sales until royalty payments equal $2,500. The Company has consolidated its emergency contraception business in the Plan B product. Accordingly, the Company recorded an expense for the $4,200 purchase price as selling, general and administrative expense.

Acquisition of Products from Galen (Chemicals) Limited

On March 24, 2004, the Company acquired from Galen (Chemicals) Limited ("Galen") the exclusive rights to manufacture and market Loestrin® products in the United States and Loestrin and Minestrin® products in Canada for a $45,000 cash payment. These product rights are recorded as other intangible assets on the consolidated balance sheets and are being amortized over an estimated useful life of 10 years (see Note 9).

NOTE 3 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 the proprietary product development funding agreement that was 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 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, $0 and $15,343 for the years ended June 30, 2004, 2003 and 2002, respectively.

NOTE 4 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 Abbreviated New Drug Application ("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 ended 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.

NOTE 5 Other Receivables

Included in other receivables at June 30, 2004 is a $47,517 receivable from Bayer as a price adjustment to reduce the cost of the Company's June 2004 Ciprofloxacin inventory for products purchased from Bayer during the second half of its fiscal year. The balance at June 30, 2003 included $25,688 in receivables under a Supply Agreement, also with Bayer (see Note 4).

NOTE 6 Inventories, net

	June 30, 2004	2003
Raw materials and supplies	$ 86,238	$ 60,075
Work-in-process	17,449	18,561
Finished goods	46,565	85,290
	$150,252	$163,926

Inventories are presented net of reserves of $23,910 and $13,201 at June 30, 2004 and 2003, respectively. The Company's distributed version of Ciprofloxacin, purchased as a finished product from Bayer, accounted for approximately $1,986 and $48,300 of finished goods inventory as of June 30, 2004 and 2003, respectively.

NOTE 7 Property, Plant and Equipment, net

	June 30, 2004	2003
Land	$ 7,299	$ 5,819
Buildings and improvements	135,636	105,946
Machinery and equipment	174,858	144,676
Leasehold improvements	5,989	2,759
Automobiles and trucks	149	200
Construction in progress	19,547	64,430
	343,478	323,830
Less: accumulated depreciation & amortization	(106,647)	(100,314)
	$236,831	$223,516

For the years ended June 30, 2004, 2003 and 2002, $21, $1,761 and $1,072 of interest was capitalized, respectively. The Company recorded depreciation expense of $25,678, $19,547 and $15,010 for the years ended June 30, 2004, 2003 and 2002, respectively.

NOTE 8 Marketable Securities

The Company's investments in marketable securities are primarily 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, 2004 and 2003 are as follows:

June 30, 2004	Amortized cost	Gross unrealized gains	Gross unrealized (losses)	Market value
Debt securities	$117,843	$ –	$ –	$117,843
Equity securities	3,676	-	-	3,676
	$121,519	$ -	$ -	$121,519

June 30, 2003	Amortized cost	Gross unrealized gains	Gross unrealized (losses)	Market value
Debt securities	$ 44,400	$ –	$ –	$ 44,400
Equity securities	2,625	–	(288)	2,337
	$ 47,025	$ –	$(288)	$ 46,737

The cost of investments sold is determined by the specific identification method.

Debt Securities

The Company has invested $117,843, including $87,843 in market auction debt securities, which are readily convertible into cash at par value with maturity dates ranging from July 7, 2004 to April 19, 2007 and $30,000 in municipal bonds with maturity dates ranging from July 30, 2004 to April 1, 2007. We may continue to invest in extended maturity securities based on operating needs and strategic opportunities.

Equity Securities

Equity securities at June 30, 2004 includes amounts invested in connection with our excess 401(k) and other deferred compensation plans. Equity securities at June 30, 2003 also included the value of warrants held in a third party. These warrants expired unexercised in April 2004.

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, 2004	2003
Product licenses	$ 2,550	$26,800
Product rights and related intangibles	67,046	22,046
	69,596	48,846
Less: accumulated amortization	(4,699)	(2,897)
Intangible assets, net	$64,897	$45,949

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 in fiscal 2003.

During fiscal 2004, the Company acquired the exclusive rights to manufacture and market Loestrin products from Galen for a cash payment of $45,000 (see Note 2). In addition, the $26,800 product license for a urinary incontinence product which was under development with Schering AG was written off as research and development expense (see Note 2).

Estimated amortization expense on product licenses and product rights and related intangibles in the next five years is as follows:

Year Ending June 30,	
2005	$8,609
2006	7,143
2007	7,143
2008	7,143
2009	7,133

The Company's product licenses and product rights and related intangibles have weighted average useful lives of approximately 10 and 8 years, respectively.

Note 10 Goodwill

Goodwill of $18,211 and $14,118 at June 30, 2004 and 2003, respectively, is attributable to acquisitions the Company has made over the past three fiscal years. The increase in goodwill from June 30, 2003 is attributable to the acquisition of WCC. The Company recorded $4,610 related to this acquisition and subsequently reduced the amount for post-closing activity related to the transaction to a net amount of $4,093. In fiscal 2003, the Company adjusted goodwill by $177 for post-closing activity related to its acquisition of Enhance. The entire goodwill balance at June 30, 2004 and 2003 is assigned to the Company's proprietary products segment.

Note 11 Other Assets

Included in other assets at June 30, 2003 was $14,408 in loans receivable from Natural Biologics which was fully reserved in fiscal 2004 (see Note 23). In addition, the Company records the deposits on its finite risk insurance arrangement as other assets, which total $6,758 and $3,405 at June 30, 2004 and 2003, respectively.

Note 12 Accounts Payable

Included in the accounts payable balance at June 30, 2003 was $127,990 relating to the purchase of inventory for Ciprofloxacin during the initial product launch. Purchases of Ciprofloxacin inventory were significantly lower in the three months ended June 30, 2004, resulting in a corresponding lower balance in accounts payable.

Note 13 Solvay Arbitration Award

On March 31, 2002, the Company gave notice of its intention to terminate, as of June 30, 2002, its relationship with Solvay Pharmaceuticals, Inc. which covered the joint promotion of the Company's Cenestin tablets and Solvay's Prometrium® capsules. Solvay disputed the Company's right to terminate the relationship, claiming it was entitled to substantial damages and initiated formal arbitration proceedings. The arbitration hearing was held in January 2004. On June 17, 2004, the arbitration panel determined that the Company did not properly terminate its contract with Solvay and awarded Solvay $68,000 in monetary damages to be paid over sixteen months. The Company has included these amounts in selling, general and administrative expenses on its statement of operations and in accrued and other liabilities on its balance sheet, as applicable.

Note 14 Ovcon Licensing Agreement

In March 2004, the Company granted Galen an option to acquire an exclusive license under its ANDA for OVCON® 35, which received FDA approval in April 2004. Galen exercised their option and paid the Company $19,000 which the Company is amortizing as license fees over a five year period. The Company is recognizing these revenues over the life of the license and has included the unrecognized portion as deferred revenue in accrued and other liabilities, as applicable.

NOTE 15 Long-Term Debt

A summary of long-term debt is as follows:

	June 30, 2004	2003
Senior Unsecured Notes[a]	$17,429	$22,858
Provident Bank mortgage notes[b]	13,200	14,800
Note Due to WCC Shareholders[c]	6,500	–
	37,129	37,658
Less: current installments of long-term debt	(7,029)	(7,029)
Total long-term debt	$30,100	$30,629

[a]The Senior Unsecured Notes include a $16,000, 7.01% Note due November 18, 2007 and $1,429 of 6.61% Notes due November 18, 2004. Annual principal payments under the Notes total $5,429 in fiscal 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 $10,000 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, 2004.

[b]In March 2000, the Company 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% at June 30, 2004) 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.

[c]In February 2004, the Company acquired all of the outstanding shares of WCC. In connection with that acquisition, a four-year $6,500 promissory note was issued to WCC. The note bears interest at 2%. The entire principal amount and all accrued interest is payable on February 25, 2008 (see Note 2).

The Company has a $40,000 revolving credit facility that expires on February 27, 2005. As of June 30, 2004, there was $32,875 available to the Company under this facility due to the issuance of a $7,125 letter of credit in support of the Company's finite risk product liability program (see Note 23). The Company pays a fee on the committed portion of the credit facility equal to 1.0% 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,	
2005	$ 7,029
2006	5,600
2007	5,600
2008	12,100
2009	1,600
Thereafter	5,200

NOTE 16 Mandatorily Redeemable Convertible Preferred Stock

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 $2.25 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 288,234 shares of common stock at a price of $9.54 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 455,693 and 683,537 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 13,641 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 17 Related-Party Transactions

Dr. Bernard C. Sherman

During the years ended June 30, 2004, 2003 and 2002, the Company purchased $2,808, $3,583 and $3,332, 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, 2004, 2003 and 2002, the Company sold $9,486, $12,727 and $16,472, respectively, of its pharmaceutical products and bulk pharmaceutical materials to companies owned by Dr. Sherman. As of June 30, 2004 and 2003, the Company's accounts receivable included $1,203 and $2,398, 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, 2004, 2003 and 2002, the Company recorded $1,004, $585 and $919, respectively, in connection with such agreement as a reduction to operating expenses. For the years ended June 30, 2004, 2003 and 2002, the Company recorded $3,680, $1,440 and $176,681, respectively, as cost of sales related to this agreement. In addition, during the year ended June 30, 2004, the Company entered into an agreement with a company owned by Dr. Sherman whereby the Company will receive royalties on a product marketed and sold by that company. Royalty revenues totaled $295 for the year ended June 30, 2004.

As of June 30, 2004 and 2003, the Company's accrued liabilities included $2,028 and $648, respectively, related to transactions with these entities.

The Company also incurred $55 in expenses in the year ended June 30, 2002 which was reimbursed by Dr. Sherman, related to a secondary stock offering, completed in May 2001, for the sale of 7.875 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 the year ended June 30, 2002.

Harold N. Chefitz

Harold N. 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, 2004 and 2003.

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 18 Income Taxes

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

	Year Ended June 30,		
	2004	**2003**	**2002**
Current:			
Federal	$101,477	$77,615	$103,528
State	18,097	10,911	12,719
	$119,574	$88,526	$116,247
Deferred:			
Federal	$ (41,348)	$ 9,010	$ 8,981
State	(6,889)	(2,387)	90
	(48,237)	6,623	9,071
Total	$ 71,337	$95,149	$125,318

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,		
	2004	**2003**	**2002**
Federal income taxes at statutory rate	$68,054	$91,950	$118,225
State income taxes, net of federal income tax effect	6,687	8,207	8,326
Tax credits	(5,900)	(1,000)	–
Write-off of in-process research and development	3,605	–	–
Other, net	(1,109)	(4,008)	(1,233)
	$71,337	$95,149	$125,318

The temporary differences that give rise to deferred tax assets and liabilities as of June 30, 2004 and 2003 are as follows:

	2004	**2003**
Deferred tax assets:		
Net operating loss	$ 5,113	$ 16,205
Receivable reserves	29,888	24,514
Inventory	2,707	2,680
Goodwill amortization	1,463	2,131
Warrants issued	–	6,536
Tax credit carryforward	15	4,008
Capital loss carryforward	3,122	3,084
Amortization of intangibles	27,210	3,076
Investments	–	109
Deferred revenue	7,400	–
Natural Biologics loan	6,673	–
Solvay litigation	20,226	–
Other	6,043	3,866
Total deferred tax assets	109,860	66,209
Deferred tax liabilities:		
Plant and equipment	(19,889)	(14,631)
Proceeds from supply agreement	–	(10,225)
Other	(4,196)	(2,242)
Total deferred tax liabilities	(24,085)	(27,098)
Less valuation allowance	(4,682)	(6,147)
Net deferred tax asset	$ 81,093	$ 32,964

At June 30, 2004 and 2003, as a result of certain acquisitions, the Company had cumulative regular net operating loss carryforwards of approximately $10,195 and $38,800, respectively, for federal and state income tax purposes, which will expire in the years 2018 to 2023. 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 alternative minimum tax payments, which have no expiration.

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, 2004, the Company increased the valuation allowance related to preacquisition Women's Capital Corporation state net operating losses by $589 and reduced the valuation allowance by a net of $2,054, due to the utilization of certain tax credits during 2004.

NOTE 19 Shareholders' Equity

(Shares and Per Share amounts expressed in whole numbers)

Employee Stock Option Plans

The Company has three employee stock option plans, the Barr Pharmaceuticals, Inc. 2002 Stock and Incentive Award Plan (the "2002 Option Plan"), the Barr Pharmaceuticals, Inc. 1993 Stock Incentive Plan (the "1993 Option Plan") and the Barr Pharmaceuticals, Inc. 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 2004, 2003 and 2002, 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 67,500 shares were granted to a key executive as part of her employment agreement at various prices below the 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 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. 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, 2004, adjusted for the March 2004 and 2003 3-for-2 stock splits is as follows:

	No. of Shares	Weighted-Average Exercise Price
Outstanding at July 1, 2001	7,595,489	$11.39
Granted	1,507,520	35.26
Adjustment for pooling	(71,366)	14.65
Canceled	(125,751)	25.67
Exercised	(1,517,633)	9.72
Outstanding at June 30, 2002	7,388,259	16.43
Granted	2,109,333	26.74
Canceled	(208,047)	27.92
Exercised	(1,354,542)	12.57
Outstanding at June 30, 2003	7,935,003	19.51
Granted	1,779,545	43.01
Canceled	(148,026)	28.74
Exercised	(1,699,190)	11.82
Outstanding at June 30, 2004	7,867,332	$26.26
Available for Grant (20,067,188 authorized)	5,784,627	
Exercisable at June 30, 2002	6,759,795	$16.01
Exercisable at June 30, 2003	5,557,977	$16.79
Exercisable at June 30, 2004	4,839,386	$20.02

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 Pharmaceuticals, 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 Pharmaceuticals, 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.

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 5,765 shares of common stock. Annually, each then serving non-employee director, other than a new director, was also automatically granted options to purchase 2,882 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 were no longer granted under this plan.

A summary of the activity for the three fiscal years ended June 30, 2004, adjusted for the March 2004 and 2003 3-for-2 stock splits is as follows:

	No. of Shares	Weighted-Average Exercise Price
Outstanding at July 1, 2001	940,377	$ 10.41
Granted	202,500	33.30
Adjustment for pooling	23,058	16.41
Canceled	(13,833)	14.90
Exercised	(50,058)	8.17
Outstanding at June 30, 2002	1,102,044	14.77
Granted	101,250	26.76
Canceled	(59,270)	32.87
Exercised	(464,061)	9.75
Outstanding at June 30, 2003	679,963	18.40
Granted	118,125	49.02
Canceled	-	-
Exercised	(154,498)	17.75
Outstanding at June 30, 2004	643,590	$22.97
Available for grant (2,798,438 authorized)	951,469	
Exercisable at June 30, 2002	899,565	$10.59
Exercisable at June 30, 2003	578,714	$16.94
Exercisable at June 30, 2004	576,089	$19.92

Available for grant and authorized amounts are for the 2002 Directors' Plan only, because as of June 30, 2003, options are no longer granted under the 1993 Directors' Plan and 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 1,518,750 shares of common stock at approximately 85% of the fair market value of such shares. Under the Purchase Plan, 81,708, 115,704 and 66,715 shares of common stock were purchased during the years ended June 30, 2004, 2003 and 2002, respectively.

Warrants

During 1999, in conjunction with an amendment to a financing agreement, the Company granted to a bank warrants to purchase 63,410 shares of the Company's common stock at an exercise price of $22.19. These warrants vested immediately. In December 1999, the financing agreement was amended to reset the exercise price of 50% of the warrants to $15.62 per share. During 2000, based on an antidilutive clause in the agreement, the number of warrants was adjusted to 66,340. The price of 33,426 warrants was adjusted to $21.05 and the remaining 32,918 warrants were repriced to $15.03. In November 2001

and January 2002 a total of 57,294 of the warrants were exercised. As of June 30, 2004, warrants for 9,046 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 288,234 common shares at a price of $9.54 per share. The warrants vested immediately and expire on May 12, 2005. As of June 30, 2004, all of these warrants remained outstanding.

In March 2000, the Company issued warrants granting DuPont the right to purchase 1,687,500 shares of Barr's common stock at $13.93 per share, and 1,687,500 shares at $16.89 per share, respectively. Each warrant was immediately exercisable. In March 2004, holders of these warrants exercised the warrants through a cashless exercise which resulted in the issuance of 2,340,610 shares of our common stock.

The following table summarizes information about stock options and warrants outstanding at June 30, 2004:

	Options and Warrants Outstanding		
Range of Exercise Prices	Number Outstanding at 6/30/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 2.86 - 11.75	2,672,696	3.30	$ 9.09
12.03 - 26.58	2,728,582	7.32	24.69
26.61 - 42.22	1,640,230	7.29	33.89
43.13 - 51.61	1,766,694	9.09	43.62
	8,808,202	6.45	$25.46

	Options and Warrants Exercisable	
Range of Exercise Prices	Number Exercisable at 6/30/04	Weighted Average Exercise Price
$ 2.86 - 11.75	2,665,203	$ 9.09
12.03 - 26.58	1,585,058	23.33
26.61 - 42.22	1,462,494	34.25
43.13 - 51.61	-	-
	5,712,755	$19.48

NOTE 20 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 $13 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. 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.

The Company's contributions to the 401(k) Plans were $6,534, $5,549 and $4,790 for the years ended June 30, 2004, 2003 and 2002, respectively.

The Company has a non-qualified plan ("Excess Plan") that enables certain executives to defer up to 60% 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 2004, 2003 and 2002, the Company chose to make contributions at the 10% rate to this plan. As of June 30, 2004 and 2003, the Company had an asset and matching liability for the Excess Plan of $3,563 and $2,282, 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, 2004 and 2003, the Company has recorded $466 and $487, 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.

In October 2003, the Board of Directors approved the Barr Pharmaceuticals, Inc. Non-Qualified Deferred Compensation Plan (the "Plan") that was adopted effective November 1, 2003. The Plan provides for certain executives to defer all or a portion of their salary or bonus for a particular calendar year. In addition, the Company will make a matching contribution subject to certain limitations as defined in the Plan. The matching contribution, as well as the employee deferral, are invested in the Plan as directed by the participant, and are payable on the terms and subject to the conditions provided in the Plan. As of June 30, 2004, the Company had an asset and matching liability for the Plan of $114.

NOTE 21 Other (Expense) Income, net

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

	Year Ended June 30,		
	2004	2003	2002
Litigation settlement	$ –	$ –	$2,000
Bristol-Myers Squibb termination payments			5,600
Loss on limited partnerships	(1,346)	–	–
Other	(187)	(128)	56
Total other (expense) income, net	$(1,533)	$(128)	$7,656

NOTE 22 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.

NOTE 23 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 $3,543, $1,875 and $1,444 in fiscal 2004, 2003 and 2002, 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, 2004. Such payments total $36,400 for operating leases. The net present value of such payments on capital leases was $3,673 after deducting executory costs and imputed interest of $129 and $570, respectively.

	Year Ending June 30,					
	2005	2006	2007	2008	2009	Thereafter
Operating leases	$3,716	$3,746	$3,671	$3,255	$3,237	$18,775
Capital leases	1,825	1,627	792	128	–	–
Minimum lease payments	$5,541	$5,373	$4,463	$3,383	$3,237	$18,775

Business Development Venture

Natural Biologics

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 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 FDA approval of a generic product. 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 a trade secret lawsuit brought by Wyeth. In September 2003, the U.S. District Court for the District of Minnesota determined that Natural Biologics had misappropriated Wyeth's trade secrets and enjoined Natural Biologics from further involvement in the equine-based raw material business. Unless the ruling is reversed on appeal, the Company will be prohibited from using Natural Biologics' raw material in its ANDA for conjugated estrogens. Natural Biologics has appealed the District Court's ruling.

As of June 30, 2004 and June 30, 2003, the Company had loaned Natural Biologics approximately $16,079 and $14,408, respectively, including accrued interest, under the Loan Agreement, and has included such amounts in other assets on its consolidated balance sheets. Under the terms of the Loan Agreement, the loans mature on June 3, 2007 and 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 (3.83% at June 30, 2004).

Due to the unfavorable decision of the District Court and its anticipated negative effects on Natural Biologics' operations, as well as the uncertainty surrounding the timing and outcome of any appeal, the Company has established a full valuation allowance against the loan amount and included the allowance in other assets on its consolidated balance sheet and recorded a charge to selling, general and administrative expense.

Investment in Venture Funds

During the second quarter of fiscal 2004, the Company made investments, as a limited partner, in two separate venture capital funds as part of its continuing efforts to identify new products, new technologies and new licensing opportunities. The Company has committed up to a total of $15,000 for each of these funds over a five and 10-year period, as defined by each fund. As of June 30, 2004, the Company has invested $3,500 in these funds. The Company accounts for these investments using the equity method of accounting.

Employment Agreements

The Company has entered into employment agreements with certain key employees. The current terms of these agreements expire at various dates through 2006, subject to certain renewal provisions.

Product Liability Insurance

The Company utilizes a combination of a "finite risk" insurance arrangement, self insurance and traditional third-party insurance policies to cover itself from potential product liability claims. Under a finite risk insurance arrangement (the "Arrangement") with a third-party insurer, the Company is insured for $15,000 in potential product liability claims. In exchange for $15,000 in product liability coverage over a five-year term expiring on September 30, 2007, the Arrangement provides for the Company to pay approximately $14,250 in four equal annual installments of $3,563. 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 paid for any incurred claims. After termination or expiry of the policy, the Company will be solely liable for any incurred but not reported ("IBNR") or unsettled claims under the policy.

The Company is entirely self-insured for potential product liability claims between $15,000 and $25,000. The Company has purchased traditional third-party insurance that will provide coverage for claims between $25,000 and $40,000. For claims between $40,000 and $50,000, the Company has purchased additional third-party insurance that provides for the Company to share 20% of all claims paid under the policy by the insurer.

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.

Because the Company is self-insured for a portion of its potential product liability claims, it has established a self-insurance reserve for its estimate of potential product liability claims.

The Company is a defendant in many product liability actions. For product liability claims that are not fully or substantially covered by our insurance arrangements, any adverse judgments or settlements in such matters, may exceed our reserves and could adversely affect the Company's consolidated financial statements.

Indemnity Provisions

From time-to-time, in the normal course of business, the Company agrees to indemnify our employees, suppliers and customers concerning product liability and other matters. The Company does not believe that the likelihood of paying amounts related to the indemnity provision is probable. While the maximum amount to which the Company may be exposed under such agreements cannot be reasonably estimated, the Company maintains a self insurance reserve and insurance coverage which management believes will effectively mitigate the Company's obligations under these indemnification provisions. No amounts have been recorded in the financial statements with respect to the Company's obligations under such agreements.

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.

Litigation Matters

Ciprofloxacin (Cipro®) Antitrust Class Actions

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 Company believes that its agreement with Bayer Corporation reflects a valid settlement to a patent suit and cannot form the basis of an antitrust claim. Based on this belief, the Company is vigorously defending itself in these matters. The Company anticipates that these matters may take several years to resolve. An unfavorable outcome could adversely affect the Company's consolidated financial statements.

Tamoxifen Antitrust Class Actions

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 L.P. 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. On May 19, 2003, the U.S. District Court dismissed the complaints for failure to state a viable antitrust claim. The cases are now on 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. Based on this belief, the Company is vigorously defending itself in these matters. The Company anticipates that these matters may take several years to resolve. An unfavorable outcome could adversely affect the Company's consolidated financial statements.

Desogestrel/Ethinyl Estradiol Suit

In May 2000, the Company filed an 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 the Company from marketing the tablet combination. In December 2001, the District Court granted summary judgment in favor of the Company, finding that its generic 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 the Company'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. The amended complaint seeks damages and enhanced damages based upon willful infringement. The Company filed an answer to BTG's amended complaint in July 2003. The Company believes that it has not infringed BTG's patent and continues to manufacture and market Kariva. Nevertheless, the Company expects that Organon will seek to recover lost profits on sales of Mircette and assert that these lost profits and enhanced damages significantly exceed the Company's approximately $110,000 in sales of Kariva from its launch to June 30, 2004. If BTG and Organon are successful, the Company could be liable for damages for patent infringement and may be prohibited from continuing to sell its Kariva product. An unfavorable outcome could adversely affect the Company's consolidated financial statements.

HRT Litigation

The Company and/or Duramed have been named as a defendant in as many as 1,000 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 in conjunction with Premarin or other hormone therapy products, or the use of Cenestin. While Barr and/or Duramed have been named as defendants in these cases, a much smaller number of complaints actually allege the plaintiffs took a product manufactured by Barr and/or Duramed. The majority of these cases are either pending in the Philadelphia Court of Common Pleas or have been filed in other state courts, removed to federal court and transferred to the United States District Court for the Western District of Arkansas for consolidated pretrial proceedings.

The Company believes it has viable defenses to the allegations in the complaints and is defending the actions vigorously. At this juncture, it is impossible to accurately assess the exposure the litigation presents for the Company.

Invamed, Inc./Apothecon, Inc.

In February 1998, Invamed, Inc. and Apothecon, Inc., both of which have since been acquired by Sandoz, 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 the Company'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 the suits filed by Invamed and Apothecon are without merit and is vigorously defending its position, but an adverse judgment could adversely affect the Company's consolidated financial statements.

Medicaid Reimbursement Cases

The Company has been named as a defendant in separate actions brought by the Commonwealth of Massachusetts; Suffolk County, New York; Rockland County, New York; and Westchester County, New York against numerous pharmaceutical manufacturers. The plaintiffs seek to recover damages and other relief for alleged overcharges for prescription medications paid for by Medicaid. Along with the other defendants in these suits, the Company has moved to dismiss these complaints. Those motions are now pending. The Company believes that it has not engaged in any improper conduct and is vigorously defending itself. However, an unfavorable outcome in any of the matters could adversely affect the Company's consolidated financial statements.

Other Litigation

As of June 30, 2004, 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 adversely affect the Company's consolidated financial statements.

NOTE 24 Segment Reporting

Prior to June 2004, the Company operated in one business segment – the development, manufacture and marketing of pharmaceutical products. In June 2004, based on the performance of the Company's proprietary product portfolio and the increasing focus on those products, Barr has organized its business into two reportable segments: Generic Pharmaceuticals and Proprietary Pharmaceuticals, based on differences in products, marketing and/or regulatory approval. Accordingly, all periods reported have been restated to reflect two reportable segments.

Generic Pharmaceuticals

Generic pharmaceutical products are therapeutically equivalent to a brand name product and are marketed primarily to wholesalers, retail pharmacy chains, mail order pharmacies and group purchasing organizations. These products are approved for distribution by the FDA through the ANDA process. The Company also distributes, from time to time, product manufactured for Barr by the brand name company. Tamoxifen and Ciprofloxacin are examples of products Barr has distributed and are included in the generic pharmaceuticals segment.

In fiscal 2004, three customers separately accounted for over 10% of generic product sales: McKesson Drug Company, Cardinal Health and Walgreen which accounted for 24%, 14% and 13%, respectively. In 2003, McKesson Drug Company, Cardinal Health, Amerisource Bergen and Walgreen accounted for 21%, 17%, 13% and 11% of total generic product sales, respectively. In 2002, McKesson Drug Company, Cardinal Health and Amerisource Bergen accounted for approximately 18%, 13% and 12% of total generic product sales, respectively.

Proprietary Pharmaceuticals

Proprietary pharmaceutical products are generally new, patent-protected products marketed directly to health care professionals. These products are approved by the FDA primarily through the New Drug Application process. Barr's proprietary segment also includes products whose patents have expired but continue to be sold under trade names to capitalize on prescriber and customer loyalties and brand recognition.

In fiscal 2004, three customers separately accounted for over 10% of proprietary product sales: McKesson Drug Company, Cardinal Health and Amerisource Bergen which accounted for 21%, 20% and 15%, respectively. In 2003, Cardinal Health, McKesson Drug Company and Amerisource Bergen accounted for 19%, 15% and 11% of total proprietary product sales, respectively. In 2002, Cardinal Health and McKesson Drug Company accounted for 21% and 14% of total proprietary product sales, respectively.

The accounting policies of the segments are the same as those described in Note 1. The Company evaluates the performance of its operating segments based on net revenues and gross profit. The "other" classification consists primarily of revenues from licensing fees and amounts due under research and development agreements. Barr does not report depreciation expense, total assets and capital expenditures by segment as such information is neither used by management nor accounted for at the segment level. Net revenues and gross profit information for the Company's operating segments consisted of the following:

	2004	% of sales	2003	% of sales	2002	% of sales
Revenues:						
Proprietary	$ 146,087	11%	$ 57,662	6%	$ 62,061	5%
Generic	1,150,622	88%	837,226	93%	1,109,297	93%
Development & Other	12,379	1%	7,976	1%	17,626	2%
Total revenues	$1,309,088	100%	$902,864	100%	$1,188,984	100%

	2004	Margin %	2003	Margin %	2002	Margin %
Gross profit:						
Proprietary	$ 117,994	81%	$ 48,536	84%	$ 49,355	80%
Generic	545,970	47%	422,253	50%	445,680	40%
Development & Other	12,379	100%	7,976	100%	17,626	100%
Total gross profit	$ 676,343	52%	$478,765	53%	$ 512,661	43%

NOTE 25 Quarterly Data (Unaudited)

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

	Three Month Period Ended			
	Sept. 30	Dec. 31	Mar. 31	June 30
Fiscal Year 2004:				
Total revenues	$310,711	$374,124	$321,085	$303,168
Cost of sales	160,901	207,722	145,288	118,834
Net earnings applicable to common shareholders	38,535	35,069	35,139	14,360
Earnings per common share – diluted[1][3][4]	$ 0.37	$ 0.33	$ 0.33	$ 0.13
Price Range of Common Stock[2][3][4]				
High	$ 50.33	$ 56.91	$ 53.99	$ 49.25
Low	$ 38.83	$ 45.17	$ 45.70	$ 32.89

	Sept. 30	Dec. 31	Mar. 31	June 30
Fiscal Year 2003:				
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[1][3][4]	$ 0.41	$ 0.42	$ 0.44	$ 0.35
Price Range of Common Stock[2][3][4]				
High	$ 32.05	$ 30.10	$ 38.77	$ 44.35
Low	$ 21.95	$ 24.56	$ 28.93	$ 34.27

[1] The sum of the individual quarters may not equal the full year amounts due to the effects of the market prices in the application of the treasury stock method. During its three most recent fiscal years, the Company did not pay any cash dividends.

[2] The Company's common stock is listed and traded on the New York Stock Exchange under the symbol "BRL". At June 30, 2004, there were approximately 1,610 shareholders of record of common stock. The Company believes that a significant number of beneficial owners hold their shares in street name.

[3] Adjusted for the March 17, 2003 3-for-2 stock split effected in the form of a 50% stock dividend (See Note 1).

[4] Adjusted for the March 16, 2004 3-for-2 stock split effected in the form of a 50% stock dividend (See Note 1).

NOTE 26 Subsequent Events

On August 5, 2004, the Company announced the approval by the Board of Directors of a share repurchase program of up to $300,000, at the discretion of the Company, through December 31, 2005. The program permits the Company to repurchase stock from time to time through open market transactions or privately negotiated transactions. The Company intends to fund any repurchases with cash on hand and cash generated from operations.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Barr Pharmaceuticals, Inc. and subsidiaries (the "Company") as of June 30, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2004. 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 standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Stamford, Connecticut
August 17, 2004

Selected Financial Data

The following data has been derived from our consolidated financial statements and should be read in conjunction with those statements, together with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Year Ended June 30, (in thousands of dollars, except per share data)	2004	2003	2002	2001[1]	2000[1]
Statements of Operations Data					
Total revenues	$1,309,088	$ 902,864	$1,188,984	$593,151	$490,972
Earnings before income taxes	194,440	262,715	337,537	101,793	18,602
Income tax expense	71,337	95,149	125,318	38,714	8,042
Net earnings applicable to common shareholders	123,103	167,566	210,269	62,566	10,305
Earnings per common share – basic	1.21	1.69[4]	2.17[4][5]	0.66[4][5]	0.11[4][5]
Earnings per common share – diluted	1.15	1.62[4]	2.06[4][5]	0.63[4][5]	0.11[4][5]

	2004	2003	2002	2001[1]	2000[1]
Balance Sheet Data					
Working capital	$ 670,601	$ 582,183	$ 457,393	$313, 101	$212,275
Total assets	1,333,269	1,180,937	888,554	666, 516	548,188
Long-term debt[2]	32,355	34,027	42,634	65,563	59,254
Shareholders' equity[3]	1,042,046	867,995	666,532	416,777	324,698

[1] Financial data presented has been restated to include the historical financial data of Duramed (See Note 1 to the consolidated financial statements).

[2] Includes capital leases and excludes current installments.

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

[4] Amounts have been adjusted for the March 16, 2004 3-for-2 stock split effected in the form of a 50% stock dividend (See Note 1 to the consolidated financial statements).

[5] 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).

Reconciliation of GAAP EPS to Adjusted EPS
For the fiscal years ended June 30, 2004 and 2003 *(unaudited)*

For the dollar amounts and nature of the charges and adjustments set forth in the table below, please see the discussion that follows the table.

Fiscal Years Ended June 30,	2004	2003
Earnings per common share – assuming dilution	$1.15	$1.62
After tax effect of:		
Galen patent settlement costs	0.05	–
Solvay arbitration award	0.41	–
In-process research and development acquired from Endeavor	0.21	–
Emergency contraception acquisition charges	0.12	–
Write-off of intangible asset	0.13	–
Provision for losses on loans to Natural Biologics	0.10	–
Legal costs associated with Wyeth settlement	–	0.12
In-process research and development acquired from Wyeth	–	0.02
Tax adjustment	–	(0.01)
Earnings per common share – assuming dilution, net of charges	$2.17	$1.75

The charges or adjustments relating to the fiscal year ended June 30, 2004 are as follows:

- an after-tax charge of $0.05 per fully diluted share resulting from an $8.5 million charge taken in connection with the settlement of patent challenge litigation with Galen;
- an after-tax charge of $0.41 per fully diluted share resulting from the $68.2 million award rendered by an arbitration panel in favor of Solvay Pharmaceuticals against the Company;
- an after-tax charge of $0.21 per fully diluted share resulting from a $35.6 million write-off of in-process research and development acquired from Endeavor Pharmaceuticals;
- combined after-tax charges of $0.12 per fully diluted share resulting from the $10.3 million in-process research and development charge associated with the Women's Capital Corporation acquisition and the related $4.2 million acquisition of certain emergency contraception assets from Gynetics;
- an after-tax charge of $0.13 per fully diluted share resulting from the $22.3 million write-off associated with acquiring from Schering AG the worldwide rights to the oxybutynin transvaginal ring product for urinary incontinence that is currently in development; and
- an after-tax charge of $0.10 per fully diluted share related to the establishment of a $15.7 million reserve against the amount of principal and accrued interest owed to Barr by Natural Biologics, LLC.

The charges or adjustments relating to the fiscal year ended June 30, 2003 are as follows:

- an after-tax charge of $0.12 per fully diluted share for a $20 million special legal fee paid in connection with the settlement of litigation with Wyeth;
- an after-tax charge of $0.02 recognized from a $3.9 million write-off of in-process research and development associated with the acquisition of a development-stage product from Wyeth; and
- an after tax benefit of $0.01 per fully diluted share arising from the reversal of a $1.5 million valuation allowance related to pre-acquisition net operating losses of Duramed, which Barr acquired in October 2001.

When disclosing financial information, Barr provides all information required in accordance with GAAP, but believes that evaluating its results may be difficult if limited to reviewing only GAAP financial measures. Barr's management does not itself, nor does it suggest that investors should, consider such adjusted financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Barr presents such adjusted financial measures in reporting its financial results to provide investors with an additional tool to evaluate Barr's results. Barr's management believes it is useful for itself and investors to review both GAAP information that includes the charges mentioned above and the adjusted measure of earnings per share that excludes such charges in order to better understand Barr's business.

DIRECTORY

Barr Pharmaceuticals, Inc.

Board of Directors

Carole S. Ben-Maimon, M.D.
President and Chief Operating Officer
Duramed 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 Advisors

Bruce L. Downey, Esq.
Chairman and Chief Executive Officer
Barr Pharmaceuticals, Inc.

Richard R. Frankovic
Pharmaceutical Industry Consultant

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

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

Peter R. Seaver
Healthcare Industry Consultant

George P. Stephan
Business Consultant; Former Director of Kollmorgen Corporation

Barr Pharmaceuticals, Inc.

Management Team

Bruce L. Downey, Esq.
Chairman and Chief Executive Officer
Barr Pharmaceuticals, Inc.

Carole S. Ben-Maimon, M.D.
Senior Vice President

Paul M. Bisaro, Esq.
Senior Vice President

Frederick J. Killion, Esq.
Vice President, Secretary and General Counsel

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

Barr Laboratories, Inc.

a subsidiary of Barr Pharmaceuticals, Inc.

Management Team

Paul M. Bisaro, Esq.
President and Chief Operating Officer

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

Emad M. Alkhawam, Ph.D.
Vice President, Analytical Research and Development

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

Charles E. DiLiberti, M.S.
Vice President of 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

J. Gregory Jester
Corporate Controller

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

Michael Moorshead
Vice President and General Manager, Virginia Facility

Amy Niemann
Vice President, Proprietary Marketing

Timothy B. Sawyer
Vice President, Sales for Generic Products

Robert Williford
Vice President of Administration and General Manager, Ohio Facility

Duramed Research Inc.

a subsidiary of Barr Pharmaceuticals, Inc.

Management Team

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

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

Howard I. Hait
Vice President, Data Management and Biostatistics

Wayne S. Mulcahy, Ph.D.
Vice President, Clinical Operations

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 28, 2004 at the Woodcliff, Lake Hilton, Tice Blvd., Woodcliff Lake, NJ.

Trademarks

BARR, barr (stylized), the stylized "b", Duramed, DURAmed (stylized), CENESTIN, APRI, CRYSELLE, SPRINTEC, CAMILA, LESSINA, PORTIA, KARIVA, ERRIN, ENPRESSE, AVIANE, AYGESTIN, PLAN B, TRI-SPRINTEC and NORTREL are registered trademarks, and CLARAVIS, TREXALL, ENJUVIA, VELIVET, JUNEL, JUNEL FE and CYPAT are trademarks, of Barr Laboratories, Inc. or its subsidiaries. VIASPAN is a registered trademark of Bristol-Myers Squibb Pharma Company, licensed for use by Barr Laboratories, Inc. Barr Laboratories, Inc. is the exclusive licensee of SEASONALE, a registered trademark.

All other trademarks referenced herein are the property of their respective owners.

10-K Report Available

The Company's 2004 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

Photography
Steve Kahn, Bill Gallery

Product Photography
Jim Barber

Printing
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Barr Pharmaceuticals, Inc.
400 Chestnut Ridge Road
Woodcliff Lake, NJ 07677

1-800-BARRLAB

www.barrlabs.com