

**WATSON PHARMACEUTICALS, INC.**  
**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**  
**CHARTER**

**I. PURPOSE**

The primary function of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Watson Pharmaceuticals, Inc. (the “Company”) is to:

- Assist the Board in fulfilling its oversight duties regarding the:
  - (i) integrity of the Company’s financial statements;
  - (ii) Company’s compliance with legal and regulatory requirements;
  - (iii) outside auditor’s qualifications and independence; and
  - (iv) performance of the Company’s internal audit function and of its independent auditor.
- Prepare the report of the Committee as required by the rules of Securities and Exchange Commission (“SEC”) to be included in the Company’s annual proxy statement.
- Serve as an independent and objective party to monitor the Company’s financial reporting process and internal control systems.
- Retain and terminate, and monitor the qualifications, independence and performance of, the Company’s independent auditor; and
- Provide an open avenue of communication among the independent auditor, financial and senior management, the internal auditing department, and the Board.

Consistent with these functions, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company’s accounting and internal control policies, procedures and practices at all levels. The Committee shall have the authority to retain and to obtain the advice of, at the Company’s expense, such special legal, accounting or other consultants or experts as it deems necessary in the performance of its duties and responsibilities or conduct any investigation it deems appropriate in fulfilling its responsibilities.

The Company shall provide appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any advisors employed by the Committee and for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

**II. COMPOSITION**

The Committee shall be comprised of three or more directors as determined by the Board in accordance with the following criteria:

- A. Independence. Each member of the Committee shall meet the independence requirements of the New York Stock Exchange (“NYSE”), Section 10A(m)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations of the SEC (together with the Exchange Act, “Applicable Law”).
- B. Expertise Requirement. All members of the Committee shall be financially literate and have a working familiarity with basic finance and accounting practices. In addition, either at least one

member of the Committee shall be an “audit committee financial expert” within the definition adopted by the SEC or the Company shall disclose in its periodic reports required pursuant to the Exchange Act the reasons why at least one member of the Committee is not an “audit committee financial expert.” Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or outside providers.

- C. Limit on Other Activities. Audit Committee members shall not simultaneously serve on audit committees of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee and such determination is disclosed in the Company’s annual proxy statement.

The members of the Committee shall be elected by the Board on the recommendation of the Nominating and Corporate Governance Committee and serve at its pleasure for such term or terms as it shall determine. The Board may remove members of the Committee with or without cause.

### **III. MEETINGS**

The Committee shall meet at least four times annually, and more frequently as circumstances dictate. The agenda for each meeting shall be prepared by the Secretary of the Committee and, whenever reasonably practicable, circulated to the Chairperson of the Committee prior to the meeting date. As part of its job to foster open communication, the Committee shall meet separately, periodically, with management, the head of the internal auditing department and the independent auditor. In addition, the Committee should meet with the independent auditor and management quarterly to review the Company financials consistent with Section V.3 below.

The Committee shall have direct access to and the authority to meet with any officer or employee of the Company, the Company’s outside counsel, the Company’s investment bankers or financial analysts who follow the Company. The Committee may request any officer or employee of the Company or the Company’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

### **IV. PROCEDURAL MATTERS**

A majority of the then acting members of the Committee shall constitute a quorum. A majority of the members present at any meeting at which a quorum is present may act on behalf of the Committee. Unless the Board elects a Chairperson, the members of the Committee may designate a Chairperson by majority vote. The Committee will meet at such times as shall be determined by its Chairperson, or upon the request of any two of its members. The Chairperson will preside, when present, at all meetings of the Committee. The Committee will keep a record of its meetings and report on them to the Board. The Committee may meet by telephone or videoconference and may take action by written consent.

### **V. RESPONSIBILITIES AND DUTIES**

The Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.

The Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor. Committee pre-approval of non-audit services (other than review and attest services) will not be required if such services fall within available exceptions established by the SEC. The Committee may form and delegate authority to subcommittees consisting of one or more of its members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting. Notwithstanding the foregoing, the Company shall not retain the auditing firm for any of the specific services that are prohibited by the rules of the NYSE or Applicable Law.

#### Documents/Reports Review

To fulfill its responsibilities and duties the Committee shall:

1. Through its Chair, report regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditor, the performance of the Company's internal audit function or any other matter the Committee determines is necessary or advisable to report to the Board.
2. Review and reassess the adequacy of this Charter at least annually and periodically, as appropriate and as conditions dictate, recommend any proposed changes to the Board for approval and have it published, if applicable, in accordance with Applicable Law.
3. Review and discuss with management and the independent auditor, the Company's annual and quarterly financial statements (including the "Management's Discussion and Analysis of Financial Condition and Results of Operations") prior to release, including discussions on:
  - a) critical accounting policies and practices;
  - b) alternative treatments of financial information within generally accepted accounting principles;
  - c) other material written communications between the independent auditor and management; and
  - d) the adequacy of internal controls that could significantly affect the Company's financial statements.
4. Review and discuss with management, the independent auditor and the internal auditors:
  - (A) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies;
  - (B) any analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements; and
  - (C) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
5. Review with management and the independent auditor, in compliance with Statement on Auditing Standards No. 61, as amended, the quarterly financial statements set forth in the Company's Form 10-Q prior to its filing or prior to the release of earnings. The Chairperson of the Committee may represent the entire Committee for the purposes of this review.

6. Review with the independent auditor and management, as appropriate, any material reports or other financial information submitted to any governmental body, or the public, including any certification, report, opinion, or review rendered by the independent auditor in compliance with Statement on Auditing Standards No. 61, as amended.
7. Meet periodically with the Company's internal auditor to discuss the responsibilities, budget and staffing of the Company's internal audit function and any issues that the internal auditor believes warrant Committee attention. The Committee shall discuss with the internal auditor any significant reports to management prepared by the internal auditor and any responses from management.
8. Review earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, and financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
9. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies.
10. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
11. If appropriate, discuss with the national office of the independent auditor issues on which it was consulted by the Company's audit team and matters of audit quality and consistency.
12. Determine whether to recommend to the Board that the audited financial statements be included in the Company Annual Report on Form 10-K filed for the fiscal year subject to the audit.

#### Independent Auditor

13. Select the independent auditor, considering independence and effectiveness. Terminate the independent auditor when circumstances warrant. Negotiate and approve the fees and other compensation to be paid to the independent auditor. Review and ensure that independent auditor submits on a periodic basis to the Committee a formal written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard 1. Discuss with the independent auditor all significant relationships to determine the auditor's independence. The independent auditor is responsible to the Committee for such independent auditor's audit or accounting of the financial statements of the Company.
14. Review and evaluate the performance of the independent auditor, discuss with the independent auditor and adopt a policy of rotating the independent auditor team on a regular basis. At least every five years or as otherwise required by the NYSE or Applicable Law, require the rotation of the independent auditor's lead audit partner and reviewing audit partner, and consider the costs and benefits of switching to another firm of independent auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
15. Obtain and review, at least annually, a report by the independent auditor describing: (i) the experience and qualification of the senior members of the independent auditor team and the independent auditor's internal quality control procedures, (ii) any material issues raised by any internal quality-control review, peer review of the independent auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years,

respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the independent auditor and the Company and any steps taken to address issues that may affect the independence of the independent audit.

16. Set clear guidelines for the Company's hiring of employees or former employees of the independent auditor who were engaged on the Company's account consistent with the rules of the NYSE and Applicable Law.
17. Periodically consult, as appropriate, with the independent auditor out of the presence of management about internal controls and the accuracy of the organization's financial statements.
18. Review with the independent auditor any audit problems or difficulties and management's response thereto.
19. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.
20. Discuss with independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and, if necessary, recommend that the Board take appropriate action in response to the independent auditor's report in order to satisfy itself of the auditor's independence.

#### Financial Reporting Processes

21. In consultation with the independent auditor, the internal auditors and senior financial management, review the integrity of the organization's financial reporting processes, both internal and external.
22. Consider the independent auditor's judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting. Resolve any disagreements between the independent auditor and management.
23. Review alternative accounting treatments with the independent auditor and senior management and consider and approve, if appropriate, major changes to the Company's accounting principles and practices proposed by management or the independent auditor. Discuss with the independent auditor any significant changes in auditing standards or their audit scope. Consider and approve, if appropriate, any changes to the auditing practices of the internal auditing department.

#### Process Improvement

24. Following completion of the annual audit, meet separately with each of management, the independent auditor and the internal auditing department to, among other things, review any problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of activities or access to required information or any significant disagreements among management and the independent auditor. Among the items that the Committee should consider reviewing are: (A) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); (B) any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement; and (C) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Company.

25. Review with the independent auditor, the internal auditing department and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)

#### Internal Audit Department and Legal Compliance

26. Review with the independent auditor and management the internal audit plan and changes to such plan, the budget, activities, staffing, organizational structure, and qualifications of the internal audit department, as needed.
27. Review the appointment of the senior internal auditor executive and review the performance and recommend the replacement of the senior internal audit executive, as necessary.
28. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
29. On at least a quarterly basis, review with the Company's internal counsel and outside counsel, if necessary, any legal and regulatory compliance matters, including corporate securities trading policies, which could have a significant impact on the Company's financial statements.
30. Review and discuss with management and the independent auditor the policies and procedures that management has instituted to ensure (i) compliance with the Company's Code of Conduct (the "Code") and (ii) that Company's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal and regulatory requirements. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable legal and regulatory requirements and with the Code.
31. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing, or any other financial matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

#### Other Audit Committee Responsibilities

32. Annually prepare a report for the Company's annual proxy statement to stockholders as required by the SEC and authorize inclusion of annual financial statements in the Company's annual report on Form 10-K.
33. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.
34. Review the Company's risk assessment and risk management policies and discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
35. Evaluate the performance of the Committee and its members annually.

#### **VI. LIMITATIONS OF DUTIES.**

The Committee's responsibility is oversight. Management of the Company has the responsibility for the Company's financial statements as well as the Company's financial reporting process, principles and internal controls. The independent auditor is responsible for performing an audit of the Company's annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles, reviewing the Company's quarterly financial statements and other procedures. It is recognized that the members of the Committee may not be engaged in the accounting or auditing profession and, as such, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements fairly present the Company's financial position and results of operation and are in accordance with generally accepted accounting principles. Nor is it the duty of the Committee to conduct investigations or to assure compliance with laws and regulations and the Code. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons within the Company and of the professionals and experts (such as the independent auditor) from which it receives information and (ii) the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts absent actual knowledge to the contrary.

In addition to the powers and responsibilities expressly delegated to the Committee in this Charter, the Committee may exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time consistent with the Company's bylaws. The powers and responsibilities delegated by the Board to the Committee in this Charter or otherwise shall be exercised and carried out by the Committee as it deems appropriate without requirement of Board approval, and any decision made by the Committee (including any decision to exercise or refrain from exercising any of the powers delegated to the Committee hereunder) shall be at the Committee's sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the Committee shall have and may exercise all the powers and authority of the Board. To the fullest extent permitted by law, the Committee shall have the power to determine which matters are within the scope of the powers and responsibilities delegated to it.

## **VII. DELEGATION OF DUTIES**

The Committee may delegate its responsibilities under this Charter to a subcommittee comprised of one or more members of the Committee. The creation of such a subcommittee, as well as its purpose, will be reported to the Board. The Committee will also carry out such duties that may be delegated to it by the Board.

## **VIII. MISCELLANEOUS**

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the directors of the Company or members of the Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities. This Charter, and any amendments thereto, shall be displayed on the Company's website, and a printed copy of such shall be made available to any shareholder of the Company who requests it.