WATSON PHARMACEUTICALS INC
Form S-3/A
August 01, 2003

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As filed with the Securities and Exchange Commission on August 1, 2003

Registration No. 333-105816

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
To
FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

WATSON PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada	**95-3872914**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

311 Bonnie Circle
Corona, California 92880-2882
(909) 493-5300

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

David A. Buchen
Senior Vice President, General Counsel and Secretary
Watson Pharmaceuticals, Inc.
311 Bonnie Circle
Corona, California 92880-2882
(909) 493-5300

(Name, Address, Including ZIP code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:

Charles K. Ruck
Latham & Watkins LLP
650 Town Center Drive, 20th Floor
Costa Mesa, California 92626-1925
(714) 540-1235

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

PROSPECTUS

Watson Pharmaceuticals, Inc.

$575,000,000

1.75% CONVERTIBLE CONTINGENT SENIOR DEBENTURES DUE 2023
SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE DEBENTURES

On March 7, 2003, we issued and sold $500,000,000 aggregate principal amount of our 1.75% Convertible Contingent Senior Debentures Due 2023 in a private placement. On March 10, 2003, we issued and sold $75,000,000 aggregate principal amount of the debentures in connection with the exercise by the initial purchasers of their overallotment option. Selling securityholders will use this prospectus to resell their debentures and the shares of common stock issuable upon conversion of their debentures.

Holders may convert the debentures at their option into shares of our common stock at a conversion price of approximately $40.05 per share, subject to adjustment, only in the following circumstances:

if the sale price of our common stock measured over a specified number of trading days is above 125% of the conversion price;

on or before March 15, 2018, if the ratio of the trading price of the debentures to the conversion value of the debentures, measured over a specified number of trading days, is below 105%;

during any period, following the earlier of (a) the date the debentures are rated by both Standard & Poor's Rating Services and Moody's Investor Services, Inc. and (b) April 21, 2003, when the long-term credit rating assigned to the debentures by either Standard & Poor's or Moody's (or any successors to these entities) is lower than "BB" or "Ba3", respectively, or when either of these rating agencies does not have a rating then assigned to the debentures for any reason, including any withdrawal or suspension of a rating assigned to the debentures;

if the debentures have been called for redemption; or

upon the occurrence of specified corporate transactions.

The debentures will bear interest at a rate of 1.75% per year. We will also pay contingent interest during any six-month period following a six-month period in which the average trading price of the debentures is above specified levels. Interest on the debentures is payable on March 15 and September 15 of each year, beginning on September 15, 2003. The debentures will mature on March 15, 2023.

The debentures will be subject to special United States federal income tax rules. For a discussion of the special tax regulations governing contingent payment debt securities, see "Certain United States Federal Income Tax Considerations."

Holders may require us to purchase all or a portion of their debentures on March 15 of 2010, 2015 and 2018 at a purchase price equal to 100% of the principal amount plus accrued but unpaid interest, including contingent interest, if any. In addition, upon a change of control, in certain circumstances, holders may require us to repurchase all or a portion of their debentures. We may redeem some or all of the debentures on or after March 20, 2008. The debentures will be our senior unsecured obligations and will rank equal in right of payment with all our existing and future senior unsecured indebtedness.

We do not intend to list the debentures for trading on any national securities exchange or on the Nasdaq Stock Market. Our common stock trades on the New York Stock Exchange under the symbol "WPI." The last reported sale price on July 31, 2003 was $39.94 per share.

We will not receive any proceeds from the sale by the selling securityholders of the debentures or the common stock issuable upon conversion of the debentures. The selling securityholders may offer the debentures or the underlying common stock, in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, the common stock may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. The selling securityholders may be deemed to be "underwriters" as defined in the Securities Act of 1933. If any broker-dealers are used by the selling securityholders, any commissions paid to broker-dealers and, if broker-dealers purchase any debentures or common stock as principals, any profits received by such broker-dealers on the resale of the debentures as common stock, may be deemed to be underwriting discounts or commissions under the Securities Act of 1933. In addition, any profits realized by the selling securityholders may be deemed to be underwriting commissions. Other than selling commissions and fees and stock transfer taxes, we will pay all expenses of the registration of the debentures and the common stock and certain other expenses as set forth in the registration rights agreement.

Investing in the debentures and the common stock issuable upon conversion of the debentures involves a high degree of risk. Please consider the "Risk Factors" beginning on page 10 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 1, 2003

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a "shelf" registration or continuous offering process. Under this shelf registration process, selling security holders may from time to time sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities that the selling holders may offer. A selling holder may be required to provide you with a prospectus supplement containing specific information about the selling holder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. A prospectus supplement may also add, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading "Additional Information."

In this prospectus and any prospectus supplement, unless otherwise indicated, the terms "we," "us," "our" and "Watson" refer to Watson Pharmaceuticals, Inc. and its consolidated subsidiaries. The Watson name and logo are trademarks of Watson Pharmaceuticals, Inc. Other brands, names and trademarks contained in this prospectus are the property of their respective owners.

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus and any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. This prospectus and any accompanying supplement to this prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus and any accompanying supplement to this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information contained in this prospectus and any supplement to this prospectus is accurate as of the dates on their covers. When we deliver this prospectus or a supplement or make a sale pursuant to this prospectus or a supplement, we are not implying that the information is current as of the date of the delivery or sale.

FORWARD-LOOKING STATEMENTS

We caution you that certain important factors may affect our actual results and could cause such results to differ materially from any forward-looking statement which may have been deemed to have been made in or incorporated by reference into this prospectus or which is otherwise made by us or on our behalf. For this purpose, any statements contained in this prospectus that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," "continue" or "pursue," or the negative other variations thereof or comparable terminology are intended to identify forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any additional disclosures we make in our Form 10-K, 10-Q and 8-K reports to the SEC. Also note that we provide a cautionary discussion of risks and uncertainties under the section entitled "Risk Factors" in this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed in this prospectus, or contained in the documents we incorporate by reference, could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

PROSPECTUS SUMMARY

This summary highlights selected information contained in, or incorporated by reference into, this prospectus and does not contain all the information you may need to consider in making your investment decision. You should read carefully this entire prospectus and the information we incorporate by reference into it and consider the information set forth in "Risk Factors."

Watson Pharmaceuticals

We are a leading specialty pharmaceutical company that develops, manufactures, markets, sells and distributes branded and off-patent (generic) pharmaceutical products. We also develop advanced drug delivery systems designed to enhance the therapeutic benefit of existing drugs. We were incorporated in 1985 and began operations as a manufacturer and marketer of generic pharmaceutical products. Through internal product development and synergistic acquisitions of products and businesses, we have grown into a diversified specialty pharmaceutical company. As of December 31, 2002, we marketed more than 30 branded pharmaceutical products. In addition to our branded products, as of December 31, 2002, we marketed approximately 130 generic pharmaceutical products in over 750 package sizes and dosage forms. We intend to continue to grow our business by increasing both our branded and generic pharmaceutical product offerings through a combination of internal research and development, strategic alliances, and strategic acquisitions. As of December 31, 2002, we had 6 branded products in development that are in Phase II or Phase III trials or beyond and 16 abbreviated new drug applications (ANDAs) filed with the U.S. Food and Drug Administration (the FDA).

Our principal executive offices are located at 311 Bonnie Circle, Corona, California 92880 - 2882. Our internet website address is www.watsonpharm.com. For more information about Watson, we encourage you to review the reports we file from time to time with the Securities and Exchange Commission, including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2002 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (as amended on Form 10-Q/A filed on August 1, 2003).

THE OFFERING

Issuer	Watson Pharmaceuticals, Inc.
Securities Offered	$575,000,000 aggregate principal amount of 1.75% Convertible Contingent Senior Debentures due March 15, 2023.
Maturity Date	March 15, 2023.
Ranking	The debentures are senior unsecured obligations of Watson Pharmaceuticals, Inc. and rank equal in right of payment with all existing and future senior unsecured indebtedness of Watson Pharmaceuticals, Inc.
Interest Payment Dates	March 15 and September 15, beginning September 15, 2003.
Interest Rate	1.75% per year, subject to adjustment under specified circumstances. See "Description of the Debentures Interest Rate Adjustments."
Contingent Interest	We pay contingent interest to the holders of the debentures during any six-month period from March 15 to September 14 and from September 15 to March 14, commencing on September 15, 2003, if the average trading price of the debentures for the five trading days ending on the second trading day immediately preceding the relevant six-month period equals 120% or more of the principal amount of the debentures. The contingent interest payable in any six-month period equals the greater of (i) a per annum rate equal to 5.00% of our then-current estimated per annum borrowing rate for senior non-convertible fixed-rate indebtedness with a maturity date and other terms comparable to the debentures and (ii) 0.33% per annum, in each case based on the outstanding principal amount of the debentures. Contingent interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

United States Federal Income Tax	Each holder agreed in the indenture, for United States federal income tax purposes, to treat the debentures Considerations as "contingent payment debt instruments" and to be bound by our application of the Treasury regulations that govern contingent payment debt instruments, including our determination that the rate at which interest will be deemed to accrue for federal income tax purposes will be 6.50% compounded semi-annually, which is the rate comparable to the rate at which we would borrow on a non-contingent, non-convertible borrowing with terms and conditions otherwise comparable to the debentures. Accordingly, each holder is required to accrue interest on a constant yield to maturity basis at that rate (subject to certain adjustments), with the result that a U.S. holder (as defined below under "Certain United States Federal Income Tax Considerations") recognizes taxable income significantly in excess of cash received while the debentures are outstanding. In addition, a U.S. holder will recognize ordinary income upon a sale, exchange, conversion, redemption or repurchase of the debentures at a gain. In computing such gain, the amount realized by a U.S. holder will include, in the case of a conversion, the amount of cash and the fair market value of shares received. However, the proper United States federal income tax treatment of a holder of a debenture is uncertain in various respects. If the agreed upon treatment was successfully challenged by the Internal Revenue Service, it might be determined that, among other differences, a holder should have accrued interest income at a lower rate, should not have recognized income or gain upon the conversion, and should not have recognized ordinary income upon a taxable disposition of its debentures. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE TAX TREATMENT OF THE DEBENTURES AND WHETHER A PURCHASE OF THE DEBENTURES IS ADVISABLE IN LIGHT OF THE AGREED UPON TAX TREATMENT AND THE INVESTOR'S PARTICULAR TAX SITUATION.
Conversion Right	Holders may convert their debentures prior to the close of business on their stated maturity date under any of the following circumstances: during any quarterly conversion period (as described in this prospectus) if the closing sale price per share of our common stock for a period of at least 20 trading days during the 30 consecutive trading-day period ending on the first day of such conversion period is more than 125% of the conversion price in effect on that thirtieth day;

on or before March 15, 2018, during the five business-day period following any 10 consecutive trading-day period in which the daily average trading price for the debentures for such ten-day period was less than 105% of the average conversion value (as described in this prospectus) for the debentures during that period;

during any period, following the earlier of (a) the date the debentures are rated by both Standard & Poor's Rating Services and Moody's Investor Services, Inc. and (b) April 21, 2003, when the long-term credit rating assigned to the debentures by either Standard & Poor's or Moody's (or any successors to these entities) is lower than "BB" or "Ba3", respectively, or when either of these rating agencies does not have a rating then assigned to the debentures for any reason, including any withdrawal or suspension of a rating assigned to the debentures;

if the debentures have been called for redemption; or

upon the occurrence of specified corporate transactions described below under "Description of the Debentures Conversion Rights."

The conversion rate initially equals 24.9688 shares of our common stock per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $40.05 per share of common stock. The conversion rate (and the conversion price) may be adjusted for

	certain reasons, but will not be adjusted for accrued interest (including contingent interest), if any. Upon conversion, holders will not receive any cash payment representing accrued interest. Instead, accrued interest will be deemed paid by the common stock received by holders on conversion. Debentures called for redemption may be surrendered for conversion until the close of business one business day prior to the redemption date. See "Description of the Debentures Conversion Rights."
Sinking Fund	None.
Optional Redemption by Watson	We may not redeem the debentures prior to March 20, 2008. We may redeem some or all of the debentures for cash on or after March 20, 2008 for a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest (including contingent interest) to, but excluding, the redemption date, all as set forth under "Description of the Debentures Optional Redemption by Watson." We will therefore be required to make 10 interest payments before being able to redeem any debentures.

Optional Repurchase Right of Holders	Holders may require us to repurchase for cash all or a portion of their debentures on March 15 of 2010, 2015 Holders and 2018 at a repurchase price equal to 100% of the principal amount of the debentures plus any accrued and unpaid interest (including contingent interest) to, but excluding, the date of repurchase. See "Description of the Debentures Repurchase at Option of Holders Optional Put."
Change of Control Repurchase Right of Holders	Holders may require us to repurchase for cash all or a portion of their debentures upon a change of control of Holders of Watson Pharmaceuticals, Inc., in certain circumstances and subject to certain conditions. In such case, we will pay a repurchase price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest (including contingent interest) to, but excluding, the repurchase date. See "Description of the Debentures Repurchase at Option of Holders Change of Control Put."
Use of Proceeds	The selling securityholders will receive all of the proceeds from the sale under this prospectus of debentures and the common stock issuable upon conversion of the debentures. We will not receive any proceeds from these sales.
Trading	The debentures are currently trading in the Private Offerings, Resales and Trading through Automatic Linkages Market, commonly referred to as the PORTAL Market. Debentures sold by means of this prospectus are not expected to remain eligible for trading in the Portal Market but are expected to be traded over the counter. We do not intend to list the debentures on any national securities exchange or on the Nasdaq Stock Market.
New York Stock Exchange Symbol For Our Common Stock	Our common stock is traded on the New York Stock Exchange under the symbol "WPI."

RISK FACTORS

You should read the "Risk Factors" section to understand the risks associated with an investment in the debentures.

RISK FACTORS

You should carefully consider the following factors and other information contained and incorporated by reference in this prospectus. Any of these risks could cause our business, financial condition, results of operations and prospects to materially suffer. Any of these events could also cause the market price of the debentures and our common stock to decline.

Risks Relating to Watson

If we are unable to successfully develop or commercialize new products, our operating results will suffer.

Our future results of operations will depend to a significant extent upon our ability to successfully commercialize new branded and generic products in a timely manner. There are numerous difficulties in developing and commercializing new products, including:

- developing, testing and manufacturing products in compliance with regulatory standards in a timely manner;
- receiving requisite regulatory approvals for such products in a timely manner;
- the availability on commercially reasonable terms of raw materials, including active pharmaceutical ingredients and other key ingredients;
- developing and commercializing a new product is time consuming, costly and subject to numerous factors that may delay or prevent the development and commercialization of new products, including legal actions brought by our competitors;
- experiencing delays or unanticipated costs; and
- commercializing generic products may be substantially delayed by the listing with the FDA of patents that have the effect of potentially delaying approval of the off-patent product by up to 30 months, and in some cases, such patents have been issued and listed with the FDA after the key chemical patent on the branded drug product has expired or been litigated, causing additional delays in obtaining FDA approval.

As a result of these and other difficulties, products currently in development by Watson may or may not receive the regulatory approvals necessary for marketing by Watson or other third-party partners. This risk particularly exists with respect to the development of proprietary products because of the uncertainties, higher costs and lengthy time frames associated with research and development of such products and the inherent unproven market acceptance of such products. If any of our products, when acquired or developed and approved, cannot be successfully or timely commercialized, our operating results could be adversely affected. We cannot guarantee that any investment we make in developing products will be recouped, even if we are successful in commercializing those products.

Our branded pharmaceutical expenditures may not result in commercially successful products.

During 2002, we increased our planned expenditures for the development and marketing of our branded business. During 2003 and thereafter, we may further increase the amounts we expend for our branded pharmaceutical business. In addition, we expect to launch Oxytrol , our proprietary oxybutynin patch for the treatment of overactive bladder, during the second quarter of 2003. In connection with the launch, we will establish a contract sales organization which will require us to make additional ongoing expenditures. As a result of these increased expenditures, our earnings in the short term may be adversely affected. Furthermore, we cannot be sure these business expenditures will result in the successful discovery, development or launch of branded products that will prove to be commercially successful or will improve the long-term profitability of our business.

Our gross profit may fluctuate from period to period depending upon our product sales mix, our product pricing, and our costs to manufacture or purchase products.

Our future results of operations, financial condition and cash flows depend to a significant extent upon our branded and generic product sales mix. Our sales of branded products tend to create higher gross margins than do our sales of generic products. As a result, our sales mix (the proportion of total sales between branded products and generic products) will significantly impact our gross profit from period to period. During 2002, sales of our branded products and generic products accounted for approximately 55% and 45%, respectively, of our net products sales. During that same period, branded products and generic products contributed approximately 80% and 20%, respectively, to our gross profits. Factors that may cause our sales mix to vary include:

- the amount of new product introductions;
- marketing exclusivity, if any, which may be obtained on certain new products;
- the level of competition in the marketplace for certain products;
- the availability of raw materials and finished products from our suppliers; and
- the scope and outcome of governmental regulatory action that may involve us.

The profitability of our product sales is also dependent upon the prices we are able to charge for our products, the costs to purchase products from third parties, and our ability to manufacture our products in a cost effective manner.

Loss of revenues from significant products could have a material adverse effect on our results of operations, financial condition and cash flows.

We currently have one product, Ferrlecit®, with annual sales in excess of 10% of our net revenues. If this product, or a combination of certain of our Women's Health or General and Pain Management Products (none of which individually account for more than 10% of our net revenues), were to be subject to loss of exclusivity protection, unexpected side effects, regulatory proceedings, or pressure from competitive products, among other factors, our net revenues could significantly decline, which could have a material adverse effect on our results of operations, financial condition and cash flows. For example, Ferrlecit®, which was introduced in 1999, was granted a five-year exclusivity period by the FDA as a new chemical entity. This exclusivity period runs through February 2004.

If we are unsuccessful in our joint ventures and other collaborations, our operating results could suffer.

We have made substantial investments in joint ventures and other collaborations and may use these and other methods to develop or commercialize products in the future. These arrangements typically involve other pharmaceutical companies as partners that may be competitors of ours in certain markets. In many instances, we will not control these joint ventures or collaborations or the commercial exploitation of the licensed products, and cannot assure the holders that these ventures will be profitable. Although restrictions contained in certain of these programs have not had a material adverse impact on the marketing of our own products to date, any such marketing restriction could affect future revenues and have a material adverse effect on our operations. For example, in March 2002, the FDA issued to Somerset Pharmaceuticals, Inc., a joint venture in which we hold a 50% interest, a not approvable letter with respect to Somerset's NDA for EmSam , a selegeline patch for depression. Somerset is continuing its efforts toward approval of this product. Our results of operations may suffer if existing joint ventures or collaboration partners withdraw, or if these products are not timely developed, approved or successfully commercialized.

If we are unable to adequately protect our technology or enforce our patents, our business could suffer.

Our success with the branded products that we develop will depend, in part, on our ability to obtain patent protection for these products. We currently have a number of U.S. and foreign patents issued and pending. We cannot be sure that we will receive patents for any of our patent applications. If our current and future patent applications are not approved or, if approved, if such patents are not upheld in a court of law, it may reduce our ability to competitively exploit our patented products. Also, such patents may or may not provide competitive advantages for their respective products or they may be challenged or circumvented by our competitors, in which case our ability to commercially exploit these

products may be diminished.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with our partners, customers, employees and consultants. It is possible that these agreements will be breached or that they will not be enforceable in every instance, and that we will not have adequate remedies for any such breach. It is also possible that our trade secrets will become known or independently developed by our competitors.

If we are unable to adequately protect our technology or enforce our patents, our results of operations, financial condition and cash flows could suffer.

If branded pharmaceutical companies are successful in limiting the use of generics through their legislative and regulatory efforts, our sales of generic products may suffer.

Many branded pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

- pursuing new patents for existing products which may be granted just before the expiration of one patent which could extend patent protection for additional years or otherwise delay the launch of generics;
- using the Citizen Petition process to request amendments to FDA standards;
- seeking changes to U.S. Pharmacopeia, an organization which publishes industry recognized compendia of drug standards;
- attaching patent extension amendments to non-related federal legislation; and
- engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing.

If branded pharmaceutical companies are successful in limiting the use of generic products through these or other means, our sales of generic products may decline. If we experience a material decline in generic product sales, our results of operations, financial condition and cash flows will suffer.

From time to time we may need to rely on licenses to proprietary technologies, which may be difficult or expensive to obtain.

We may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially exploit our products may be inhibited or prevented.

Third parties may claim that we infringe their proprietary rights and may prevent us from manufacturing and selling some of our products.

The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the pharmaceutical industry. These lawsuits relate to

the validity and infringement of patents or proprietary rights of third parties. We may have to defend against charges that we violated patents or proprietary rights of third parties. This is especially true in the case of generic products on which the patent covering the branded product is expiring, an area where infringement litigation is prevalent, and in the case of new branded products where a competitor has obtained patents for similar products. Litigation may be costly and time-consuming, and could divert the attention of our management and technical personnel. In addition, if we infringe on the rights of others, we could lose our right to develop or manufacture products or could be required to pay monetary damages or royalties to license proprietary rights from third parties. Although the parties to patent and intellectual property disputes in the

pharmaceutical industry have often settled their disputes through licensing or similar arrangements, the costs associated with these arrangements may be substantial and could include ongoing royalties. Furthermore, we cannot be certain that the necessary licenses would be available to us on terms we believe to be acceptable. As a result, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling a number of our products, which could harm our business, financial condition, results of operations and cash flows.

As a part of our business strategy, we plan to consider, and as appropriate, make acquisitions of technologies, products and businesses, which may result in us experiencing difficulties in integrating the technologies, products and businesses that we acquire and/or experiencing significant charges to earnings that may adversely affect our stock price and financial condition.

We regularly review potential acquisitions of technologies, products and businesses complementary to our business. Acquisitions typically entail many risks and could result in difficulties in integrating the operations and personnel of companies that we acquire and the technologies and products that we acquire. If we are not able to successfully integrate our acquisitions, we may not obtain the advantages that the acquisitions were intended to create, which may adversely affect our business, results of operations, financial condition and cash flows, our ability to develop and introduce new products and the market price of our stock. In addition, in connection with acquisitions, we could experience disruption in our business or employee base. There is also a risk that key employees of companies that we acquire or key employees necessary to successfully commercialize technologies and products that we acquire may seek employment elsewhere, including with our competitors. Furthermore, there may be overlap between the products or customers of Watson and the companies that we acquire that may create conflicts in relationships or other commitments detrimental to the integrated businesses.

In addition, as a result of acquiring businesses, products or entering into other significant transactions, we have experienced, and will likely continue to experience, significant charges to earnings for merger and related expenses that may include transaction costs, closure costs or acquired in-process research and development charges. These costs may include substantial fees for investment bankers, attorneys, accountants and financial printing costs and severance and other closure costs associated with the elimination of duplicate or discontinued products, operations and facilities. Charges that we may incur in connection with acquisitions could adversely affect our results of operations for particular quarterly or annual periods.

If we are unsuccessful in selling our assets held for disposition, our results of operations and cash flows will suffer.

At the time we acquired Schein Pharmaceutical, Inc. in July 2000, we accounted for its Steris Laboratories, Inc. facility as an asset held for disposition. Since that time, we have actively pursued divesting the Steris facility, and are continuing to actively pursue sale opportunities. However, if we do not succeed in divesting the Steris facility, our results of operations and cash flows will suffer.

If we are unable to obtain sufficient supplies from key suppliers that in some cases may be the only source of finished products or raw materials, our ability to deliver our products to the market may be impeded.

We are required to identify the supplier(s) of all the raw materials for our products in our applications with the FDA. To the extent practicable, we attempt to identify more than one supplier in each drug application. However, some products and raw materials are available only from a single source and, in some of our drug applications, only one supplier of products and raw materials has been identified, even in instances where multiple sources exist. Among others, this includes products that have historically accounted for a significant portion of our revenues, such as Ferrlecit® and a significant number of our oral contraceptive products. From time to time, certain of our outside suppliers have experienced regulatory or supply-related difficulties that have inhibited their ability to deliver products and raw materials to us, causing supply delays or interruptions. In the event an existing supplier should lose its regulatory status as an approved source, we would attempt to locate a qualified alternative. To the extent any difficulties experienced by our suppliers cannot be resolved within a reasonable time, and at reasonable cost, or if raw materials for a particular product become unavailable from an approved supplier and we are required to qualify a new supplier with the FDA, our profit margins and market share for the affected product could decrease, as well as delay our development and sales and marketing efforts.

Our arrangements with foreign suppliers are subject to certain additional risks, including the availability of government clearances, export duties, political instability, currency fluctuations and restrictions on the transfer of funds. For example, we obtain a significant portion of our raw materials from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, FDA regulation, various import duties and other government clearances. Acts of governments outside the U.S. may affect the price or availability of raw materials needed for the development or manufacture of our products. In addition, recent changes in patent laws in jurisdictions outside the U.S. may make it increasingly difficult to obtain raw materials for research and development prior to the expiration of the applicable U.S. or foreign patents.

Our policies regarding returns, allowances and chargebacks, and marketing programs adopted by wholesalers, may reduce our revenues in future fiscal periods.

Based on industry practice, generic product manufacturers, including us, have liberal return policies and have been willing to give customers post-sale inventory allowances. Under these arrangements, from time to time, we give our customers credits on our generic products that our customers hold in inventory after we have decreased the market prices of the same generic products. Therefore, if new competitors enter the marketplace and significantly lower the prices of any of their competing products, we would likely reduce the price of our product. As a result, we would be obligated to provide significant credits to our customers who are then holding inventories of such products, which could reduce sales revenue and gross margin for the period the credit is provided. Like our competitors, we also give credits for chargebacks to wholesale customers that have contracts with us for their sales to hospitals, group purchasing organizations, pharmacies or other retail customers. A chargeback is the difference between the price the wholesale customer pays and the price that the wholesale customer's end-customer pays for a product. Although we establish reserves based on our prior experience and our best estimates of the impact that these policies may have in subsequent periods, we cannot ensure that our reserves are adequate or that actual product returns, allowances and chargebacks will not exceed our estimates.

Investigations of the calculation of average wholesale prices may adversely affect our business.

Many government and third-party payors, including Medicare, Medicaid, health maintenance organizations (HMOs) and managed care organizations (MCOs), reimburse doctors and others for the

purchase of certain prescription drugs based on a drug's average wholesale price, or AWP. In the past several years, state and federal government agencies have conducted ongoing investigations of manufacturers' reporting practices with respect to AWP, in which they have suggested that reporting of inflated AWP's have led to excessive payments for prescription drugs. For example, beginning in July 2002, we and certain of our subsidiaries, as well as numerous other pharmaceutical companies, were named as defendants in various state and federal actions alleging improper or fraudulent practices related to the reporting of AWP of certain products, and other improper acts in order to increase prices and market shares. We have also received notices or subpoenas from the attorneys general of various states, including Florida, Nevada, New York, California and Texas, indicating investigations, claims and/or possible lawsuits relating to pharmaceutical pricing issues and whether allegedly improper actions by pharmaceutical manufacturers led to excessive payments by Medicare and/or Medicaid. These actions, if successful, could adversely affect us and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

The design, development, manufacture and sale of our products involves the risk of product liability claims by consumers and other third parties, and insurance against such potential claims is expensive and may be difficult to obtain.

The design, development, manufacture and sale of our products involve an inherent risk of product liability claims and the associated adverse publicity. Insurance coverage is expensive and may be difficult to obtain, and may not be available in the future on acceptable terms, or at all. Although we currently maintain product liability insurance for our products in amounts we believe to be commercially reasonable, if the coverage limits of these insurance policies are not adequate, a claim brought against Watson, whether covered by insurance or not, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The loss of our key personnel could cause our business to suffer.

The success of our present and future operations will depend, to a significant extent, upon the experience, abilities and continued services of key personnel. For example, although we have other senior management personnel, a significant loss of the services of Allen Chao, Ph.D., our Chairman and Chief Executive Officer, or other senior executive officers, could cause our business to suffer. In 2002, we experienced significant turnover in our senior management, with the departure of Michael Boxer, formerly our Chief Financial Officer, and Robert Funsten, formerly our General Counsel. We cannot assure the holders that we will be able to attract and retain key personnel. We have entered into employment agreements with all of our senior executive officers, including Dr. Chao. We do not carry key-man life insurance on any of our officers.

Rising insurance costs could negatively impact profitability.

The cost of insurance, including director and officer, workers compensation, product liability and general liability insurance, have risen significantly in the past year and are expected to continue to increase in 2003. In response, we may increase deductibles and/or decrease certain coverages to mitigate these costs. These increases, and our increased risk due to increased deductibles and reduced coverages, could have a negative impact on our results of operations, financial condition and cash flows.

Implementation of an enterprise resource planning system could cause business interruptions and negatively affect our profitability and cash flows.

We are in the process of implementing an enterprise resource planning (ERP) system to improve customer service, enhance operating efficiencies, and provide more effective management of business operations. This implementation will enable us to better meet both the changing standards of industry

technology and the needs of our customer base. During 2002, we spent approximately $17.4 million on the implementation of our ERP system. During 2003, we expect to spend approximately $34 million on our ERP implementation. However, implementation of ERP systems and software carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business interruption as a result of our ERP implementation, it could adversely affect us, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Risks Relating to Investing in the Pharmaceutical Industry

Extensive industry regulation has had, and will continue to have, a significant impact on our business, especially our product development and manufacturing capabilities.

All pharmaceutical companies, including Watson, are subject to extensive, complex, costly and evolving regulation by the federal government, principally the FDA and, to a lesser extent, by the U.S. Drug Enforcement Administration (DEA) and state government agencies. The Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other federal statutes and regulations govern or influence the testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products. The process of complying with these statutes and regulations is rigorous, time-consuming and costly, and our failure to comply could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Under these regulations, we are subject to periodic inspection of our facilities, procedures and operations and/or the testing of our products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that we are in compliance with all applicable regulations. In addition, the FDA conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems and processes are in compliance with cGMP, and other FDA regulations. Following such inspections, the FDA may issue notices on Form 483 and warning letters that could cause us to modify certain activities identified during the inspection. A Form 483 notice is generally issued at the conclusion of a FDA inspection and lists conditions the FDA inspectors believe may violate cGMP or other FDA regulations. FDA guidelines specify that a warning letter is issued only for violations of "regulatory significance" for which the failure to adequately and promptly achieve correction may be expected to result in an enforcement action.

Our principal manufacturing facility in Corona, California (which manufactured products representing approximately 20% of our total net revenues for 2002) and our Steris facility located in Phoenix, Arizona are each currently subject to a consent decree of permanent injunction. We cannot assure the holders that the FDA will determine that we have adequately corrected deficiencies at our manufacturing sites (including those referenced above), that subsequent FDA inspections will not result in additional inspectional observations at such sites, that approval of any of the pending or subsequently submitted NDAs, ANDAs or supplements to such applications by Watson or its subsidiaries will be granted or that the FDA will not seek to impose additional sanctions against Watson or any of its subsidiaries. The range of possible sanctions includes, among others, FDA issuance of adverse publicity, product recalls or seizures, fines, total or partial suspension of production and/or distribution, suspension of the FDA's review of product applications, enforcement actions, injunctions, and civil or criminal prosecution. Any such sanctions, if imposed, could materially harm our operating results and financial condition. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. Similar sanctions as detailed above may be available to the FDA under a consent decree, depending upon the actual terms of such decree. Although we have instituted internal compliance programs, if these programs do not meet regulatory agency standards or if compliance is deemed deficient in any significant way, it could materially harm our business. Certain of our vendors are subject to similar regulation and periodic inspections.

We cannot predict the extent to which we may be affected by legislative and regulatory developments. We are dependent on receiving FDA and other governmental or third-party approvals prior to manufacturing, marketing and shipping our products. Consequently, there is always the chance that we will not obtain FDA or other necessary approvals, or that the rate, timing and cost of such approvals, will adversely affect our

product introduction plans or results of operations. We carry inventories of certain product(s) in anticipation of launch, and if such product(s) are not subsequently launched, we may be required to write-off the related inventory.

Federal regulation of arrangements between manufacturers of branded and generic products could adversely affect our business.

In July 2002, the Federal Trade Commission (FTC) published a study of whether brand name and generic drug manufacturers have entered into agreements, or have used other strategies, to delay competition from generic versions of patent-protected drugs. We, along with other pharmaceutical companies, received a request for information from the FTC pursuant to this study. The FTC's study, and any changes to existing laws and regulations that result from the study, could affect the manner in which generic drug manufacturers resolve intellectual property litigation with branded pharmaceutical companies and could result generally in an increase in private-party litigation against pharmaceutical companies or additional investigations or proceedings by the FTC or other governmental authorities. The impact of the FTC's study, and the potential private-party lawsuits associated with arrangements between brand name and generic drug manufacturers is uncertain, and could adversely affect our business.

Healthcare reform and a reduction in the reimbursement levels by governmental authorities, HMOs, MCOs or other third-party payors may adversely affect our business.

In order to assist us in commercializing products, we have obtained from government authorities and private health insurers and other organizations, such as HMOs and MCOs, authorization to receive reimbursement at varying levels for the cost of certain products and related treatments. Third party payors increasingly challenge pricing of pharmaceutical products. The trend toward managed healthcare in the U.S., the growth of organizations such as HMOs and MCOs and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and a reduction in product demand. Such cost containment measures and healthcare reform could affect our ability to sell our products and may have a material adverse effect on our business, results of operations and financial condition. Due to the uncertainty surrounding reimbursement of newly approved pharmaceutical products, reimbursement may not be available for some of Watson's products. Additionally, any reimbursement granted may not be maintained or limits on reimbursement available from third-party payors may reduce the demand for, or negatively affect the price of, those products and could harm significantly our business, results of operations, financial condition and cash flows. We may also be subject to lawsuits relating to reimbursement programs that could be costly to defend, divert management's attention and adversely affect our operating results.

The pharmaceutical industry is highly competitive.

We face strong competition in both our generic and branded product businesses. The intensely competitive environment requires an ongoing, extensive search for technological innovations and the ability to market products effectively, including the ability to communicate the effectiveness, safety and value of branded products to healthcare professionals in private practice, group practices and managed care organizations. Our competitors vary depending upon product categories, and within each product category, upon dosage strengths and drug-delivery systems. Based on total assets, annual revenues, and market capitalization, we are smaller than certain of our national competitors in the branded product

arena. Most of our competitors have been in business for a longer period of time than Watson, have a greater number of products on the market and have greater financial and other resources than we do. If we directly compete with them for the same markets and/or products, their financial strength could prevent us from capturing a profitable share of those markets. It is possible that developments by our competitors will make our products or technologies noncompetitive or obsolete.

We also compete in the generic pharmaceutical business. Revenues and gross profit derived from the sales of generic pharmaceutical products tend to follow a pattern based on certain regulatory and competitive factors. As patents for brand name products and related exclusivity periods expire, the first generic manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing off-patent manufacturers receive regulatory approvals on similar products or as brand manufacturers launch generic versions of such products (for which no separate regulatory approval is required), market share, revenues and gross profit typically decline, in some cases dramatically. Accordingly, the level of market share, revenue and gross profit attributable to a particular generic product is normally related to (a) the number of competitors in that product's market and (b) the timing of that product's regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross margins.

Sales of our products may continue to be adversely affected by the continuing consolidation of our distribution network and the concentration of our customer base.

Our principal customers are wholesale drug distributors and major retail drug store chains. These customers comprise a significant part of the distribution network for pharmaceutical products in the U.S. This distribution network is continuing to undergo significant consolidation marked by mergers and acquisitions among wholesale distributors and the growth of large retail drug store chains. As a result, a small number of large wholesale distributors control a significant share of the market, and the number of independent drug stores and small drug store chains has decreased. We expect that consolidation of drug wholesalers and retailers will increase pricing and other competitive pressures on drug manufacturers, including Watson.

For the year ended December 31, 2002, our four largest customers accounted for 21%, 16%, 11% and 11%, respectively, of our net revenues. The loss of any of these customers could materially adversely affect our business, results of operations and financial condition. In addition, none of our customers are party to any long-term supply agreements with us, which would enable them to change suppliers freely should they wish to do so.

Risks Relating to Investment in the Debentures

The holders of the debentures should consider the U.S. federal income tax consequences of owning the debentures and the shares of common stock issuable upon conversion of the debentures.

We and each holder agreed in the indenture to treat the debentures as indebtedness that is subject to U.S. Treasury regulations governing contingent payment debt instruments. The following discussion assumes that the debentures will be so treated, though we cannot assure the holders that the Internal Revenue Service will not assert that the debentures should be treated differently. Under the contingent payment debt regulations, a holder will be required to include amounts in income, as original issue discount, in advance of cash such holder receives on a debenture, and to accrue interest on a constant yield to maturity basis at a rate comparable to the rate at which we would borrow in a noncontingent, nonconvertible borrowing, even though the debenture will have a significantly lower yield to maturity. A holder will recognize taxable income significantly in excess of cash received while the debentures are outstanding. In addition, under the indenture, a holder will recognize ordinary income, if any, upon a

sale, exchange, conversion or redemption of the debentures at a gain. In computing such gain, the amount realized by a holder will include, in the case of a conversion, the amount of cash and the fair market value of shares received. Holders are urged to consult their own tax advisors as to the U.S. federal, state and other tax consequences of acquiring, owning and disposing of the debentures and the shares of common stock issuable upon conversion of the debentures. For more information, see "Certain United States Federal Income Tax Considerations."

The debentures will not contain certain restrictive covenants, and there is limited protection in the event of a change of control.

The indenture under which the debentures will be issued will not contain restrictive covenants that would protect the holders from several kinds of transactions that may adversely affect the holders. In particular, the indenture will not contain covenants that will limit our ability to pay dividends or make distributions on or redeem our capital stock or limit our ability to incur additional indebtedness and, therefore, protect the holders in the event of a highly leveraged transaction or other similar transaction. In addition, the requirement that we offer to repurchase the debentures upon a change of control is limited to the transactions specified in the definition of a "change of control" under "Description of Debentures Repurchase at Option of Holders Change of Control Put." Accordingly, we could enter into certain transactions, such as acquisitions, refinancings or a recapitalization, that could affect our capital structure and the value of our common stock but would not constitute a change of control.

Our ability to repurchase the debentures with cash upon a change of control may be limited.

In certain circumstances involving a change of control of Watson, holders may require us to repurchase all or a portion of their debentures to the extent set forth in this prospectus. If a change in control were to occur, we cannot assure the holders that, if required, we will have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the repurchase price of the debentures in cash. Our ability to repurchase the debentures in that event may be limited by law, by the indenture, by the terms of other agreements relating to our senior debt and by indebtedness and agreements that we may enter into in the future which may replace, supplement or amend our existing or future debt. If a change in control occurs at a time when we are prohibited from repurchasing or redeeming the debentures, we could seek the consent of lenders to repurchase the debentures or could attempt to refinance the borrowings that contain this prohibition. If we do not obtain a consent or refinance these borrowings, we could remain prohibited from repurchasing the debentures. Our failure to repurchase the debentures would constitute an event of default under the indenture under which we will issue the debentures, which might constitute a default under the terms of our other indebtedness at that time.

There may not be a liquid market for the debentures, and holders may not be able to sell their debentures at attractive prices or at all.

The debentures are a new issue of securities for which there is currently no trading market. Although the initial purchasers have advised us that they currently intend to make a market in the debentures, they are not obligated to do so and may discontinue their market-making activities at any time without notice, and their market making activity will be subject to limits imposed by the Securities Act and the Securities Exchange Act of 1934, as amended (the Exchange Act). Although the debentures that were sold to qualified institutional buyers pursuant to Rule 144A are currently eligible for trading in the PORTAL market, we do not expect that the debentures resold pursuant to this prospectus will continue to trade on the PORTAL market. As a result, there may be a limited market for the debentures. We do not intend to list the debentures on any national securities exchange or on the Nasdaq National Market. If an active market for the debentures fails to develop or be sustained, the trading price of the debentures could fall. Even if an active trading market were to develop, the

debentures could trade at prices that may be lower than the initial offering price. The trading price of the debentures will depend on many factors, including:

- prevailing interest rates and interest rate volatility;
- the markets for similar securities;
- our financial condition, results of operations and prospects;
- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- the market price of our common stock;
- changes in our industry and competition; and
- general market and economic conditions.

As a result, we cannot assure the holders that they will be able to sell the debentures at attractive prices or at all.

Our significant amount of indebtedness and interest expense will limit our cash flow and could adversely affect our operations and our ability to make full payment on the holders' debentures.

Upon consummation of the offering contemplated hereby, we will have a significant level of debt and interest expense. We had approximately $730 million in indebtedness outstanding as of March 31, 2003.

Our significant indebtedness poses risks to our business, including the risks that:

- we could use a substantial portion of our consolidated cash flow from operations to pay principal and interest on our debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- insufficient cash flow from operations may force us to sell assets, or seek additional capital, which we may be unable to do at all or on terms favorable to us;

our level of indebtedness may make us more vulnerable to economic or industry downturns; and

our debt service obligations increase our vulnerabilities to competitive pressures, because many our competitors are less leveraged than we are.

In addition, the indenture governing the debentures does not limit our ability to incur additional indebtedness in the future. If new indebtedness is incurred, the related risks that we now face could intensify. Our ability to make required payments on the debentures and to satisfy any other debt obligations will depend on our future operating performance and our ability to obtain additional debt or equity financing on commercially reasonable terms.

Changes in our credit ratings or the financial and credit markets could adversely affect the market price of the debentures.

The market price of the debentures will be based on a number of factors, including:

our ratings with major credit rating agencies;

the prevailing interest rates being paid by companies similar to us; and

the overall condition of the financial and credit markets.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse

effect on the price of the debentures. In addition, credit rating agencies continually revise their ratings for companies that they follow, including us. The credit rating agencies also evaluate the pharmaceutical industry as a whole and may change their credit rating for us based on their overall view of our industry. We cannot assure the holders that credit rating agencies will rate the debentures, or if they do rate the debentures, that they will maintain their ratings on the debentures. A negative change in our credit rating could have an adverse effect on the market price of the debentures.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to the debentures, if any, could cause the liquidity or market value of the debentures to decline significantly.

We have received ratings of the debentures by Standard & Poor's and Moody's. We cannot assure holders that such ratings will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in that rating agency's judgment future circumstances relating to the basis of the rating, such as adverse changes in our business, so warrant.

The debentures are unsecured, and therefore will effectively be subordinated to any secured debt.

The debentures are not secured by any of our assets or those of our subsidiaries. As a result, the debentures are effectively subordinated to any secured debt we may incur to the extent of the value of the assets securing such debt. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of our secured debt may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the holders of the debentures.

Risks Associated with Investment in our Common Stock

As part of our business strategy, we intend to pursue transactions that may cause us to experience significant charges to earnings that may adversely affect our stock price, the market price of the debentures and our financial condition.

We regularly review potential transactions related to technologies, products and product rights and businesses complementary to our business. Such transactions could include, but are not limited to, mergers, acquisitions, strategic alliances, licensing agreements or co-promotion agreements. In the future, we may choose to enter into such transactions at any time. Depending upon the nature of any transaction, we may experience significant charges to earnings, which could be material, and could possibly have an adverse impact upon the market price of our common stock. If we were to enter into similar transactions in the future, our stock price, the market price of the debentures and our financial condition could be adversely effected.

Our stock price has experienced substantial volatility, which may affect the holders' ability to sell the stock at an advantageous price and could impact the market value of the debentures.

The market price of our common stock has been and may continue to be volatile. For example, the market price of our common stock has fluctuated during the past twelve months between $17.95 per share and $43.57 per share and may continue to fluctuate. Therefore, especially if a holder has a short-term investment horizon, the volatility may affect its ability to sell our stock at an advantageous price. Market price fluctuations in our stock may be due to acquisitions or other material public announcements, along with a variety of additional factors including, without limitation:

new product introductions;

the purchasing practices of our customers;

changes in the degree of competition for our products;

the announcement of technological innovations or new commercial products by us or our competitors;

changes in governmental regulation affecting our business environment;

any future issuances of our common stock;

regulatory issues, including but not limited to, receipt of new drug approvals from the FDA, compliance with FDA or other agency regulations, or the lack or failure of either of the foregoing;

the issuance of new patents or other proprietary rights;

the announcement of earnings;

the publication of earnings estimates or other research reports and speculation in the press or investment community;

the loss of key personnel;

the inability to acquire sufficient supplies of finished products or raw materials;

litigation and/or threats of litigation;

failure or delay in meeting milestones in collaborative arrangements expected to result in revenues;

unanticipated expenses from joint ventures not under our control;

publicity regarding actual or potential clinical results with respect to products we have under development or with respect to any consent decree to which we are, or may become, subject;

any outbreak or escalation of hostilities;

political developments or proposed legislation in the pharmaceutical or healthcare industry; and

general market and economic conditions.

These and similar factors have had and could in the future have a significant impact on the market price of our common stock. In addition, the stock markets in general, including the New York Stock Exchange, recently have experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may affect adversely the market prices of the debentures and the common stock.

Some companies that have had volatile market prices for their securities have been subject to securities class action suits filed against them. If a suit were to be filed against us, regardless of the outcome or the merits of the action, it could result in substantial costs and a diversion of our management's attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

Investors should not look to dividends as a source of income.

We have not paid any cash dividends since inception. In addition, we do not anticipate paying cash dividends in the foreseeable future. Consequently, any economic return to a stockholder will be derived, if at all, from appreciation in the price of our stock, and not as a result of dividend payments.

We may issue additional equity securities, which would lead to dilution of our issued and outstanding common stock.

We are authorized to issue, without stockholder approval, one or more preferred series of stock, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Our board of directors has the authority to issue, without vote or action of stockholders, shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. Our board of directors has no present intention of issuing any such preferred series, but reserves the right to do so in the future. We are also authorized to issue, without stockholder approval, common stock.

Nevada law and our charter documents contain provisions that could discourage or prevent a potential takeover of our company that might otherwise result in our stockholders receiving a premium over the market price of their shares.

Provisions of Nevada law and our articles of incorporation and bylaws could make it more difficult for another person to acquire us by means of a tender offer or other means or to remove our incumbent officers and directors by a proxy contest or otherwise. These provisions include:

certain sections of the Nevada General Corporation Law, which prohibit a merger with a 10%-or-greater stockholder, such as a party that has completed a successful tender offer, until three years after that party became a 10%-or-greater stockholder, unless the board of directors pre-approved such merger or acquisition of shares;

certain sections of the Nevada General Corporation Law, which generally prohibits a party from voting shares of certain Nevada corporation's stock after crossing certain threshold ownership percentages, unless that party obtains the approval of the corporation's disinterested stockholders;

our board of directors is currently divided into three classes with staggered three year terms for each class, which could make it more difficult to gain control of our board of directors while our board of directors remains classified;

the authorization in our articles of incorporation of undesignated preferred stock, which could be issued without stockholder approval in a manner designed to prevent or discourage a takeover; and

provisions in our bylaws eliminating stockholder's rights to call a special meeting of stockholders or act by written consent, which could make it more difficult for stockholders to wage a proxy contest for control of our board or to vote to repeal any of the anti-takeover provisions contained in our articles of incorporation and bylaws.

Moreover, our articles of incorporation do not provide for cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the last five fiscal years and for the three month period ended March 31, 2003. For purposes of these ratios, "earnings" represents income before provision for income taxes, cumulative effect of change in accounting principle, extraordinary items and fixed charges, and "fixed charges" consist of interest expense.

	Fiscal Year					Three Months Ended March 31,
	1998	1999	2000	2001	2002	2003
Ratio of earnings to fixed charges	25.2x	25.7x	15.6x	8.2x	13.6x	14.9x

USE OF PROCEEDS

The selling securityholders will receive all of the proceeds from the sale under this prospectus of the debentures and the common stock issuable upon conversion of the debentures. We will not receive any proceeds from these sales. See "Selling Securityholders" for a list of those persons or entities receiving proceeds from the sale of the debentures and underlying common stock.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. We intend to retain any future earnings to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future decision to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial conditions, operating results, capital requirements and such other facts as our board of directors deems relevant.

PRICE RANGE OF COMMON STOCK

Our common stock is listed for trading on the New York Stock Exchange under the symbol "WPI". The following table lists the range of high and low sales prices of Watson common stock as quoted on the New York Stock Exchange for the quarterly periods indicated.

	High	Low
Year ended December 31, 2001:		
First quarter	$ 58.00	$ 42.69
Second quarter	64.90	46.10
Third quarter	66.39	47.86
Fourth quarter	58.18	26.50
Year ended December 31, 2002:		
First quarter	$ 33.25	$ 25.65
Second quarter	27.43	23.00
Third quarter	26.00	17.95
Fourth quarter	30.80	22.17
Year ended December 31, 2003:		
First quarter	$ 31.75	$ 26.90
Second quarter	43.57	27.70
Third quarter (through July 31, 2003)	42.84	39.26

On July 31, 2003, the closing price of our common stock as reported on the New York Stock Exchange was $39.94 per share. As of February 26, 2003, we estimate that there were approximately 3,770 holders of record of our common stock.

DESCRIPTION OF THE DEBENTURES

We issued the debentures under an indenture dated as of March 7, 2003, between us and Wells Fargo Bank, National Association, as trustee. A copy of the indenture is filed as an exhibit to the registration statement of which this prospectus forms a part, is available to prospective investors in the debentures upon request to Watson, and is available for inspection at the corporate trust office of the trustee.

The following description is only a summary of the material provisions of the debentures, the indenture and the resale registration rights agreement. We urge the holders to read these documents in their entirety because they, and not this description, will define the holders' rights as holders of these debentures. Holders may request copies of these documents at our address set forth above under the caption "Prospectus Summary."

When we refer to "Watson", "we", "our" or "us" in this section, we refer only to Watson Pharmaceuticals, Inc., a Nevada corporation, and not its subsidiaries.

Brief Description of the Debentures

The debentures:

- have a $575,000,000 aggregate principal amount at maturity;
- bear interest at a rate of 1.75% per year, subject to interest rate adjustments as described below;
- represent our senior unsecured obligations, ranking equally with all of our existing and future senior unsecured indebtedness and senior in right of payment to any subordinated indebtedness, but as indebtedness of Watson, the debentures are

effectively subordinated to all existing and future indebtedness and liabilities of our subsidiaries;

are convertible into our common stock at an initial conversion price of approximately $40.05 per share, subject to adjustment as described below under " Conversion Rights," in the following circumstances:

if the market price (as defined below) of our common stock is above 125% of the conversion price measured over a specified number of trading days;

on or before March 15, 2018, if the ratio of the trading price (as defined below) of the debentures to the conversion value of the debentures is below 105% measured over a specified number of trading days;

during any period, following the earlier of (a) the date the debentures are rated by both Standard & Poor's Rating Services, or Standard & Poor's, and Moody's Investors Service, Inc., or Moody's, and (b) April 21, 2003, when the long-term credit rating assigned to the debentures by either Standard & Poor's or Moody's (or any successors to these entities) is lower than "BB" or "Ba3", respectively, or either of these rating agencies does not have a rating then assigned to the debentures for any reason, including any withdrawal or suspension of a rating assigned to the debentures;

if the debentures have been called for redemption; and

upon the occurrence of specified corporate transactions;

are redeemable at our option in whole or in part beginning on March 20, 2008 upon the terms and for a price equal to 100% of the principal amount of the debentures plus accrued but unpaid interest (including contingent interest) as set forth under " Optional Redemption by Watson;"

are subject to repurchase by us at the holders' option on March 15 of 2010, 2015 and 2018 or if a change of control occurs as set forth below under " Repurchase at Option of Holders;" and

are due on March 15, 2023, unless earlier converted, redeemed by us at our option or repurchased by us at the holders' option.

The indenture does not contain any financial covenants and does not restrict us or our subsidiaries from paying dividends, incurring additional senior debt or any other indebtedness or issuing or repurchasing our other securities. In addition, the indenture does not protect the holders of the debentures in the event of a highly leveraged transaction or a change in control of Watson except to the extent described below under " Repurchase at Option of Holders Change of Control Put."

Under the indenture, we agree, and by acceptance of a beneficial interest in the debentures each beneficial owner of the debentures will be deemed to have agreed, among other things, for United States federal income tax purposes, to treat the debentures as indebtedness that is subject to the regulations governing contingent payment debt instruments, and, for purposes of those regulations, to treat the fair market value