WATSON PHARMACEUTICALS INC
Form DEF 14A
April 01, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement

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

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Watson Pharmaceuticals, Inc.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

April 1, 2011

To Our Stockholders:

You are cordially invited to attend the 2011 Annual Meeting of Stockholders of Watson Pharmaceuticals, Inc. The annual meeting will be held at the Sheraton Parsippany Hotel located at 199 Smith Road, Parsippany, New Jersey on May 13, 2011 at 9:00 a.m. local time.

In connection with the annual meeting, we have prepared a Notice of Annual Meeting of Stockholders, a proxy statement, and our 2010 Annual Report to Stockholders, which provides detailed information relating to our activities and operating performance. This year we are pleased to be taking advantage of Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. On or about April 1, 2011, we mailed to our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy materials online. This Notice and the proxy statement describe the matters to come before the annual meeting. During the annual meeting, we will also review the activities of the past year and items of general interest about the company.

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

You may vote your shares in person at the annual meeting. Whether or not you plan to attend the annual meeting, you may also vote your shares: (i) by accessing the Internet site described in the Notice provided to you, (ii) by calling the toll-free telephone number listed at the Internet site (or, depending on the voting process used by your broker or nominee, pursuant to the instructions on the notice, proxy card or voting instruction form they provide to you) or (iii) by requesting a paper copy of the proxy materials and marking, dating and signing a proxy card and returning it in the accompanying postage paid envelope as quickly as possible. Your vote is important!

Sincerely,

Paul M. Bisaro
President and Chief Executive Officer

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WATSON PHARMACEUTICALS, INC.
Morris Corporate Center III
400 Interpace Parkway
Parsippany, New Jersey 07054

2011 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 13, 2011

Notice of Annual Meeting of Stockholders:

You are hereby notified that the 2011 Annual Meeting of Stockholders (the *Meeting*) of Watson Pharmaceuticals, Inc. (the *Company*) will be held at Sheraton Parsippany Hotel located at 199 Smith Road, Parsippany, New Jersey at 9:00 a.m. local time, on May 13, 2011, for the following purposes:

1. To elect Michael J. Fedida, Albert F. Hummel, Catherine M. Klema and Anthony Selwyn Tabatznik as members of the Board of Directors to hold office until the 2014 Annual Meeting or until each of their respective successors is duly elected and qualified.

2. To approve an amendment and restatement of the Company s articles of incorporation to provide for the declassification of the Board of Directors and to delete certain provisions from the articles of incorporation.

3. To approve the Fourth Amendment and Restatement of the 2001 Incentive Award Plan.

4. To take an advisory (nonbinding) vote to approve Named Executive Officer compensation.

5. To take an advisory (nonbinding) vote on the frequency of future advisory votes to approve Named Executive Officer compensation.

6. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011.

7. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 18, 2011 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting. Only stockholders of record at the close of business on March 18, 2011 will be entitled to notice of and to vote at the Meeting or any adjournment thereof. Your attention is directed to the attached proxy statement for more complete information regarding the matters to be acted upon at the Meeting.

You may vote your shares in person at the Meeting. Whether or not you plan to attend the Meeting, you may also vote your shares: (i) by accessing the Internet site described in the Notice provided to you, (ii) by calling the toll-free telephone number listed at the Internet site (or, depending on the voting process used by your broker or nominee, pursuant to the instructions on the notice, proxy card or voting instruction form they provide to you) , or (iii) by requesting a paper copy of the proxy materials and marking, dating and signing a proxy card and returning it in the accompanying postage paid envelope as quickly as possible.

By Order of the Board of Directors

David A. Buchen, Secretary

Parsippany, New Jersey
April 1, 2011

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PROXY STATEMENT

General

This proxy statement and the accompanying proxy are furnished to stockholders of Watson Pharmaceuticals, Inc. (*Watson,* the *Company*, *we*, *us* and *our*) in connection with the solicitation of proxies by our Board of Directors at the 2011 Annual Meeting of Stockholders (the *Meeting*) to be held at the Sheraton Parsippany Hotel located at 199 Smith Road, Parsippany, New Jersey at 9:00 a.m. local time on May 13, 2011 for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Directions to the Meeting can be viewed at www.starwoodhotels.com.

In connection with the Meeting, we have prepared a Notice of Annual Meeting of Stockholders, a proxy statement, and our 2010 Annual Report to Stockholders, which provides detailed information relating to our activities and operating performance. This year we are pleased to be taking advantage of Securities and Exchange Commission (*SEC*) rules that allow companies to furnish their proxy materials over the Internet. On April 1, 2011, we mailed to our stockholders a Notice Regarding the Availability of Proxy Materials (the *Notice*) containing instructions on how to access our proxy materials online. Brokers and other nominees who hold shares on behalf of beneficial owners will be sending their own similar Notice. We believe electronic delivery will expedite the receipt of materials, while lowering costs and reducing the environmental impact of our Meeting by reducing printing and mailing of full sets of materials.

If you receive a Notice by mail, you will not receive a printed copy of the materials, unless you specifically request one. However, the Notice contains instructions on how to receive a paper copy of the materials by mail, by telephone or electronically. If you have received paper copies of these materials, a proxy card will also be enclosed.

Whether or not you plan to attend the Meeting, we encourage you to vote your shares. You may vote:

- via Internet;
- by telephone;
- by mail; or
- in person at the Meeting.

If you plan to attend the Meeting in person, you must provide proof of share ownership, such as an account statement, and a form of personal identification in order to be admitted to the Meeting.

Stockholders of record at the close of business on March 18, 2011 (the *record date*) are entitled to notice of and to vote at the Meeting. On such date, there were outstanding 126,400,372 shares of our common stock, par value $0.0033 per share. In deciding all questions, each holder of common stock shall be entitled to one vote, in person or by proxy, for each share held on the record date.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 13, 2011.

This proxy statement and our 2010 Annual Report to Stockholders and the means to vote by Internet are available on our website at www.watson.com/proxy2011 and at www.proxyvote.com. Our website also contains the following documents: the Notice of Annual Meeting of Stockholders, this proxy statement and proxy card sample, and the 2010 Annual Report to Stockholders. You are encouraged to review all of the important information contained in the proxy materials before voting.

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VOTING RIGHTS AND SOLICITATION OF PROXIES

Voting by Internet, Telephone, Mailed Proxy or in Person

The method of voting by proxy differs for shares held as a record holder and shares held in street name. If you hold your shares of common stock as a record holder and you are viewing this proxy statement on the Internet, you may vote by submitting a proxy over the Internet by following the instructions on the website referred to in the Notice previously mailed to you. If you hold your shares of common stock as a record holder and you are reviewing a paper copy of this proxy statement, you may vote by completing, dating and signing the proxy card that was included with the proxy statement and promptly returning it in the preaddressed, postage-paid envelope provided to you, or otherwise mailing it to us. You may also vote by attending the Meeting and voting in person.

If you hold your shares of common stock in street name, which means your shares are held of record by a broker, bank or nominee, you will receive a Notice from your broker, bank or other nominee that includes instructions on how to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions over the Internet and may also permit you to submit your voting instructions by telephone. In addition, you may request paper copies of the proxy statement and proxy card from your broker, bank or nominee by following the instructions on the Notice provided by your broker, bank or nominee. If you hold your shares in street name, you will need to obtain a legal proxy from your bank, broker or nominee in order for you to vote in person at the Meeting.

Your vote is very important. Accordingly, please submit your proxy whether or not you plan to attend the Meeting in person. You should vote your proxy even if you plan to attend the Meeting. If you properly give your proxy and submit it to us in time to vote, one of the individuals named as your proxy will vote your shares as you have directed.

The Internet and telephone voting facilities will close at 11:59 p.m. Eastern Time on May 12, 2011. Stockholders who vote through the Internet or telephone should be aware that they may incur costs to access the Internet, such as usage charges from telephone companies or Internet service providers, and that these costs must be borne by the stockholder.

Revocation of Proxy

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

1. The stockholder may send a notice in writing, with a date later than the date of the proxy, to our Secretary revoking the proxy.

2. The stockholder may attend the Meeting and vote in person. Attendance at the Meeting will not, by itself, revoke a proxy.

3. The stockholder may execute a proxy, relating to the same shares, with a later date and deliver it to our Secretary before the voting at the Meeting.

4. The stockholder may submit another proxy by telephone or the Internet (your latest telephone or Internet voting instructions will be followed).

Any such notices and new proxies that are sent by mail should be sent to Watson Pharmaceuticals, Inc., Corporate Secretary, Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

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

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Solicitation of Proxies

We have retained the services of a proxy solicitation firm, The Proxy Advisory Group, LLC (Proxy Advisory), to solicit proxies for the Meeting from our stockholders. We will bear the entire cost of solicitation of our and Proxy Advisory s solicitations, including the payment of fees of approximately $14,000 to Proxy Advisory for their services, and the cost of preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional information furnished to stockholders. In addition to the use of the mail, proxies may be solicited on our behalf by our directors, officers and employees, who will receive no additional consideration for such services. Upon request, Brokers, custodians, nominees and other stockholders of record may forward copies of the Notice, and if requested, the proxy statement and other soliciting materials to persons for whom they hold shares of our common stock and to request authority for the exercise of proxies. We will reimburse brokers, custodians and nominees for their reasonable expenses.

Quorum and Voting

At the close of business on March 18, 2011, 126,400,372 shares of our common stock were outstanding and entitled to vote. Votes cast by proxy (including through the Internet or by telephone) or in person at the Meeting will be tabulated by the election inspector appointed for the Meeting who will determine whether or not a quorum is present. The presence, in person or by proxy, of the holders of a majority of our common stock outstanding and entitled to vote at a meeting of stockholders is necessary in order to constitute a quorum for the conduct of business at the Meeting.

Brokers or other nominees who hold shares of common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters that the New York Stock Exchange (the *NYSE*) determines to be non-routine, without specific instructions from the beneficial owner. If a proxy is received but marked abstention or if a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not been instructed on how to vote (i.e. *broker non-votes*), those shares will be considered as present and entitled to vote for purposes of determining the presence of a quorum. Under NYSE rules, the ratification of accountants is generally considered to be a routine proposal, and therefore, your broker can vote on Proposal No. 6 without instructions from you. However, with respect to the other proposals, all of which deal with non-routine matters, your broker will not be able to vote your shares without specific instructions from you.

A properly submitted proxy (including through the Internet or by telephone) that is received before the polls are closed at the Meeting and that is not revoked will be voted in the manner directed by the stockholder submitting the proxy. If no direction is made, such proxy will be voted:

FOR the election of Michael J. Fedida, Albert F. Hummel, Catherine M. Klema and Anthony Selwyn Tabatznik as our directors;

FOR the approval of an amendment and restatement of the Company s articles of incorporation to provide for the declassification of the Board of Directors and to delete certain provisions from the articles of incorporation;

FOR the approval of the Fourth Amendment and Restatement of the 2001 Incentive Award Plan;

FOR a non-binding recommendation to approve our Named Executive Officer compensation;

FOR a non-binding recommendation to hold an annual advisory vote on our Named Executive Officer compensation; and

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2011.

As of the date of this proxy statement, the Board of Directors knows of no other business that will be presented for consideration at the Meeting. However, if other proper matters are presented at the Meeting, it is the intention of

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the proxy holders named in the enclosed form of proxy to take such actions as shall be in accordance with their best judgment.

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

Householding

In an effort to reduce printing costs and postage fees, we have adopted a practice approved by the SEC called householding. Under this practice, stockholders who have the same address and last name will receive only one copy of the Notice and, upon request, our proxy materials, unless one or more of these stockholders notifies us that he or she wishes to receive individual copies. If you share an address with another stockholder and prefer to receive separate copies of the Notice or our proxy materials, please mail your request to Watson Pharmaceuticals, Inc., Investor Relations, Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

Information on Our Website

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

Assistance

If you need assistance in submitting your proxy or have questions regarding the Meeting, please contact our investor relations department at 1-973-355-8488 or info@watson.com or write to: Investor Relations, at Watson Pharmaceuticals, Inc., Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

Under our bylaws, the Board of Directors must consist of between seven and fifteen directors, with the exact number determined by the Board of Directors. The Board of Directors has set the current number of authorized directors at eleven. There are no vacant positions on the Board of Directors.

Our articles of incorporation provide that the Board of Directors will be divided into three classes. One class is elected each year for a three-year term, expiring at our annual meeting of stockholders. If the amendment and restatement of our articles of incorporation is approved, directors elected after this year s Meeting will be elected annually for one-year terms expiring at the next succeeding annual meeting. Accordingly, when the terms of our Class II, Class III and Class I directors expire in 2012, 2013 and 2014, respectively, they will stand for election annually, rather than every three years.

At the Meeting, four directors, who will comprise the Class I directors, are to be elected to serve until the 2014 Annual Meeting or until their successors are duly elected and qualified.

Based upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated Michael J. Fedida, Albert F. Hummel, Catherine M. Klema and Anthony Selwyn Tabatznik for reelection as Class I directors.

Our Class II directors, Jack Michelson, Ronald R. Taylor and Andrew L. Turner, are scheduled to serve as directors until the 2012 Annual Meeting.

Our Class III directors, Paul M. Bisaro, Christopher W. Bodine, Michel J. Feldman and Fred G. Weiss are scheduled to serve as directors until the 2013 Annual Meeting.

Information about the nominees for director and our directors whose term of office will continue after the Meeting is set forth in the following paragraphs and is based on information provided to us as of March 2, 2011.

Class I Director Nominees for Election at the Meeting:

Michael J. Fedida Director since 1995

Michael J. Fedida, age 64, a registered pharmacist, has served for the past 27 years as an officer and director of several retail pharmacies wholly or partially owned by him, including J&J State Street Pharmacy from 2009 to present, J&J Saint Michael s Pharmacy from 2005 to present; J&J Pharmacy and Classic Pharmacy from 1987 to present; Perfect Pharmacy from 1980 to 2000; and Phoster Pharmacy from 1985 to 2000. Mr. Fedida has been a director of Arbor Pharmaceuticals, Inc., a pediatric pharmaceutical company, since March 2010. Mr. Fedida served on the Board of Directors of Circa Pharmaceuticals, Inc. (*Circa*), from 1988 to 1995, at which time Circa was acquired by us. Mr. Fedida was a Director of Bradley Pharmaceuticals, Inc., a specialty pharmaceutical company, from April 2004 to February 21, 2008. The Board concluded that Mr. Fedida should serve as a director because of his decades of experience as a practicing pharmacist and manager of a number of pharmacy businesses, which help him to bring the perspective of pharmacists and customers to the deliberations of the Board.

Albert F. Hummel Director since 1986

Albert F. Hummel, age 66, has been our director since March 1986, except for a period from July 1991 to October 1991. Mr. Hummel has been President of Pentech Pharmaceuticals, Inc., a development stage pharmaceutical company, since July 1998 and CEO and Director of Cobrek Pharmaceuticals, Inc., a private venture- backed pharmaceutical research and development firm and an affiliate of Pentech, since May 2008. Since November 2005, Mr. Hummel has been a director for Obagi Medical Products, Inc., a specialty pharmaceutical company focused on the aesthetic and therapeutic skin health markets. Mr. Hummel was appointed interim President and Chief Executive Officer of Obagi on October 8, 2010. Additionally, Mr. Hummel served as a partner in Affordable Residential Communities, a property management firm, from January 1994 through March 2006. The Board concluded that Mr. Hummel should serve on the Board because he brings extensive capital markets and strategic planning experience to our Board.

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Catherine M. Klema Director since 2004

Catherine M. Klema, age 52, is currently President of Nettleton Advisors LLC, a consulting firm established by Ms. Klema in 2001. Ms. Klema served as Managing Director, Healthcare Investment Banking, at SG Cowen Securities from 1997 to 2001. While at SG Cowen, Ms. Klema had advised us on investment banking matters. Ms. Klema also served as Managing Director, Healthcare Investment Banking, at Furman Selz LLC from 1994 until 1997, and was employed by Lehman Brothers from 1987 until 1994. Ms. Klema has been a director of Pharmaceutical Product Development, Inc., a global contract research organization, since 2000. The Board concluded that Ms. Klema s qualifications for service on our Board include her background in healthcare investment banking and her knowledge of the business of pharmaceutical research and development.

Anthony Selwyn Tabatznik Director since 2009

Anthony Selwyn Tabatznik, age 63, was a founder of the Arrow Group, an international group of generic pharmaceutical companies, and served as a director of the parent company of the Arrow Group from 2003 through our acquisition of the Arrow Group in 2009. Mr. Tabatznik was also a founder of another international group of generic pharmaceutical companies, originally known as the Generic Group BV, which started operations in the early 1980s and which, following its purchase by Merck KGaA in 1994, became known as the Merck Generics Group BV. Mr. Tabatznik served as a director of Merck Generics Group BV until 1999. The Board concluded that Mr. Tabatznik should serve on the Board because of his lengthy experience as the founder of numerous successful generic pharmaceutical businesses, including the Arrow Group, as well as his global perspective on our industry.

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

Required Vote for Election of Directors

Persons nominated to serve on our Board of Directors in an uncontested election must receive a greater number of votes cast FOR than votes cast AGAINST in order to be elected, or re-elected, to the Board of Directors. Accordingly, abstentions will not affect the outcome of the election of directors. Proxies cannot be voted for a greater number of persons or different persons than the nominees named.

Please note that if your broker holds your common stock in street name, your broker will not vote your shares on the election of directors, and broker non-votes will result, unless you provide your voting instructions over the internet, by telephone or mail as directed in the Notice sent to you by your broker. Broker non-votes will not affect the outcome of the election of directors.

The Board of Directors unanimously recommends a vote *FOR* the election of Michael J. Fedida, Albert F. Hummel, Catherine M. Klema and Anthony Selwyn Tabatznik.

Class II Directors whose Terms Expire at the 2012 Annual Meeting:

Jack Michelson Director since 2002

Jack Michelson, age 76, was our consultant from February 2001 to June 2003. Mr. Michelson served for 24 years as an officer of G.D. Searle & Co., a pharmaceutical company, as the Corporate Vice President and President, Technical Operations from 1993 to 2001; Senior Vice President of Technical Operations from 1981 to 1993; and Vice President of Production and Engineering from 1977 to 1981. The Board concluded that Mr. Michelson should serve as a member of our Board because of his deep knowledge of the operational, technical and regulatory aspects of our business.

Ronald R. Taylor Director since 1994

Ronald R. Taylor, age 63, has been President of Tamarack Bay, LLC, a private consulting firm, since 2001. Mr. Taylor has been a director of Red Lion Hotels Corporation, a hotel operating company, since 1998 and a director of ResMed Inc., a medical device manufacturer, since 2005. Mr. Taylor was a limited partner of Enterprise Partners

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Venture Capital (*Enterprise*), a venture capital firm, from April 2001 until September 2002, and was formerly a general partner of Enterprise from April 1998 to March 2001. Mr. Taylor was also a consultant to Cardinal Health, Inc., a provider of healthcare products and services, from May 1996 to May 2002. The Board concluded that Mr. Taylor s qualifications to serve on our Board of Directors include his experience as a founder of a successful business and his expertise in evaluating and investing in healthcare companies.

Andrew L. Turner Director since 1997

Andrew L. Turner, age 64, was appointed as the Chairman of our Board in May 2008. He also serves as Manager and Chief Executive Officer of Trinity Health Systems, an owner of senior housing properties founded by Mr. Turner in 2009. Mr. Turner has also been a director of The Sports Club Company, Inc., an upscale workout company, since September 1994. Mr. Turner has been a director of Streamline Health Solutions, a provider of software for document solutions in hospitals, since 2007. The Board concluded that Mr. Turner s primary qualifications for service on our Board include his extensive experience as a healthcare entrepreneur and his deep knowledge of our Company and business.

Class III Directors whose Terms Expire at the 2013 Annual Meeting:

Paul M. Bisaro Director since 2007

Paul M. Bisaro, age 50, has served as our President and Chief Executive Officer and on our Board of Directors since 2007. Prior to joining us, Mr. Bisaro was President, Chief Operating Officer and a member of the Board of Directors of Barr Pharmaceuticals, Inc., a global specialty pharmaceutical company (*Barr*), from 1999 to 2007. Between 1992 and 1999, Mr. Bisaro served as General Counsel of Barr and from 1997 to 1999 served in various additional capacities including Senior Vice President Strategic Business Development of Barr. Prior to joining Barr, he was associated with the law firm Winston & Strawn and a predecessor firm, Bishop, Cook, Purcell and Reynolds from 1989 to 1992. Mr. Bisaro received his undergraduate degree in General Studies from the University of Michigan in 1983 and a Juris Doctor from Catholic University of America in Washington, D.C. in 1989. The Board concluded that Mr. Bisaro should serve on the Board because of his experience as a senior executive in our industry, his knowledge of our Company and its day-to-day operations and his strong strategic vision for the Company.

Christopher W. Bodine Director since 2009

Mr. Bodine, age 55, retired from CVS Caremark in January 2009 after 24 years with CVS. Prior to his retirement, Mr. Bodine served as President, Healthcare Services of CVS Caremark Corporation, where he was responsible for strategy, business development, trade relations, sales and account management, pharmacy merchandising, marketing, information technology and Minute Clinic. Prior to the merger of CVS Corporation and Caremark Rx, Inc. in March 2007, Mr. Bodine served for several years as Executive Vice President Merchandising and Marketing of CVS Corporation. Mr. Bodine has also been active in the pharmaceutical industry serving on a number of boards and committees, including the Healthcare Leadership Council, RI Quality Institute, National Retail Federation, National Association of Chain Drug Stores (NACDS), and the NACDS Pharmacy Affairs and Leadership Committees. The Board concluded that Mr. Bodine should serve on the Board because of his extensive industry experience and knowledge of the needs and operations of our major customers.

Michel J. Feldman Director since 1985

Michel J. Feldman, age 68, is a member of the law firm of Seyfarth Shaw LLP, where he has practiced since October 2003. Previously, Mr. Feldman was a member of the law firm of D Ancona & Pflaum LLC, where he practiced from June 1991 to October 2003. Effective October 2003, D Ancona & Pflaum LLC merged with Seyfarth Shaw LLP.

Mr. Feldman is also a certified public accountant (inactive). The Board concluded that Mr. Feldman s qualifications as a member of our Board of Directors include his legal expertise, business experience and more than 25 years of service as a Director of our Company.

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Fred G. Weiss Director since 2000

Fred G. Weiss, age 69, has been the managing director of FGW Associates, Inc., a consulting firm, since 1997. Mr. Weiss served as Vice President, Planning, Investment and Development of Warner-Lambert from 1983 to 1996 and prior to that served as Vice President and Treasurer of Warner-Lambert from 1979 to 1983, where he was involved in both strategic planning and corporate development. Mr. Weiss is also an Independent Vice-Chairman of the Board and Chairman of the Audit Committee of numerous BlackRock-sponsored mutual funds. In this capacity, and pursuant to BlackRock s policies, Mr. Weiss has oversight responsibility for finance and accounting matters, and has no responsibility for, or discretion concerning, any of BlackRock s equity investment decisions. Additionally, Mr. Weiss has been a Director of the Michael J. Fox Foundation for Parkinson s Research since 2000. The Board concluded that Mr. Weiss is qualified to serve as a member of our Board of Directors because of, among other factors, his financial expertise and experience in strategic planning and corporate development.

CORPORATE GOVERNANCE

Corporate Governance Guidelines and Code of Conduct

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

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

You can find links to our Corporate Governance Guidelines and our Code of Conduct under the Investors section of our website at *http://www.watson.com.* Copies of these materials are available to stockholders without charge upon request sent to Investor Relations at Watson Pharmaceuticals, Inc., Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

Director Independence

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

Our Board has determined that at least a majority of its directors has no direct or indirect material relationship with us (other than as our director) and such directors are independent within the meaning of the independence standards promulgated by the SEC and the NYSE. Specifically, on March 3, 2011, the Board determined, based on our Director Independence Standards and the NYSE standards for independence, that Christopher W. Bodine, Michael Fedida, Michel Feldman, Albert Hummel, Catherine Klema, Jack Michelson, Ronald Taylor, Andrew Turner and Fred Weiss, or nine out of our eleven directors, have no relationship with us that would interfere with the exercise of independent judgment and are independent directors. Mr. Bisaro was determined to be not independent, because he is our President and Chief Executive Officer. Mr. Tabatznik was determined to be not independent because of the fact that, among other things, he served as an employee of the Arrow Group prior to our acquisition of the Arrow Group in 2009 and he is a party to a consulting agreement with us. Mr. Tabatznik is no longer an employee of the Arrow Group.

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

(i) Mr. Bodine s service as an employee of CVS Caremark Corporation, a customer of the Company, through January of 2009, including as Special Advisor to the Chief Executive Officer of CVS Caremark Corporation from July 29, 2008 and, prior to that, as Executive Vice President of CVS Caremark Corporation and President Caremark Pharmacy

Services;

(ii) Mr. Fedida s ownership of pharmacies that from time to time purchase pharmaceuticals from Anda, Inc., one of our subsidiaries that is a wholesaler distributor;

(iii) Ms. Klema s directorship with Pharmaceutical Product Development, Inc., a contract research organization that has provided services for us in the past;

(iv) Mr. Taylor s former directorship of 3e Company, a privately-held compliance information services company that has provided services for us in the past; and

(v) Mr. Hummel s service as a director and President of Pentech Pharmaceuticals, Inc., a development stage pharmaceutical company engaged in the development and commercialization of pharmaceutical products in the areas of urology and the central nervous system.

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

BOARD OF DIRECTORS AND COMMITTEES

Executive Sessions

We schedule regular executive sessions in which non-management directors meet without management participation. The Chairman of the Board, Mr. Turner, presides at these meetings. We also schedule regular executive sessions in which only independent directors meet.

Communications with the Board of Directors

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

Chairman, Nominating and Corporate Governance Committee
c/o Corporate Secretary
Watson Pharmaceuticals, Inc.
Morris Corporate Center III
400 Interpace Parkway,
Parsippany, NJ 07054

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

Leadership Structure

The Board of Directors has determined that having an independent director serve as Chairman of the Board is in the best interest of stockholders at this time. We separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while the Chairman of the Board provides guidance to the CEO and sets the agenda for Board meetings and presides over meetings of the full Board. We also believe that this structure ensures a greater role for the independent directors in the oversight of the Company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of the Board. We also believe that this leadership structure is preferred by a significant number of our stockholders.

Director Nomination Process

The Nominating and Corporate Governance Committee considers director candidates from diverse sources, including suggestions from stockholders. From time to time, the Nominating and Corporate Governance Committee may engage a third party for a fee to assist in identifying potential director candidates. The Nominating and Corporate Governance Committee looks for candidates who represent a diverse mix of backgrounds and experiences that will enhance the quality of the board s deliberations and decisions. The backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. Specifically, this committee seeks candidates who (a) bring not only direct experience, but also a variety of experience and background, both professionally and personally, (b) will represent the balanced, best interests of the stockholders as a whole rather than special interest groups or constituencies, (c) have a reputation for integrity and (d) satisfy the independence requirements of the NYSE, our Director Independence Standards and applicable law. The Nominating and Corporate Governance Committee s goal is to have a diverse, balanced and engaged board whose members possess the skills and background necessary to maximize stockholder value in a manner consistent with all legal requirements and the highest ethical standards. Our Corporate Governance Guidelines specify that the value of diversity on the Board should be considered by the Nominating and Corporate Governance Committee in the director identification and nomination process. This committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Nominating and Corporate Governance Committee s Charter and our Corporate Governance Guidelines, which are published on our website at *http://www.watson.com* under the Investors section, set forth in further detail the criteria that guide this committee in assessing potential candidates for the Board of Directors.

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

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

Stockholders wishing to recommend a director candidate for consideration by the Nominating and Corporate Governance Committee may do so by sending the candidate s name, biographical information and qualifications, together with a consent in writing signed by the recommended nominee that he or she is willing to be considered as a nominee and, if nominated and elected, he or she will serve as a director, to the Chair of the Nominating and Corporate Governance Committee in care of the Corporate Secretary, Watson Pharmaceuticals, Inc., Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054. The submission of a recommendation by a stockholder in compliance with these procedures does not guarantee the selection of the stockholder s candidate or the inclusion of the candidate in our proxy statement. However, the Nominating and Corporate Governance Committee will consider any such candidate in accordance with the procedures and guidelines as described above and as set forth in the Charter of our Nominating and Corporate Governance Committee and in our Corporate Governance Guidelines.

Board Meetings

During the fiscal year ended December 31, 2010, the Board of Directors held eight meetings and executed one unanimous written consent in lieu of a meeting. Each director attended at least 75 percent of the combined total of (i) all Board of Directors and (ii) all meetings of committees of which the director was a member. We do not have a policy with regard to board members attendance at annual meetings. All members of the Board attended our 2010 Annual Meeting of Stockholders. Mr. Weiss attended by telephone.

Committees

The Board of Directors has created four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Regulatory Compliance Committee. The Board of Directors has adopted a charter for each of the four committees. The charters for each committee and other materials related to corporate governance are available under the Investors section of our website at *http://www.watson.com*. A copy is also available to stockholders upon request sent to Investor Relations at Watson Pharmaceuticals, Inc., Morris Corporate Center III, 400 Interpace Parkway, Parsippany, NJ 07054.

The Audit Committee

We have an Audit Committee currently composed of Michel J. Feldman, Albert F. Hummel, Ronald R. Taylor and Fred G. Weiss. Catherine M. Klema served on this Committee until May 2010, when she was succeeded by Mr. Hummel. All other members of the Audit Committee served as such throughout fiscal year 2010.

Mr. Weiss serves as the Chairman of the Audit Committee. All of the members of the Audit Committee have been determined by the Board of Directors to be independent and meet the audit committee independence requirements of the NYSE listing standards and SEC Rule 10A-3. The Board of Directors has determined that all of the current members of the Audit Committee qualify as audit committee financial experts within the meaning of the SEC rules, and are financially literate as required under the NYSE listing standards. The functions of the Audit Committee and its activities during fiscal 2010 are described below under the heading Report of the Audit Committee. The Audit Committee is directly responsible for the engagement, compensation and oversight of the work of PricewaterhouseCoopers LLP (including resolution of disagreements, if any, between management and PricewaterhouseCoopers LLP regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. During the fiscal year ended December 31, 2010, the Audit Committee met five times and executed one unanimous written consent in lieu of a meeting.

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

The Compensation Committee

We have a Compensation Committee currently composed of Christopher W. Bodine, Michael J. Fedida, Catherine M. Klema and Ronald R. Taylor. Ms. Klema and Mr. Taylor were members of the Compensation Committee throughout fiscal year 2010. Mr. Weiss served on this Committee until May 2010, when he was succeeded by Messrs. Bodine and Fedida.

Mr. Taylor serves as the Chairman of the Compensation Committee. All of the members of the Compensation Committee have been determined by the Board of Directors to be independent and meet the independence requirements of the NYSE listing standards. Our Board has determined that all current Compensation Committee members qualify as non-employee directors within the meaning of Section 16 of the Exchange Act and as outside directors within the meaning of Section 162(m) of the Internal Revenue Code (*IRC*). The primary purpose of the Compensation Committee is to review, approve and evaluate director compensation and senior executive compensation plans, policies and programs for us. The Compensation Committee engaged F.W. Cook, an independent compensation consulting firm, to advise the Compensation Committee during the 2010 fiscal year. F.W. Cook reported directly to the Compensation Committee and the Compensation Committee retains the right to terminate or replace the consultant at any time. F.W. Cook conducted an annual review of our total compensation program for our executive officers and advised the Compensation Committee on such compensation matters as requested by the Compensation Committee. F.W. Cook did not provide other services to the Company in 2010. Additional information on the Compensation Committee s processes and procedures for consideration of executive compensation, including the role of our chief executive officer, are addressed in the Compensation Discussion and Analysis beginning on page 15. The Compensation Committee met five times and executed two unanimous written consents in lieu of meetings during the fiscal year ended December 31, 2010.

The Nominating and Corporate Governance Committee

We have a Nominating and Corporate Governance Committee currently composed of Christopher W. Bodine, Catherine M. Klema, Jack Michelson and Fred G. Weiss. Ms. Klema and Mr. Weiss served as members of the Nominating and Corporate Governance Committee throughout fiscal year 2010. Mr. Taylor served on this Committee until May 2010, when he was succeeded by Messrs. Bodine and Michelson. Ms. Klema serves as

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the Chairperson of the Nominating and Corporate Governance Committee. All of the members of the Nominating and Corporate Governance Committee have been determined by the Board of Directors to be independent and meet the independence requirements of the NYSE listing standards. The key functions of the Nominating and Corporate Governance Committee are to identify and present qualified candidates to the Board of Directors for election or re-election as directors of the Board and Board of Directors committees, ensure that the size and composition of the Board of Directors, its committees, and our Charter and Bylaws are structured in a way that best serves our practices and objectives, develop and recommend to the Board of Directors a set of corporate governance guidelines and principles and periodically review and recommend changes to such guidelines and principles as deemed appropriate, and oversee the evaluation of the Board of Directors and senior management. The Nominating and Corporate Governance Committee met two times during the fiscal year ended December 31, 2010.

The Regulatory Compliance Committee

We have a Regulatory Compliance Committee currently composed of Michael J. Fedida, Michel J. Feldman, Albert F. Hummel and Jack Michelson. Each was a member of the Regulatory Compliance Committee throughout fiscal year 2010.

Mr. Michelson serves as the Chairman of the Regulatory Compliance Committee. The primary purpose of the Regulatory Compliance Committee is to assist the Board of Directors with the Board s oversight responsibilities regarding our compliance with applicable regulatory requirements related to product safety and quality and environmental, health and safety matters. The Regulatory Compliance Committee met two times and executed one unanimous written consent in lieu of a meeting during the fiscal year ended December 31, 2010.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee of our Board of Directors is responsible for establishing, implementing and continually monitoring our adherence to our compensation philosophy for our executive officers, including Paul M. Bisaro, our chief executive officer. The Compensation Committee seeks to ensure that the total compensation paid to our executive officers is fair, reasonable and competitive.

Throughout this proxy statement, references to our Named Executive Officers refer to Paul M. Bisaro, our President and Chief Executive Officer, R. Todd Joyce , our Executive Vice President and Chief Financial Officer, G. Frederick Wilkinson, our Executive Vice President, Global Brands, Robert A. Stewart, our Executive Vice President, Global Operations, and David A. Buchen, our Executive Vice President, General Counsel and Secretary.

Executive Summary

2010 was a year of continued success, with the Company achieving a number of key business objectives and net revenue and non-GAAP earnings per share growth, respectively, of 27.7 percent and 12.5 percent during the year. Our record of effectively executing our plans and realizing our financial and business objectives continues from 2009, during which we achieved, respectively, net revenue and non-GAAP earnings per share growth of 10.2 percent and 23.1 percent; and 2008, during which we achieved, respectively, net revenue and non-GAAP earnings per share growth of 1.6 percent and 6.9 percent. These successes have occurred as we have fundamentally expanded and reshaped our Company on a global basis, including through the acquisition of the Arrow Group in December 2009.

We believe that the structure and implementation of our compensation programs for senior executives, including our Named Executive Officers, has helped to contribute to our achieving strong performance. In designing and implementing compensation programs for our Named Executive Officers, our primary objectives are to:

- Tie their total compensation to their achievement of key financial and business goals;
- Ensure that cash bonuses and equity awards reflect Company performance and incentivize our Named Executive Officers to focus their efforts on the creation of stockholder value; and
- Attract and retain the most talented and dedicated executives possible in a competitive labor market.

The Compensation Committee regularly and systematically evaluates individual, departmental, segment and corporate performance to determine the proper structure and mix of executive compensation to support key financial and strategic business objectives while setting executive compensation at levels the Compensation Committee believes are competitive relative to our peer companies. In addition, the Compensation Committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risks.

During 2010 we continued to allocate a significant percentage of our total compensation to annual cash incentives and long-term equity incentives. Some of the highlights of our 2010 compensation program include, among other things:

- Maintained unchanged from 2009 the 2010 base salary for our Chief Executive Officer, and generally increased the base salaries of our other Named Executive Officers by 2%, with the exception of Mr. Joyce, who received an increase of 5.89% in connection with his promotion to our Senior Vice President and Chief Financial Officer in 2009 and Mr. Stewart, who received an increase of 11.11% in connection with his promotion to our Executive Vice President, Global Operations in 2010;

Set performance targets based on the higher operating performance expectations for 2010, for our annual and long-term incentive plans (with the exception of segment performance for our Global Brands business segment due to the expiration of our distribution rights for the Ferrlecit® product on December 31, 2009, as described below); and

Provided for a special bonus opportunity for our Chief Executive Officer based on the successful integration of the Arrow business into our existing operations.

We discuss each of these actions below.

Objectives of Named Executive Officer Compensation Program.

The Compensation Committee s primary objectives with respect to Named Executive Officer compensation are to:

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

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

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

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

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

To implement the objectives above, our fiscal 2010 compensation for our Named Executive Officers consisted primarily of the following components (in addition to the retirement, health and welfare plans and programs in which all of our full-time U.S. employees participate and limited perquisites):

Base Salary

Provides Named Executive Officers with a degree of financial certainty and stability; and

Determined with reference to factors including level of responsibility, individual and Company performance, and peer company benchmarks.

Annual Cash Incentive Awards

Intended to directly link a significant amount of annual cash compensation that is at-risk and subject to achievement of measurable annual individual, departmental, business and strategic objectives and corporate and segment financial goals; and

Adjusted EBITDA is a primary company-wide measure as it facilitates analysis by management and investors in evaluating the Company s performance and trends and in comparing our financial performance with that of other companies.

Long-Term Equity Incentives

- Historically, composed of (i) Time Awards (size of grant based on individual performance and time of service, and not tied to specific financial targets); and (ii) Performance Awards (value of grant based on the Company s performance during the fiscal year as measured against Adjusted EBITDA targets);

- Grants in the form of restricted stock, intended to align interests of management with our stockholders, and focus management s attention on long-term growth and value creation; and

- Represent an essential tool for attracting and retaining talented professionals and managers.

Compensation Best Practices.

The Compensation Committee designs our compensation program to motivate our Named Executive Officers to achieve short-and long-term financial and strategic goals, in addition to increasing stockholder value, without encouraging excessive risk-taking. The Compensation Committee, with the assistance of our senior management and external advisors including F.W. Cook, the Compensation Committee s compensation consultant, regularly evaluates and modifies our compensation programs in an effort to incorporate best practices.

In 2010, we retained a number of key practices and plan design elements we believe represent compensation best practices, including:

- Pay linked to performance;

- Mix of short- and long-term compensation; and

- Not granting excise tax gross-ups in new change-in-control agreements, or renewing such provisions in existing agreements as they expire.

In 2011, we have continued to adapt and modify our compensation programs for our Named Executive Officers and others in order to support our business objectives and increase shareholder value while managing risk. New aspects of our compensation programs for our Named Executive Officers in 2011 include:

- Transition from fixed share number guidelines to fixed dollar value guidelines for granting equity awards;

- Increased emphasis on performance-based vesting of equity awards, and on the long-term value created for our stockholders, by linking value of equity awards to annual Company financial performance (Adjusted EBITDA) and multi-year Total Shareholder Return relative to our peer company group; and

- We adopted stock ownership guidelines for our executive officers and directors that require them to hold shares valued as a multiple of their salary.

We discuss each of these changes below.

Determination of Compensation

Role of Executive Officers in Compensation Decisions

On an annual basis, in concert with our chief executive officer, our Named Executive Officers engage in a process whereby they each set individual, departmental and company-wide goals for the year to come. Following the completion of our fiscal year, our Named Executive Officers are formally required to assess whether these goals were achieved and to set values to express the extent to which the Named Executive Officer believes his or her goals were met. Our chief executive officer reviews and discusses these self-assessments with each of our Named Executive Officers and, with the assistance of our human resources department, makes recommendations to the Compensation Committee concerning compensation of the Named Executive Officers. While the Compensation Committee considers these recommendations in determining base salaries, adjustments to base salaries, cash incentive awards and equity-based awards for our Named Executive Officers, it may modify any such

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recommendations in its discretion. Our Human Resources department also works closely with the Compensation Committee and management to ensure that the Compensation Committee is provided with appropriate information upon which to base its decisions and communicate those decisions to management for implementation.

Independent Compensation Advisor

The Compensation Committee engaged Frederic W. Cook & Co., Inc. (*F.W. Cook*), an independent global executive compensation consulting firm, to advise the committee on matters related to chief executive officer and other executive compensation with respect to 2010. In this capacity, F.W. Cook conducted a benchmark review of our compensation program for our Named Executive Officers and provided the Compensation Committee with relevant market data and structuring alternatives to consider when making compensation decisions.

Working with F.W. Cook, the Compensation Committee compared the elements of our total compensation program against programs provided for similarly situated executives at peer companies, as discussed more fully below. The Compensation Committee generally assesses the competitiveness of our total target and actual direct compensation (salary, bonus and equity) for our Named Executive Officers and other senior executives by comparing these amounts with the total direct compensation paid to similarly situated executives of our peer companies.

In February 2010, F.W. Cook conducted a competitive pay assessment of the compensation of our Named Executive Officers. The assessments were performed using benchmarks from compensation data reported in the then-most recent proxy statements of the following thirteen (13) peer group companies:

Allergan, Inc.
Biogen Idec Inc. (*Biogen*)
Cephalon, Inc. (*Cephalon*)
Endo Pharmaceuticals Inc. (*Endo*)
Forest Laboratories, Inc.
Genzyme Corporation (*Genzyme*)
Hospira, Inc.
King Pharmaceutical, Inc.
Medicis Pharmaceutical Corp. (*Medicis*)
Mylan Laboratories Inc.
Perrigo Company
Valeant Pharmaceuticals International, Inc.
Warner Chilcott PLC (*Warner*)

Since the assessment of compensation performed by Towers Perrin, our former independent compensation advisor, in January 2009, we added Biogen, Cephalon, Endo and Genzyme to our peer group based on our selection criteria of public companies competing primarily in the pharmaceutical sector that had between 50% and 200% of our revenue or our market capitalization at the time of the study. Also since the 2009 compensation assessment, we deleted Barr Pharmaceuticals, Inc. and Biovail Corporation from our peer group because compensation data for these companies is no longer available as a result of their acquisition by Teva Pharmaceutical Industries Ltd. and Valeant Pharmaceuticals International, Inc., respectively. We also deleted K-V Pharmaceutical Company and Par Pharmaceutical Companies, Inc. because they did not meet either the revenue or market capitalization criteria. Except for Medicis, the peer companies met either the revenue or market capitalization criteria. Medicis fell below these criteria but our Compensation Committee retained Medicis in our peer group in order to get additional data points for comparison and because F.W. Cook and the Compensation Committee considered Medicis to be very similar to us in terms of business model and scope of operations. The Compensation Committee does not rely exclusively on peer company comparisons and considers an individual s experience and market factors on a case-by-case basis.

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In assessing competitiveness, F.W. Cook generally considered if a Named Executive Officer s target compensation was within, above or below the range of competitive market practices. That competitive range was defined as: each of (a) base salary, (b), target total cash compensation and (c) target total direct compensation being within plus or minus 15% of the 50th percentile of the peer group. Mr. Stewart was not employed in his current position as the Company s Executive Vice President, Global Operations at the time that F.W. Cook performed its compensation analysis in February 2010. As a result, the compensation consultant s analysis did not include Mr. Stewart. F.W. Cook s February 2010 study indicated that target compensation for our Named Executive Officers compared to the competitive range as shown in the following table:

Named Executive Officer and Title	Base Salary	Target Total Cash Compensation(1) Target	Target Total Direct Compensation(2) Target
Paul M. Bisaro *President and Chief Executive Officer*	Within	Within	Below
R. Todd Joyce *Executive Vice President and Chief Financial Officer* *Former Vice President, Corporate Controller and Treasurer*	Below	Below	Below
G. Frederick Wilkinson *Executive Vice President, Global Brands*	Above	Within	Within
Robert A. Stewart *Executive Vice President, Global Operations*	(3)	(3)	(3)
David A. Buchen *Executive Vice President, General Counsel and Secretary*	Within	Within	Below

(1) Target Total Cash Compensation equals base salary plus target annual cash incentive compensation.

(2) Target Total Direct Compensation equals target Total Cash Compensation plus the expected value of long-term incentive grants, including the expected value of stock options estimated in accordance with Financial Accounting Standards Board Accounting Standards Codification 718 Compensation Stock Compensation as-reported values, restricted stock, and long-term performance plan awards.

(3) Mr. Stewart was not employed in his current position as the Company s Executive Vice President, Global Operations at the time that F.W. Cook performed its compensation analysis in February 2010. As a result, the compensation consultant s analysis did not include Mr. Stewart.

2010 Executive Compensation Components

Base Salary

Base salary provides our Named Executive Officers with a degree of financial certainty and stability. In setting base salaries and determining merit increases for our Named Executive Officers the Compensation Committee takes into account a variety of factors, including:

- level of responsibility;

- individual and team performance;
- internal review of the Named Executive Officer s compensation, individually and relative to our other officers and executives with similar responsibilities in our peer group;
- general levels of salaries and salary changes at peer group companies; and
- our corporate financial results.

With regard to individual and team performance, the Compensation Committee relies to a large extent on our chief executive officer s evaluation of each other Named Executive Officer s individual performance. Salary levels are typically reviewed annually as part of our performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to the salaries of our Named Executive Officers are based on the Compensation Committee s and the chief executive officer s assessment of the individual s performance and market conditions.

After taking into consideration (a) the factors listed above, (b) the F.W. Cook competitive pay assessment from February 2010, (c) the recommendations from our chief executive officer in the case of the other Named Executive Officers, in 2010, the Compensation Committee did not change Mr. Bisaro s base salary and increased Mr. Wilkinson s base salary by 2%, Mr. Joyce s base salary by 5.89% and Mr. Buchen s base salary by 2%. Mr. Joyce s increase reflected the increased responsibilities he assumed from his recent promotion to become our Chief Financial Officer. Mr. Stewart s base salary was increased by the Compensation Committee from $450,000 to $500,000 effective July 28, 2010 in conjunction with his promotion from our Senior Vice President, Global Operations to our Executive Vice President, Global Operations. In establishing his base salary, the Compensation Committee considered Mr. Stewart s then current compensation prior to his promotion, the information contained in the February 2010 F.W. Cook report regarding competitive market practices for compensation of other executives with similar responsibilities in our peer group, and the nature of the roles and responsibilities Mr. Stewart would be expected to assume.

Annual Cash Incentive Awards

The purpose of our annual cash incentive program is to provide cash compensation on an annual basis that is at-risk and contingent on the achievement of measurable annual individual, departmental, business and strategic objectives and corporate and segment financial goals. These cash incentives are intended to link a substantial portion of executive compensation to our performance and provide executive officers with a competitive level of compensation if they achieve their objectives.

Each year, the Compensation Committee adopts guidelines pursuant to which it calculates the annual cash incentive awards available to our Named Executive Officers, subject to the Compensation Committee s oversight and modification. The Compensation Committee believes that our annual incentive program provides our Named Executive Officers with a team incentive to both enhance our financial performance and perform at the highest level. The terms of these programs are not contained in a formal written plan.

Annual Cash Incentive Awards for our Chief Executive Officer

The Compensation Committee met in February 2010 to discuss the annual cash incentive program for Mr. Bisaro for fiscal year 2010. At this meeting, the Compensation Committee reviewed the then-most recent F.W. Cook competitive pay assessment for its chief executive officer from February 2010, which reflects the fact that the average bonus payment for chief executive officers of companies in our peer group in that assessment was approximately 120% of their base salary. Mr. Bisaro s target bonus has historically been set at approximately 100% of his salary and the Compensation Committee determined that this continued to be an appropriate amount on the basis of the F.W. Cook competitive pay assessment, the Compensation Committee s ability to adjust Mr. Bisaro s target bonus to reflect his performance, and the opportunities provided to Mr. Bisaro from time to time to earn a special bonus in certain instances.

The Compensation Committee also considered our historical and projected revenues and Adjusted EBITDA relative to the appropriate cash incentives for Mr. Bisaro to achieve those projections. For the purpose of measuring Corporate Financial Performance, Adjusted EBITDA meant our earnings before interest, taxes, depreciation and amortization, adjusted for share-based compensation, acquisition or licensing related charges, restructuring charges, litigation gains or losses, charges associated with our global supply chain initiative, non-cash charges, gains or losses on debt repurchase, gains or losses on sales of operating assets or securities and such other special items as determined at the discretion of our Board of Directors. The Adjusted EBITDA targets for Mr. Bisaro are pre-established by the Compensation Committee at the commencement of the year and are the same targets as established for the Corporate Financial Performance measure under our annual cash bonus program for our other executive officers. A reconciliation of Adjusted EBITDA to net income for the year ended December 31, 2010 can be found on our Current Report on Form 8-K furnished to the SEC on February 15, 2011.

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Based on the factors above, the Compensation Committee adopted an annual cash incentive program pursuant to which Mr. Bisaro was eligible to receive a target cash bonus of $1 million, of which $700,000 was based upon our financial performance in 2010 as measured by Adjusted EBITDA against pre-established targets, and $300,000 was at the discretion of the Compensation Committee, taking into account Mr. Bisaro s success in 2010 in:

- Setting and implementing strategies to develop and grow our Global Generic, Global Brands and Distribution business segments;
- Implementing our cost improvement initiatives, including the integration of our offshore operations;
- Improving our quality systems and procedures;
- Identifying and retaining key executives, recruiting key executives and developing succession plans for our senior leaders;
- Achieving success in new business strategies both globally and in biologics; and
- Effectively communicating with stockholders and prospective stockholders concerning our business.

The $300,000 objective-based portion of Mr. Bisaro s target cash bonus was subject to further adjustment by the Compensation Committee of between 0% and 150% based on its assessment of Mr. Bisaro s individual performance. The Compensation Committee does not assign a specific weight to any given goal and also considers other relevant factors in its sole discretion in making awards under the program.

In March 2011, the Compensation Committee evaluated Mr. Bisaro s performance under the measures above. Based on our actual Adjusted EBITDA for 2010 of $838.2 million, compared to target Adjusted EBITDA of $788.3 million, and the Compensation Committee s evaluation of Mr. Bisaro s achievement of the goals above, the Compensation Committee awarded a cash incentive bonus totaling $1.1 million to Mr. Bisaro for performance in 2010 of which $775,000 was based on the Company s financial performance as measured by Adjusted EBITDA, and $325,000 was based on his individual performance.

The Compensation Committee revised the annual cash incentive program for Mr. Bisaro for fiscal year 2011. Specifically, under the 2011 program, Mr. Bisaro will be eligible to receive a target cash bonus of $1.2 million based upon our financial performance in 2011 as measured by Adjusted EBITDA. Mr. Bisaro s actual bonus with respect to 2011 will be further subject to adjustment by the Compensation Committee to be between 0% and 150% of the $1.2 million target amount based on the Compensation Committee s assessment of Mr. Bisaro s success in implementing the following strategic goals for 2011:

- Establishing, refining and implementing strategies to develop and grow our Global Generic, Global Brands and Distribution business segments;
- Developing and implementing strategies to support investment in the development of biologic products;
- Implementing strategic and tactical measures and maintaining the high level of corporate focus necessary to enable us to achieve our 2011 business objectives;
- Continuing to enhance and expand efforts to effectively communicate with stockholders and prospective stockholders concerning our business;

Identifying and retaining key executives, recruiting key executives and developing succession plans for our senior leaders; and

In addition to executing strategies to support organic growth, continuing efforts to expand our global business through appropriate business development activities.

The Compensation Committee will determine whether and to what extent a bonus will be paid to Mr. Bisaro for fiscal year 2011 after the end of 2011.

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Recoupment of Incentive Compensation

Pursuant to Mr. Bisaro s employment agreement with the Company, in the event of a significant restatement of the Company s financial statements (other than due to a change in generally accepted accounting rules or their interpretation by the Company s auditors, or as a result of events the Board determines were beyond Mr. Bisaro s control and responsibility) occurring at any time up to three years following the termination of Mr. Bisaro s employment with the Company, the Board will review all compensation that was made to the Executive on the basis of having met or exceeded specific performance targets for performance periods beginning after January 1, 2007 which occur during the restatement period. To the extent permitted by applicable law, the board will seek to recoup from Mr. Bisaro the amount by which his incentive compensation for the relevant period exceeded the lower payment he would have received based on the restated financial results on a net after-tax basis, plus a reasonable rate of interest; provided, however, that the Board shall not seek to recoup incentive compensation paid more than three (3) years before the date such restatement is disclosed. The foregoing would apply to amounts received by Mr. Bisaro in the form of both his annual cash incentive award and his performance-based equity awards.

Annual Cash Incentive Awards for our other Named Executive Officers

The Compensation Committee met in February 2010 to discuss the annual cash incentive program for each of our Named Executive Officers, other than our chief executive officer, for fiscal year 2010. At this meeting, the Compensation Committee reviewed the then-most recent F.W. Cook competitive pay assessment for our Named Executive Officers (other than the chief executive officer) from February 2010. Based on this review, the Compensation Committee established 2010 annual cash bonus targets for each of our Named Executive Officers, other than our chief executive officer, expressed as a percentage of such Named Executive Officer s base salary. The resulting target bonus percentages were: 50% for Mr. Joyce; 60% for Mr. Wilkinson; 50% for Mr. Stewart; and 50% for Mr. Buchen, which are the same percentages in place for the 2009 bonus program. Mr. Stewart s target bonus percentage increased from 50% to 60% effective July 28, 2010 in connection with his promotion to Executive Vice President, Global Operations. We determined the target annual cash incentive award for Mr. Stewart in his new position by reference to factors including (i) the F.W. Cook competitive pay assessment, (ii) his compensation history and the need to offer market competitive compensation packages to recruit and retain him and (iii) the nature of the roles and responsibilities he would be expected to assume.

The bonus actually paid to these Named Executive Officers depended primarily on our financial performance in 2010 as measured by pre-established Adjusted EBITDA targets, which we refer to as Corporate Financial Performance. Because their responsibilities relate to the Company as a whole rather than a particular business segment, the actual bonus for each of our Named Executive Officers other than Mr. Wilkinson is based on Corporate Financial Performance, without reference to the performance of a specific business segment. Accordingly, the initial adjustment to the target bonus for each of our Named Executive Officers other than Mr. Wilkinson is made on the basis of a multiple reflecting only Corporate Financial Performance. In the case of Mr. Wilkinson, however, 50% of his bonus opportunity is based on our overall Corporate Financial Performance and 50% is based on the contribution of the Global Brands business segment which he leads, which we refer to as Segment Contribution. Accordingly, his target bonus amount is first adjusted by a blended multiple reflecting, on a 50-50 basis, actual corporate financial performance and the financial performance of the Global Brands segment.

The final bonus payable to each Named Executive Officer is then subject to further adjustment, based on a multiplier of 0% to 150% of the target bonus opportunity to reflect the evaluation of the individual performance of the Named Executive Officer during 2010 as determined by our chief executive officer based on the executive s achievements during 2010, which we refer to as Individual Performance. Our chief executive officer s evaluation of each Named Executive Officer s Individual Performance is based on a combination of subjective and objective performance measures relating to overall corporate and segment performance. No specific weight is assigned to any of these measures.

Corporate Financial Performance. The Compensation Committee measures Corporate Financial Performance through Adjusted EBITDA, which it believes is the best indicator of such performance because it facilitates analysis by management and investors in evaluating the Company s financial performance and comparing it against companies in its peer group. The Compensation Committee used a performance grid that established various

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Adjusted EBITDA milestones necessary for full or partial funding of the annual incentive award for Corporate Financial Performance. Based on the Company s 2010 actual Adjusted EBITDA of $838.2 million and target Adjusted EBITDA of $788.3 million, annual incentive awards for Corporate Financial Performance were funded at 110.6% of target bonus opportunity.

Between threshold and maximum funding were intermediate levels of funding that were generally proportionate to corresponding Adjusted EBITDA milestones.

Segment Contribution. The contribution to our overall corporate financial performance by our Global Generics, Global Brands and Distribution business segments is given significant weight in determining the overall cash incentive award available to members of these business segments, including Mr. Wilkinson. This weighting recognizes that each business segment has its own measures of performance and achievement that may differ from overall corporate measures or from the measures used by our other segments. The Compensation Committee believes that using these relative measures of performance is key to specifically rewarding the performance of our executives in these segments. For the purpose of measuring Segment Contribution, Adjusted Contribution meant a business segment s contribution to our operating profit as reported in our filings with the SEC adjusted for any reconciling item of the relevant segment that was excluded in determining Adjusted EBITDA. The calculation of the Adjusted Contribution of our Distribution business segment is subject to an additional adjustment to reflect its sale of the Company s products. In determining the portion of a Named Executive Officer s annual incentive award attributable to Adjusted Contribution, the Compensation Committee uses a performance grid that establishes threshold, target and maximum contribution levels for each of our business segments, which has the same payout ratios in the grid above under Corporate Financial Performance. The Target Adjusted Contribution level in 2010 was set above actual Adjusted Contribution in fiscal 2009 for the Generic business segment. For our Branded business segment, the Target Adjusted Contribution level in 2010 was set below the actual Adjusted Contribution in fiscal 2009 for the Global Brands business segment. This decrease in the Target Contribution level assigned for the Global Brands business segment was based primarily on the anticipated decline in revenues from the loss of the Ferrlecit® product as a result of the expiration of our distribution rights for Ferrlecit® on December 31, 2009. Based on the Global Brands business segment s actual Adjusted Contribution in 2010 of $103.9 million and target 2010 Adjusted Contribution of $113.7 million, the portion of Mr. Wilkinson s annual incentive award based on the financial performance of the Global Brands business segment was funded at 79.7% of target bonus opportunity.

Individual Performance. The Compensation Committee also recognizes that Individual Performance is a key element to consider in determining the overall cash incentive award available to an executive. To this end, our chief executive officer reviews the performance of each of our executive officers on the basis of specific objective and subjective factors and, with the assistance of our human resources department, makes recommendations to the Compensation Committee concerning compensation of the Named Executive Officers, including with respect to adjustments to their target cash bonus payments. In 2010, such adjustment to reflect Individual Performance could have been a multiplier ranging from 0% to 150% of a Named Executive Officer s target bonus in determining the annual cash incentive award due to each of our Named Executive Officers. While the Compensation Committee considers these recommendations in determining annual cash incentive awards, it may modify any such recommendations at its discretion.

In March 2011, the Compensation Committee awarded cash bonuses in accordance with the objective results and factors discussed above to Mr. Joyce of $273,765, Mr. Wilkinson of $398,057, Mr. Stewart of $414,750, and Mr. Buchen of $330,195.

Our 2011 cash incentive award program is substantially similar to our 2010 program, but features financial targets and thresholds for Adjusted EBITDA and segment contribution based on our 2011 operating plan as approved by our Board of Directors. Meeting and exceeding these targets will require consistent and superior performance by us, each of our business segments and our Named Executive Officers.

Special Bonuses

The Compensation Committee awarded Mr. Bisaro a special bonus of $400,000 for his efforts in expanding our international operations including the integration of the Arrow Group.

Long-Term Equity Incentives

Our Named Executive Officers generally receive equity based grants when they join us, upon promotions and generally thereafter as part of the Compensation Committee s determination of the executive officers annual total compensation on annual dates scheduled in advance. Annual equity grants are determined in the first quarter of each calendar year. All equity awards are approved before or on the date of grant. In determining the size of equity-based grants, the Compensation Committee considers the number of shares available under the Amended Restated 2001 Incentive Award Plan of Watson Pharmaceuticals, Inc. (the *Incentive Award Plan*), the potential dilutive impact of such grants on our stockholders, the individual s position with us, the appropriate allocation of such grants based on individual and corporate performance, and the level of grants awarded by our peers.

The Compensation Committee believes that equity-based awards provide a valuable tool for aligning the interests of management with our stockholders and focusing management s attention on our long-term growth. In addition, the Compensation Committee believes that equity-based awards are essential to attract and retain the talented professionals and managers needed for our continued success. In order to better align the interests of our Board and management with those of our stockholders in a fair and reasonable manner, as well as to implement what we believe is a corporate governance best practice, we have also adopted stock ownership guidelines for our senior executives and directors, which are effective commencing in 2011. Our ownership guidelines require our (i) directors to hold stock in the Company in an amount at least equal in value to four times their annual base director s fee, (ii) chief executive officer to hold stock in the Company in an amount at least equal in value to four times his base salary; (iii) executive vice presidents (including Messrs. Wilkinson, Joyce, Buchen and Stewart) to hold stock in the Company in an amount at least equal in value to twice their base salary and (iv) senior vice presidents to hold stock in the Company in an amount at least equal in value to their base salary. Under our guidelines, vested and unvested restricted stock, as well as shares of stock actually owned by a director or an executive, are included in the calculation.

After further considering the cost and dilutive impact of our long term equity awards, the marginal retention value we were achieving through our stock options and market trends relating to long-term incentive compensation, the Compensation Committee revised our approach to long-term equity compensation in 2007. This revised approach, which remained in effect through 2010, had two key components. First, the Compensation Committee shifted our annual long-term equity awards away from a mix of options and restricted stock to restricted stock awards only. Second, the Compensation Committee split our restricted stock awards into two classes: (1) Time Awards that are based on individual and corporate performance factors and (2) Performance Awards pursuant to which each Named Executive Officer has the right to receive a number of shares of restricted stock granted after year end based on our performance against the same Adjusted EBITDA targets upon which our annual cash incentive compensation program is based. Any restricted stock issued pursuant to a Performance Award vests on the same basis as the Time Awards. The Compensation Committee may, in the future, adjust this mix of award types or approve different award types as part of our overall long-term equity incentive program. Commencing in 2011, we have further developed our approach to equity compensation by, among other things, (i) granting awards based on fixed dollar value rather than fixed share guidelines and (ii) linking the number of shares actually earned even more strongly to financial performance and the creation of long-term shareholder value. For more information, see the discussion under Changes in the Company s Long-Term Equity Incentive Program on page 26.

Restricted Stock

Time Awards. As part of our total compensation program the Compensation Committee generally grants shares of restricted stock to our Named Executive Officers on an annual basis (the *Time Awards*). Each Named Executive Officer is entitled to a grant of Time Award shares within a range that varies in accordance with the Named Executive Officer s position of responsibility with us. The Compensation Committee determines the specific number of Time Awards to be granted to each Named Executive Officer based on our performance and the Compensation Committee s evaluation of each officer s individual performance, taking into consideration the recommendation of our chief executive officer. In recognition of their performance in fiscal 2009, the Compensation Committee awarded Time Awards of restricted stock in February 2010 in the following amounts: Mr. Bisaro received 36,850 restricted shares, Mr. Joyce received 5,000 restricted shares, Mr. Wilkinson received 9,000 restricted shares, Mr. Stewart received 5,000 restricted shares (in addition to the 5,000 restricted shares he received

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in connection with his joining the Company in November, 2009) and Mr. Buchen received 7,500 restricted shares. The amounts of these grants represent Time Award dollar values based mainly on peer company group compensation data prepared by F.W. Cook.

Performance Awards. The Company provides performance-based annual equity incentive awards to our chief executive officer under a compensation program administered by the Compensation Committee and for our executive officers under the 2010 Senior Executive Equity Compensation Program. Under these programs, our senior executive officers, including our Named Executive Officers, are eligible to receive an award of shares of restricted stock based on the Company s performance during the fiscal year as measured by Adjusted EBITDA. The target number of restricted shares to be awarded to a Named Executive Officer s under a Performance Award is equal to his or her actual Time Share award granted in the fiscal year for which performance is being measured. The actual number of restricted shares issued by the Compensation Committee can range from 0% to 150% of the target under the Performance Award for each of our Named Executive Officers based upon our financial performance for the fiscal year using the same Adjusted EBITDA calculation used by the Compensation Committee in determining our annual cash incentive payouts to such Named Executive Officer. In March 2011, the Compensation Committee determined our financial performance in 2010 as measured by Adjusted EBITDA resulted in a payout of 110.6% of the target issuance.

Our shares of restricted stock (including Time Awards and shares issued pursuant to Performance Awards) generally have restrictions on resale that lapse on the second and fourth anniversaries of the grant date. On each of those dates 50% of the total award s restrictions on resale lapse, contingent on the continued employment with us by the Named Executive Officer during the restriction period. In the future, the Compensation Committee may adjust the restrictions on resale to which our restricted stock is subject. The Compensation Committee will determine whether and to what extent Performance Awards will be awarded for fiscal year 2011 after the end of 2011.

New Hire and Promotion-related Awards

No equity awards were granted to any of our Named Executive Officers in 2010 in connection with hiring or promotion.

Stock Options

Prior to 2008, we awarded stock options with an exercise price equal to the last closing price of our common stock on the NYSE on the day of the award grant, in accordance with the terms of our Incentive Award Plan. These options generally have a term of 10 years and generally are subject to a four-year ratable vesting schedule. Vesting rights cease upon termination of employment (except in the case of a qualifying termination in connection with a change-in-control, in which case vesting rights accelerate upon termination of employment) and exercise rights generally cease ninety (90) days after the date of termination, except in the case of death (subject to a one year limitation), disability or retirement (see Continued Vesting of Equity Awards below). Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.

We did not grant any options to any Named Executive Officers in 2009 or 2010.

We believe the term and vesting schedule of our stock options, and the vesting schedule for our restricted stock awards, provide additional incentive to management to remain with the Company and to focus on long-term growth and corporate financial performance.

Continued Vesting of Equity Awards

The Compensation Committee believes it is important to recognize tenured service to us, to encourage retention and to facilitate retirement planning through the continued vesting of some or all unvested equity for those employees that have met pre-established age and service requirements. This continued vesting is intended to reward such employees for their long service to the Company and to provide an incentive for executives nearing retirement to continue to make decisions that are in the long-term interest of stockholders. In May 2010, the Company adopted a policy to permit the continued vesting of restricted stock and other equity awards to all employees whose

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employment terminates with the Company (other than termination for cause), provided that such employee is (i) at least sixty years of age at the time of termination from the Company and (ii) has at least ten years of consecutive service to the Company as a full-time employee at the time of termination.

Changes in the Company s 2011 Long-Term Equity Incentive Program

Commencing in 2011, the Compensation Committee, with the advice and assistance of F.W. Cook and senior management, adopted changes in the design of our long-term equity incentive program designed to, among other things, transition from a system of granting equity awards according to fixed share number guidelines to a system of granting awards according to fixed dollar value guidelines for the equity awarded. We shifted to fixed dollar awards to create better alignment between the intended target value of awards and the value actually delivered on the grant date. Our new equity incentive program also places a strong emphasis on earning awards based on pre-established performance criteria for our senior executives by linking the number of shares that they can earn to not only our Adjusted EBITDA performance, but also to our relative stock price performance over a three year period. Use of these measures balances operational and market performance and ensures that performance against each measure has a significant effect on earned compensation. This mix focuses the executive on the Company s strategic business goal of cash generation as well as the Company s performance compared to a broad index of companies.

Prior to 2011, the equity awards granted to our senior management, including our Named Executive Officers, were comprised of 50% Time Awards and 50% Performance Awards. Beginning in 2011, our senior management will receive equity awards of an aggregate target dollar value based on dollar value guidelines reflecting peer company group compensation data prepared by F.W. Cook, subject to adjustment for individual performance. In the case of each of our Named Executive Officers, the aggregate dollar value of their equity award will be allocated in equal amounts among three types of grants: (i) time-vested individual performance-based restricted stock, (ii) one-year Company performance-based restricted stock and (iii) three-year Company performance-based restricted stock. We discuss each of these types of grants below.

Time Awards. Time-vested individual performance-based restricted stock awards granted in 2011 are similar to the Time Awards described above. The actual number of shares granted will be determined on the basis of the Company s closing stock price on the day the grants are determined by the Compensation Committee. Once granted, the awards will vest based solely on continued service with the Company, with 50% vesting on each of the second and fourth anniversaries of the grant date.

Adjusted EBITDA Performance Award. The one-year Company performance restricted stock grant (the Adjusted EBITDA Performance Award) is similar to the Performance Awards granted in 2010. The Adjusted EBITDA Performance Award are earned based on Adjusted EBITDA performance against target during 2011. The number of shares that can be earned may range from 0% to 150% of the target, depending on performance (with linear interpolation between performance levels) as follows:

Performance below a base threshold of Adjusted EBITDA would result in no shares being earned;

Performance at the base threshold of Adjusted EBITDA would result in 50% of the target shares being earned;

Performance at target Adjusted EBITDA would result in 100% of the target shares being earned; and

Performance at the upper threshold of Adjusted EBITDA would result in a maximum of 150% of the target shares being earned.

Once earned, Adjusted EBITDA Performance Awards will continue to be subject to time based vesting of 50% on each of the second and fourth anniversaries of the beginning of the 1-year performance period (which equates to one and three years following the conclusion of the 1-year performance period, respectively).

TSR Performance Award. The performance metric for the three-year Company performance restricted stock awards (TSR Performance Awards) will be the Company s relative Total Shareholder Return (*TSR*) for the 3-year performance period from January 2011 through December 2013 against the Company s peer company group as identified in the Company s annual proxy statement in the year in which the award is granted. The Company s TSR refers to the Company s share price performance (and dividends, if any) ranked relative to the performance of its peer company group during the relevant period. Earned TSR Performance Awards would vest at the end of the 3-year performance period and would be settled as soon as administratively feasible thereafter. The number of shares that may be earned may range from 0% to 150% of the target, depending on performance (with linear interpolation between performance levels) as follows:

Performance below a base threshold of TSR in the 25th percentile of the peer company group would result in no shares being earned;

Performance at the base threshold of TSR in the 25th percentile of the peer company group would result in 25% of the target shares being earned;

Performance at target TSR in the 50th percentile of the peer company group would result in 100% of the target shares being earned; and

Performance at the upper threshold of TSR in the 75th percentile of the peer company group would result in a maximum of 150% of the target shares being earned.

In the event that the Company has a negative TSR at the end of the three-year performance period, then the maximum number of shares that could be earned, regardless of the Company s TSR relative to its peer company group, would be 100% of target.

To ensure tax deductibility of the awards under IRC Section 162(m), the performance goals for each year s award are required to be established within the first 90 days of the performance period. The Compensation Committee s decision with regard to performance metrics affects only the current year awards, and may be changed for future awards.

Perquisites and Other Personal Benefits

We provide our Named Executive Officers with perquisites and other personal benefits that we and the Compensation Committee believe have a business purpose, are reasonable and consistent with our overall compensation program and better enable us to attract and retain superior employees for key positions. The Compensation Committee believes these benefits and perquisites provide a more tangible incentive with a greater perceived value than an equivalent amount of cash compensation. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to our Named Executive Officers.

The Named Executive Officers are provided with a monthly car allowance, mandatory annual physical exams, financial planning assistance and participation in the plans and programs described below under the heading Other Benefits Generally Available Benefits. Upon relocation, Named Executive Officers may receive, at the discretion of the Compensation Committee, relocation benefits pursuant to applicable Company policies. In 2010, Messrs. Joyce and Stewart received such relocation benefits. Mr. Joyce s relocation was in connection with his promotion to the Company s Senior Vice President and Chief Financial Officer. Mr. Stewart s relocation was in connection with his being hired by the Company in 2009. In each instance, the Company believes that providing such relocation benefits (i) is consistent with market practices and (ii) supports its goal of fostering cohesion and communication among its senior executives. The car allowance is intended to cover expenses related to the lease, purchase, insurance and maintenance of a vehicle. It is provided in recognition of the need to have executive officers visit customers, business partners and other stakeholders in order to fulfill their job responsibilities. The mandatory annual physical exams are required to monitor the physical health of our executives and to discover potential health issues that could interfere with their duties at the company. The financial planning assistance covers expenses resulting from financial, estate and tax planning. We believe that it is in its best interest for the executives to have professional assistance in managing their total compensation so that they can focus their full attention on growing and managing the business.

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Other Benefits

Generally Available Benefits

We provide the following benefits to our Named Executive Officers generally on the same basis as the benefits provided to all employees:

- Health, dental and vision insurance;
- Life insurance;
- Short- and long-term disability;
- Educational assistance; and
- 401(k) plan.

Executive Compensation Deferral Program

Our Named Executive Officers, in addition to certain other U.S.-based eligible management level employees, are entitled to participate in our Executive Deferred Compensation Plan. We believe that, because the Company does not offer a defined benefit pension plan, such a deferred compensation arrangement should be included as a component of a market competitive compensation program to assist participants in planning and saving for their retirement. Pursuant to our Executive Deferred Compensation Plan, eligible employees may defer from 1% to 80% of their salary and from 1% to 80% of their annual cash incentive award, if any.

We match 50% of the first 2% an employee defers in accordance with this Plan. Vesting of the matched amount is based on an employee s years of service with us. If an employee has been with us for less than one year, none of the matched amount is vested. Vesting thereafter occurs 33% per year, such that employees who have been with us for more than 3 years are 100% vested in the matched amount.

All contributions to our Executive Deferred Compensation Plan have a guaranteed fixed interest rate of return. This guaranteed rate is adjusted annually based on the Prime interest rate published in the Wall Street Journal on the first business day of November 2009 for the 2010 plan year. In 2010 the guaranteed interest rate was 3.25%.

Severance Benefits

Termination of each of our Named Executive Officer s employment can occur at any time with or without cause, or by reason of death or disability. Additionally, each Named Executive Officer may voluntarily resign at any time with or without good reason. Pursuant to each of our Named Executive Officer s respective employment agreement or other terms of employment, in the event of termination of employment without cause, or if the Named Executive Officer resigns for good reason, we will provide the Named Executive Officer with severance compensation and benefits, including a lump sum severance payment (based on a multiple of the executive officer s salary and, in the case of Messrs. Bisaro, Joyce and Buchen, their bonus), continued group health insurance benefits for two years and (other than with respect to Mr. Bisaro) outplacement services for certain periods subsequent to the executive officer s termination. The severance benefits are designed to retain our executive officers by providing them with security in the event of a termination of employment without cause or resignation for good reason.

In addition to the severance benefits discussed above, if we experience a change-in-control, and if a Named Executive Officer is terminated without cause or resigns for good reason within ninety (90) days prior to or up to twenty-four (24) months following such change-in-control, our employment agreements with our Named Executive Officers provide for the immediate vesting of any unvested options and restricted stock held by such Named Executive Officer. The benefits are only payable upon a double trigger there must be a change-in-control and a termination or resignation for good reason. We believe this approach to be in our best interests in that it (1) provides a retention incentive to our Named Executive Officers who may be faced with the potential of job loss following a change-in-control and (2) affords any successor entity the opportunity to retain any or all Named Executive Officers following such a change-in-control.

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In the event of a termination as a result of a change-in-control of the Company, each of Messrs. Bisaro, Joyce and Buchen is also entitled to receive a gross-up payment to compensate for any excise tax imposed on the Named Executive Officer under the Internal Revenue Code (the IRC). Each of these executives employment agreements were entered into prior to 2010, and none were amended in 2010.

Tax Considerations

Policy on Deductibility of Executive Compensation

Section 162(m) of the IRC provides a $1,000,000 deduction limit on compensation paid to the reporting executives of publicly held corporations, unless the compensation qualifies as performance based compensation based on certain performance, disclosure, stockholder approval and other requirements being met. The options granted under the Incentive Award Plan generally comply with these performance-based compensation requirements. We have not historically designed our long-term equity incentives and our annual cash incentive award programs to comply with the performance-based compensation requirements.

We periodically review the potential consequences of Section 162(m) and may structure the performance-based portion of our executive compensation to comply with certain exemptions of Section 162(m). However, we reserve the right to use our judgment to authorize compensation payments that do not comply with the exemptions of Section 162(m) when we believe that such payments are appropriate and in the best interests of our stockholders.

Nonqualified Deferred Compensation

Section 409A of the IRC requires that nonqualified deferred compensation be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and other service providers to accelerated income tax liabilities and penalty taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, it is our intention to design and administer our compensation and benefits plans and arrangements for all of our employees and other service providers, including the Named Executive Officers, so that they are either exempt from, or satisfy the requirements of, Section 409A. With respect to our compensation and benefit plans that are subject to Section 409A, in accordance Section 409A and regulatory guidance issued by the Internal Revenue Service (*IRS*), we are currently operating such plans in compliance with Section 409A based upon our good faith, reasonable interpretation of the statute and the IRS s regulatory guidance.

Change-in-Control Tax Gross-Ups

Sections 280G and 4999 of the IRC impose certain adverse tax consequences on compensation treated as excess parachute payments. An executive is treated as having received excess parachute payments if he receives compensatory payments or benefits that are contingent on a change-in-control, and the aggregate amount of such payments and benefits equal or exceeds three times the executive s base amount. The portion of the payments and benefits in excess of one times base amount are treated as excess parachute payments and are subject to a 20% excise tax, in addition to any applicable federal income and employment taxes. Also, our compensation deduction in respect of the executive s excess parachute payments is disallowed. If we were to be subject to a change-in-control, certain amounts received by our executives (for example, amounts attributable to the accelerated vesting of stock options) could be excess parachute payments under Sections 280G and 4999 of the IRC. As discussed below under Potential Payments Upon Termination or Change-in-Control, we provide certain of our executive officers with tax gross up payments in the event of a change-in-control, but did not enter into any such agreements in 2010.

Risk Oversight; Assessment of Compensation Risk

The Board s role in the Company s risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, and strategic and reputational risks. The full Board (or the appropriate committee in the case of risks that are under the purview of a particular committee) receives these reports from the appropriate risk owner within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a committee receives the report, the Chairman of the relevant committee reports on the discussion to the full Board

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during the next Board meeting. This enables the Board and its committees to coordinate their oversight of risk and identify risk interrelationships. Pursuant to its charter, the Audit Committee is responsible for discussing with management the Company s major areas of financial risk exposure, and reviewing the Company s risk assessment and risk management policies.

The Compensation Committee, with the assistance of senior management and our independent compensation consultant, reviewed the elements of employee compensation to determine whether any portion of employee compensation encouraged excessive risk taking. Among other things, it considered the following:

The Company has a balanced mix of annual and longer-term incentive opportunities so that executives motivations for short-term performance are balanced by longer-term considerations.

Significant weighting towards long-term incentive compensation composed of restricted stock helps to discourage short-term risk taking.

Goals are appropriately set to be sufficiently challenging but also reasonably achievable with good performance.

Reasonable incentive award maximums set by the Compensation Committee are in place.

The design of the Company s incentive award program avoids steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds.

To reduce the tendency of formulae and other objective financial performance measures to encourage short-term or excessive risk-taking, compensation decisions are not based solely on the Company s financial performance, but also on subjective considerations, which account for non-financial performance and judgment.

As a pharmaceutical products business, the Company does not face the same level of risks typically associated with compensation for employees at companies in industries such as financial services, insurance and trading.

The Company has adopted stock ownership guidelines for its senior executives effective commencing in 2011.

Based on the above, we have determined that risks arising from these policies and practices for our employees are not reasonably likely to have a material adverse effect on the Company. In addition, the Compensation Committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risks.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee of Watson has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

THE COMPENSATION COMMITTEE

Ronald R. Taylor, Chairman
Christopher W. Bodine
Michael J. Fedida
Catherine M. Klema

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SUMMARY COMPENSATION TABLE

The following table sets forth certain information regarding the annual and long-term compensation for services rendered to the Company in all capacities for the fiscal year ended December 31, 2010 of our Named Executive Officers. For purposes of determining the three most highly compensated executive officers, the amounts shown in column (g) below were excluded.

me and Principal Position	Year (b)	Salary ($)(1) (c)	Bonus ($)(2) (d)	Stock Awards ($)(3) (e)	Non-Equity Incentive Plan Compensation ($)(4) (f)	Change in Pension Value and Nonqualified Deferred Compensation ($)(5) (g)	All Other Compensation ($)(6) (h)	Total ($) (i)
l M. Bisaro	2010	1,000,000	400,000	3,073,978	1,100,000		43,364	5,617,34
sident and Chief	2009	1,038,462	250,000	1,944,943	1,000,000		43,775	4,277,18
ecutive Officer	2008	1,000,000		2,028,961	997,200	1,159	38,969	4,066,28
Todd Joyce(7)	2010	452,911		417,093	273,765		120,569	1,264,33
ecutive Vice President and	2009	359,907	25,000	439,905	238,383		35,921	1,099,1
ef Financial Officer	2008	312,974		192,710	128,485	4,354	20,407	658,9
Frederick Wilkinson(8)	2010	604,846		750,768	398,057		27,921	1,781,59
ecutive Vice President	2009	173,077		546,450	114,626		564,531	1,398,68
bal Brands								
bert A. Stewart(9)	2010	471,154	100,000	417,093	414,750		150,077	1,553,0
ecutive Vice President	2009	60,577	50,000	982,800	50,000		830	1,144,20
bal Operations								
vid A. Buchen	2010	526,850		625,640	330,195		23,979	1,506,66
ecutive Vice President,								
neral	2009	534,410		395,861	270,246		26,647	1,227,16
unsel and Secretary	2008	503,346		412,950	250,000	10,569	24,713	1,201,5

(1) Salary includes annual salary and cash paid in lieu of vacation. Amounts include cash compensation earned but deferred, as applicable, under the Company s deferred compensation plans. Participants in these plans may defer receipt of portions of salary and/or annual non-equity incentive plan compensation earned for the year into Watson s Executive Deferred Compensation Plan. Watson s Executive Deferred Compensation Plan is discussed in further detail above under the heading Executive Compensation Deferral Program on page 28 and below under the heading Nonqualified Deferred Compensation on page 38.

(2) Mr. Bisaro was awarded special bonuses in the amount of (i) $250,000 in February 2010 for the completion of the acquisition of the Arrow Group and (ii) $400,000 in March 2011 for the expansion of our international

operations including the integration of the Arrow Group. Mr. Joyce was awarded a special bonus in February 2010 in the amount of $25,000 in recognition of his role as interim Chief Financial Officer during 2009. Mr. Stewart received a signing bonus upon appointment as Senior Vice President, Global Operations in November 2009, $50,000 of which was payable in 2009 and $100,000 of which was payable in March 2010.

(3) Stock awards for 2010 represent the aggregate grant date fair value of 2010 Performance Awards and restricted stock grants issued pursuant to 2010 Time Awards. The grant date fair value of restricted stock grants issued pursuant to 2010 Time Awards are based on the fair market value of our common stock of $39.61 on the issuance date of February 24, 2010. The Company recognizes the expense associated with the fair value of restricted stock grants over the period restrictions are eliminated for those awards. No compensation expense is recognized for the Performance Awards until shares of restricted stock are issued in settlement of such Performance Awards. The grant date fair value of the 2010 Performance Awards is based on the expected target payout for those awards on the date those awards were granted. The fair market value of our common stock on the grant date of February 24, 2010 was $39.61. However, no compensation expense is recognized for the Performance Awards until shares of restricted stock are issued in settlement of such Performance Awards. The maximum possible value of the 2010 Performance Awards on the date they were granted was as follows: $2,189,443 for Mr. Bisaro, $297,075 for Mr. Joyce, $534,735 for Mr. Wilkinson, $297,075 for Mr. Stewart and $445,613 for Mr. Buchen. See table of Outstanding Equity Awards at Fiscal Year-End for the number of shares actually paid out under 2010 Performance Awards. For additional discussion on the assumptions used in determining fair value and the accounting for restricted stock awards, see *Share-Based Compensation* in Note 2 and Note 3 to the audited consolidated financial statements in the Company s Annual Report on Form 10-K for

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the year ended December 31, 2010. There were no option awards granted in the three year period ended December 31, 2010.

(4) Non-equity incentive plan compensation represents payment under our annual cash incentives awards program for the fiscal year stated but paid in March of the following year. For additional discussion on our annual cash incentive award programs, see *Annual Cash Incentive Awards* above on page 20 and below under the heading Grants of Plan-Based Awards on page 34.

(5) Amounts reflect interest on deferred compensation balances that is considered to be earned at above-market interest rates. Interest on deferred compensation is deemed to be above-market if it exceeds 120% of the applicable federal long-term rate. All contributions to our Executive Deferred Compensation Plan have a guaranteed fixed interest rate of return. This guaranteed rate is adjusted annually based on the Prime interest rate published in the Wall Street Journal on the first business day of December 2007 for the 2008 plan year, November 2008 for the 2009 plan year and November 2009 for the 2010 plan year. In 2010 and 2009, the guaranteed interest rate did not exceed 120% of the applicable federal long-term rate and accordingly, no above-market interest has been reflected in the above table for the 2010 and 2009 calendar years. The Executive Deferred Compensation Plan is discussed in further detail above under the heading Executive Compensation Deferral Program on page 28 and below under the heading Nonqualified Deferred Compensation on page 38.

(6) Total other compensation for 2010 includes relocation payments made to Mr. Joyce and Mr. Stewart in 2010, a car allowance, registrant contributions under our 401(k) plan and deferred compensation plan, group life insurance coverage and other perquisites as follows:

	Car Allowance	401(k) Plan Company Contributions	Deferred Compensation Plan Company Contributions	Group Life Insurance	Relocation Expenses	Other Perquisites	Total
Paul M. Bisaro	12,000	7,154	22,500	1,710			43,364
R. Todd Joyce	7,200	9,800	7,163	2,585	93,821		120,569
G. Frederick Wilkinson	7,200	9,800	6,048	2,622		2,251	27,921
Robert A. Stewart	7,200	9,800	4,712	1,071	127,294		150,077
David A. Buchen	7,200	9,800	5,268	1,710			23,978

Mr. Joyce s relocation expenses in 2010 included: (i) temporary living expenses of $19,044, (ii) qualified real estate expenses of $31,081 and (iii) a tax gross-up for the taxable portion of his relocation payments of $33,538.

Mr. Stewart s relocation expenses in 2010 included: (i) temporary living expenses of $34,194, (ii) qualified real estate expenses of $14,796, (iii) a payment of $22,500 to partially offset a portion of the loss realized on the sale of his home and (iv) a tax gross-up for the taxable portion of his relocation payments of $47,898.

(7) Mr. Joyce was appointed to the position of Senior Vice President and Chief Financial Officer effective October 30, 2009.

(8) Mr. Wilkinson was hired as Executive Vice President, Global Brands effective September 21, 2009.

(9) Mr. Stewart was hired as Senior Vice President, Global Operations effective November 16, 2009 and Executive Vice President, Global Operations effective August 3, 2010.

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GRANTS OF PLAN-BASED AWARDS

The following table provides information about equity and non-equity awards granted to Named Executive Officers for 2010:

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold (#) (c)	Target (#) (d)	Maximum (#) (e)	(#) (f)	($) (i)
Paul M. Bisaro	2/24/2010(1)	350,000	1,000,000	1,000,000					
	2/24/2010(2)							36,850	1,459,629
	2/24/2010(3)				18,425	36,850	55,275		1,459,629
R. Todd Joyce	2/24/2010(1)	74,660	248,868	373,302					
	2/24/2010(2)							5,000	198,050
	2/24/2010(3)				2,500	5,000	7,500		198,050
G. Frederick Wilkinson	2/24/2010(1)	138,455	346,137	519,206					
	2/24/2010(2)							9,000	356,490
	2/24/2010(3)				4,500	9,000	13,500		356,490
Robert A. Stewart	2/24/2010(1)	99,540	331,800	497,700					
	2/24/2010(2)							5,000	198,050
	2/24/2010(3)				2,500	5,000	7,500		198,050
David A. Buchen	2/24/2010(1)	86,138	287,126	430,689					
	2/24/2010(2)							7,500	297,075
	2/24/2010(3)				3,750	7,500	11,250		297,075

(1) **Annual Cash Incentive Awards**: The Company provides performance-based annual cash incentive awards to our chief executive officer under a compensation program administered by the Compensation Committee and for our executive officers under the 2010 Senior Executive Compensation Program. These columns indicate the possible payouts targeted for 2010 performance under the applicable annual cash incentive award program for each Named Executive Officer listed above. Actual cash incentive awards paid in 2011 for 2010 performance are

set forth in column (f) in the Summary Compensation Table on page 32. Target payouts are based on the targeted percentage of base salary earned during the year. Maximum payouts represent 150% of target payouts, or 100% of target payouts in the case of our chief executive officer. Threshold payouts are based on the minimum level of performance for which payouts are authorized under the program and is equal to 50% of the portion of the Named Executive Officer s annual incentive award attributable to (i) Corporate Financial Performance as measured by Adjusted EBITDA and (ii) in the case of Mr Wilkinson, Segment Contribution as measured by Adjusted Contribution. Payout amounts does not take into account any discretionary authority of the Compensation Committee to increase or decrease a Named Executive Officer s (other than our chief executive officer s) award by +/−25%. For additional discussion of our annual cash incentive award programs, see *Annual Cash Incentive Awards* on page 20.

(2) **2010 Time Awards**: The restricted stock issued on February 24, 2010 pursuant to 2010 Time Awards were authorized in connection with the annual long term equity incentive grant under the Incentive Award Plan. Restrictions lapse equally on the restricted stock grants on the second and fourth anniversaries of the grant date, subject to continued employment. The fair value of Time Award restricted stock grants is based on the fair market value of our common stock of $39.61 on the issuance date of February 24, 2010.

(3) **2010 Performance Awards**: The Company provides performance-based annual equity incentive awards to our chief executive officer under a compensation program administered by the Compensation Committee and for our executive officers under the 2010 Senior Executive Equity Compensation Program. Under these programs, our senior executive officers, including our Named Executive Officers, are eligible to receive an award of shares of restricted stock based on the Company s performance during the fiscal year as measured by Adjusted EBITDA. The target issuance of restricted shares to a Named Executive Officer s under a Performance Award is equal to his or her actual Time Share award granted in the fiscal year for which performance is being measured. Maximum issuance represents 150% of target payouts. Threshold issuance represents the minimum level of performance for which issuances are authorized under the program and is equal to 50% of the target issuances. The grant date fair value of the 2010 Performance Awards is based on the expected target payout for those

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awards on the date those awards were granted. The fair market value of our common stock on the grant date of February 24, 2010 was $39.61. However, no compensation expense is recognized for the Performance Awards until shares of restricted stock are issued in settlement of such Performance Awards. The maximum possible value of the 2010 Performance Awards on the date they were granted was as follows: $2,189,443 for Mr. Bisaro, $297,075 for Mr. Joyce, $534,735 for Mr. Wilkinson, $297,075 for Mr. Stewart and $445,613 for Mr. Buchen.

(4) For additional discussion on our annual equity incentive award programs, including our Time Awards and Performance Awards, see Long-Term Equity Incentives above on page 24. For additional discussion on the accounting for restricted stock awards, see Share-Based Compensation in Note 2 and Note 3 to the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth the outstanding equity awards for the Company s Named Executive Officers at December 31, 2010:

	Option Awards				Stock Awards			
						Market	Equity Incentive Plan Awards	
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (d)	Option Expiration Date (e)	Number of Shares or Units of Stock That Have Not Vested (#)(1) (f)	Value of Shares or Units of Stock That Have Not Vested ($)(2) (g)	Number of Unearned Shares That Have Not Vested (#)(3) (h)	Market or Payout Value of Unearned Shares That Have Not Vested ($)(3) (i)
Paul M. Bisaro	95,400	31,800(4)	30.6600	9/4/2017				
	133,333	266,667(5)	30.6600	9/4/2017				
					194,459	10,043,807	40,756	2,268,071
R. Todd Joyce	6,500		48.9000	3/23/2011				
	7,500		64.1800	7/27/2011				
	15,000		27.8800	11/15/2011				
	10,000		26.4000	5/28/2012				
	7,000		38.9200	8/4/2013				
	12,000		26.1400	8/9/2014				
	3,000		35.1100	8/12/2015				
	4,000		25.6400	9/1/2016				
					28,628	1,478,636	5,530	307,745
G. Frederick Wilkinson					24,508	1,265,838	9,954	553,940
Robert A. Stewart					32,000	1,652,800	5,530	307,745
David A. Buchen	5,000		48.9000	3/23/2011				
	7,000		54.4800	8/23/2011				
	17,500		28.1500	11/26/2011				
	15,000		26.4000	5/28/2012				

25,000	29.4300	11/20/2012				
8,000	38.9200	8/4/2013				
17,000	26.1400	8/9/2014				
5,000	35.1100	8/12/2015				
5,000	25.6400	9/1/2016				
			42,743	2,207,676	8,295	461,617

(1) Restrictions on the restricted stock grants generally lapse equally on the second and fourth anniversaries of the grant date. Information presented in column (f) aggregates all unvested restricted stock awards outstanding. Individual restrictions on restricted stock lapse as follows:

Named Executive Officer	Restricted Shares	Date Restrictions Lapse
Mr. Bisaro	36,777	March 5, 2011
	21,300	September 4, 2011
	40,591	February 24, 2012
	18,425	March 12, 2012
	36,776	March 5, 2013
	40,590	February 24, 2014
Mr. Joyce	3,693	March 5, 2011
	1,500	March 11, 2011
	3,400	October 30, 2011
	4,846	February 24, 2012
	3,250	March 12, 2012
	3,693	March 5, 2013
	3,400	October 30, 2013
	4,846	February 24, 2014
Mr. Wilkinson	6,250	September 21, 2011
	6,004	February 24, 2012
	6,250	September 21, 2013
	6,004	February 24, 2014

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Named Executive Officer	Restricted Shares	Date Restrictions Lapse
Mr. Stewart	11,000	November 16, 2011
	5,000	February 24, 2012
	11,000	November 16, 2013
	5,000	February 24, 2014
Mr. Buchen	7,485	March 5, 2011
	3,750	March 11, 2011
	7,500	March 12, 2012
	8,262	February 24, 2012
	7,485	March 5, 2013
	8,261	February 24, 2014

(2) Market value is determined by multiplying the number of shares by the closing price of $51.65 of our common stock on the New York Stock Exchange on December 31, 2010.

(3) Represents 2010 Performance Awards that were unearned at 12/31/2010. Amounts based on actual number of shares earned and the closing price of $55.65 of our common stock on the New York Stock Exchange on the date they were earned, which was March 2, 2011. When earned, restrictions on the restricted stock grants generally lapse equally on the second and fourth anniversaries of the grant date.

(4) Unexercised options vest at a rate of 20% per year with a remaining vesting date of 9/4/2011.

(5) Unexercised options vest at a rate of 33% per year with remaining vesting dates of 9/4/2011 and 9/4/2012.

OPTION EXERCISES AND STOCK VESTED

The following table sets forth certain information with respect to each Named Executive Officer concerning the vesting of stock awards during the fiscal year ended December 31, 2010:

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of Shares Acquired on Vesting (#)(1) (d)	Value Realized on Vesting ($)(2) (e)
Paul M. Bisaro			18,425	762,242
R. Todd Joyce	12,500	40,704	3,917	163,901
G. Frederick Wilkinson				
Robert A. Stewart				
David A. Buchen			8,334	347,096

(1) Shares acquired on vesting are represented on a pre-tax basis. The Incentive Award Plan permits withholding a number of shares upon vesting to satisfy tax withholding requirements.

(2) Represents the closing market price of a share of our common stock the date of vesting multiplied by the number of shares that have vested.

NONQUALIFIED DEFERRED COMPENSATION

The following table sets forth the executive contributions, employer matches, earnings, withdrawals/distributions and account balances, where applicable, for the Named Executive Officers in the Executive Deferred Compensation Plan (the *Deferred Plan*), an unfunded, unsecured deferred compensation plan.

Name (a)	Executive Contributions in Last FY ($)(1) (b)	Registrant Contributions in Last FY ($)(2) (c)	Aggregate Earnings in Last FY ($)(3) (d)	Aggregate Withdrawals/ Distributions ($)(4) (e)	Aggregate Balance at Last FYE ($)(5) (f)
Paul M. Bisaro	112,500	22,500	12,475		442,824
R. Todd Joyce	369,225	7,163	9,831	(380,179)	447,258
G. Frederick Wilkinson	12,097	6,048	279		18,424
Robert A. Stewart	9,423	4,712	212		14,347
David A. Buchen	105,370	5,268	25,498	(124,380)	815,224

(1) Executive contributions reported in column (b) above include salary contributions for 2010 and amounts related to non-equity incentive plan compensation earned in 2009 but paid in 2010. All amounts in column (b) are also reported in the Salary column for 2010 or the Non-Equity Incentive Plan Compensation column for 2009 in the Summary Compensation Table on page 32. Included in the amounts above representing non-equity plan contributions earned in 2009 but paid in 2010 was $62,500 for Mr. Bisaro and $210,706 for Mr. Joyce.

(2) Registrant contributions reflect company matching contributions to the Deferred Plan in 2010. All Registrant contributions are reported in the All Other Compensation column of the Summary Compensation Table on page 32.

(3) Aggregate earnings represent 2010 deemed investment earnings at the guaranteed fixed interest rate for 2010 of 3.25%. No other investment alternatives for amounts deferred or credited are offered under the Deferred Plan.

(4) Assets in the Deferred Plan are distributed either (i) at separation of service as a result of retirement, disability, termination or death; or (ii) on a designated date elected by the participant. The Deferred Plan requires participants to make an annual distribution election with respect to the money to be deferred in the next calendar year. If a participant so elects, deferrals made in one year may be distributed as soon as the next year following the deferral election. Participants may elect to receive a distribution as a lump-sum cash payment or in installment payments paid over 2 to 15 years, as the participant elects. Bonus deferrals are credited to a participant s account the year following the year in which the bonus is earned. As a result, bonus deferrals may

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not be distributed until the year following the year in which the bonus is paid to a participant and credited to his or her account. Per regulatory requirements, participants may not accelerate distributions from the Deferred Plan.

(5) Aggregate balance reflects vested and unvested balances within the Deferred Plan as of December 31, 2010. All amounts are fully vested for each Named Executive Officer except for Mr. Wilkinson and Mr. Stewart, whose vested balance as of December 31, 2010 amounts to $14,466 and $11,272, respectively. Of the aggregate balances in column (f), the following amounts are reported as compensation in the Summary Compensation Table on page 32 for 2010, 2009 and 2008: $418,159 for Mr. Bisaro, $412,226 for Mr. Joyce, $18,145 for Mr. Wilkinson, $14,135 for Mr. Stewart and $304,923 for Mr. Buchen.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

Executive Severance and Change-in-Control Agreements

Each of our Named Executive Officers is party to an employment agreement or arrangement pursuant to which he is entitled to certain payments and benefits in the event of (i) an involuntary termination without cause, (ii) the resignation of the executive for good reason or (iii) a qualifying termination in connection with a change-in-control. With certain exceptions footnoted in the table that follows, these agreements generally provide that under these circumstances our Named Executive Officers are entitled to receive:

(1) lump sum cash payments ranging from between 24 and 36 months of the executive s then base salary;

(2) with certain exceptions, a multiple of the executive s annual bonus, which, depending on the executive and the type of termination, as noted in the table below, may be determined on the basis of such executive s target bonus or the greater of target bonus or such executive s prior year actual bonus. Messrs. Joyce and Buchen (as well as Mr. Bisaro, but only in the case of a termination without cause or for good reason) are also entitled to a prorated bonus for the year in which the termination occurs;

(3) continued group health benefits (medical, dental and vision) for the executive and the executive s dependents for a period of between 18 and 36 months; and

(4) for the Named Executive Officers other than Mr. Bisaro, outplacement services for one year with a nationally recognized service selected by us.

Unless we determine that any severance payments should be delayed in consideration of Section 409A of the Internal Revise Code of 1986, cash payments are to be paid within 30 days of termination.

Change-in-Control

In the event of a qualifying termination in connection with a change-in-control, a Named Executive Officer is entitled to accelerated vesting with respect to all of his stock equity awards. Such executive is entitled to exercise any vested options for a period of 90 days following termination; provided that the terms of certain option awards permit executives with at least five years of service to the Company as of the date of any such termination to exercise such options for up to one year following termination.

Change-in-Control Gross-Up Payment

Pursuant to their respective employment agreements or arrangements, each of our Named Executive Officers, other than Messrs. Wilkinson and Stewart, is also entitled to receive a tax gross-up payment to compensate him for any excise taxes payable with respect to the payments and benefits made under his employment agreement in the event of a qualifying termination in connection with a change-in-control.

Forfeiture of Severance Benefits

If any of Messrs. Bisaro, Joyce or Buchen breaches a non-solicitation provision of his employment agreement applicable, then any severance payments or other benefits being provided to such Named Executive Officer will immediately cease.

Estimated Termination Payments

In accordance with the requirements of the rules of the SEC, the table below indicates the amount of compensation payable by us to each Named Executive Officer upon (i) an involuntary termination without cause; (ii) the resignation of the executive for good reason; or (iii) a qualifying termination in connection with a change-in-control. The amounts assume that such termination was effective as of December 31, 2010 and thus includes amounts earned through such date and are only estimates of the amounts that would actually be paid to such executives upon their termination. The definitions of change-in-control, cause and good reason and descriptions of the payments and benefits appear after the table.

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The table does not include certain amounts that the Named Executive Officer is entitled to receive under certain plans or arrangements that do not discriminate in scope, terms or operation, in favor of our Named Executive Officers and that are generally available to all salaried employees, such as payment of accrued vacation. The table also does not include the accrued and vested accounts of the executive under our Deferred Plan. These amounts are generally distributed to our executives upon a termination of employment, regardless of the reason, in accordance with his or her election under the applicable plan. The accrued and vested amounts under the Deferred Plan are set forth in the table under Nonqualified Deferred Compensation on page 38.

gger	Cash Severance(1)	Pro-Rata Bonus(2)	Health & Welfare Benefits(3)	Outplacement(4)	Restricted Stock(5)	Stock Options(6)	Excise Tax Gross-Up(7)	Total
isaro								
ood Reason or hout Cause	$ 4,500,000	$ 1,100,000	$ 32,198	$ 0	$ 0	$ 0	N/A	$ 5,632,1
hange-In-Control	$ 6,000,000	$ 0	$ 77,080	$ 0	$ 10,043,807	$ 6,264,822	$ 4,190,522	$ 26,576,2
yce								
ood Reason or hout Cause	$ 1,426,766	$ 225,000	$ 32,198	$ 9,000	$ 0	$ 0	N/A	$ 1,692,9
hange-In-Control	$ 1,426,766	$ 225,000	$ 32,198	$ 9,000	$ 1,478,636	$ 0	$ 918,801	$ 4,090,4
uchen								
ood Reason or hout Cause	$ 1,578,492	$ 259,500	$ 48,297	$ 9,000	$ 0	$ 0	N/A	$ 1,895,2
hange-In-Control	$ 1,578,492	$ 259,500	$ 48,297	$ 9,000	$ 2,207,676	$ 0	$ 1,021,772	$ 5,124,7
ilkinson								
ood Reason or hout Cause	$ 1,212,000	$ 0	$ 0	$ 9,000	$ 0	$ 0	N/A	$ 1,221,0
hange-In-Control	$ 1,939,200	$ 0	$ 0	$ 9,000	$ 1,265,838	$ 0	N/A	$ 3,214,0
ewart								
ood Reason or hout Cause	$ 1,000,000	$ 0	$ 48,297	$ 9,000	$ 0	$ 0	N/A	$ 1,057,2
hange-In-Control	$ 1,600,000	$ 0	$ 48,297	$ 9,000	$ 1,652,800	$ 0	N/A	$ 3,310,0