

Generic and
Proprietary
Pharmaceuticals

Emphasis on
Female Healthcare



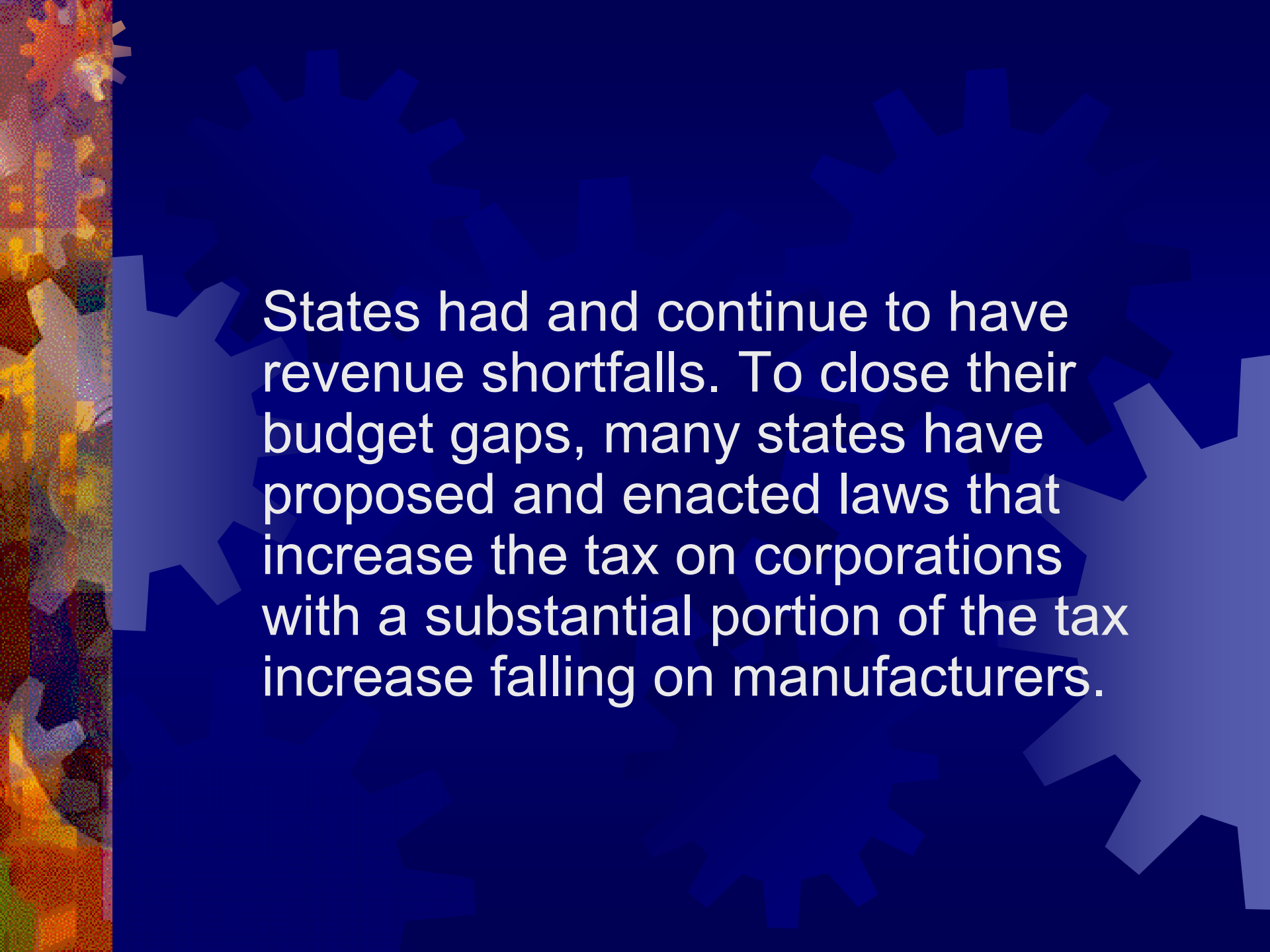
Incentives for the Manufacturing Sector
June 7, 2005

Barr – at a Glance

- States Where Barr has Significant Physical Presence:
- Virginia -- Manufacturing/Distribution
- Ohio -- Manufacturing
- New York -- Manufacturing/R&D
- New Jersey -- Corporate Office, MFG/R&D
- Pennsylvania -- R&D
- District of Columbia – Government Affairs

State Taxes Imposed on Manufacturers:

- ☀ Type of State Taxes:
- ☀ Income Tax
- ☀ Sales and Use Tax
- ☀ Property Tax
- ☀ Employment Taxes
- ☀ Other:
- ☀ State Tax Credits and Incentives

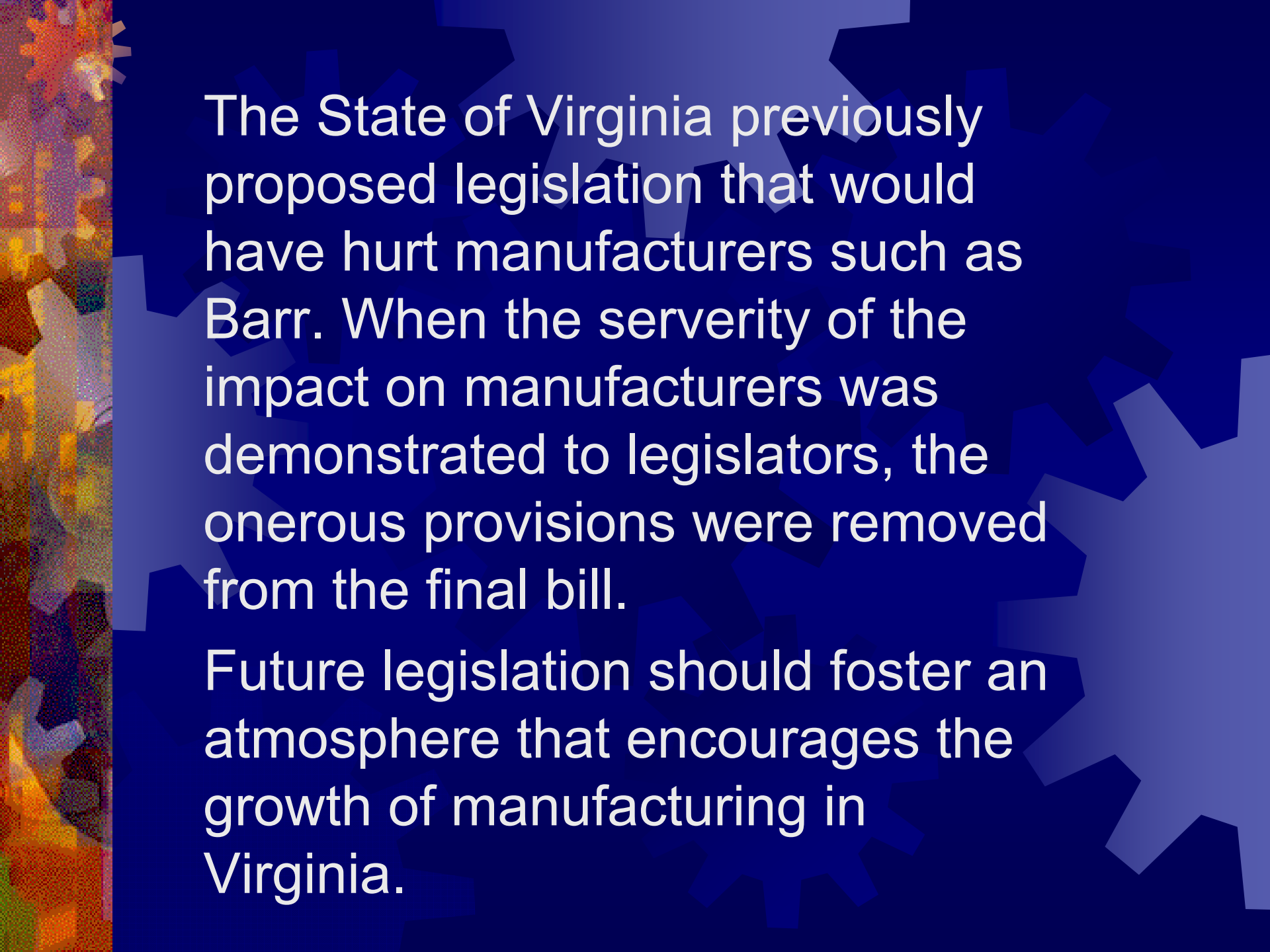


States had and continue to have revenue shortfalls. To close their budget gaps, many states have proposed and enacted laws that increase the tax on corporations with a substantial portion of the tax increase falling on manufacturers.



State Income Tax

Some corporations implemented aggressive tax planning strategies (intangible holding companies) that were shut down by the legislation but other provisions of the legislation had little to do with loopholes and hurt in-state manufacturers (I.e. New Jersey “throw-out” rule).

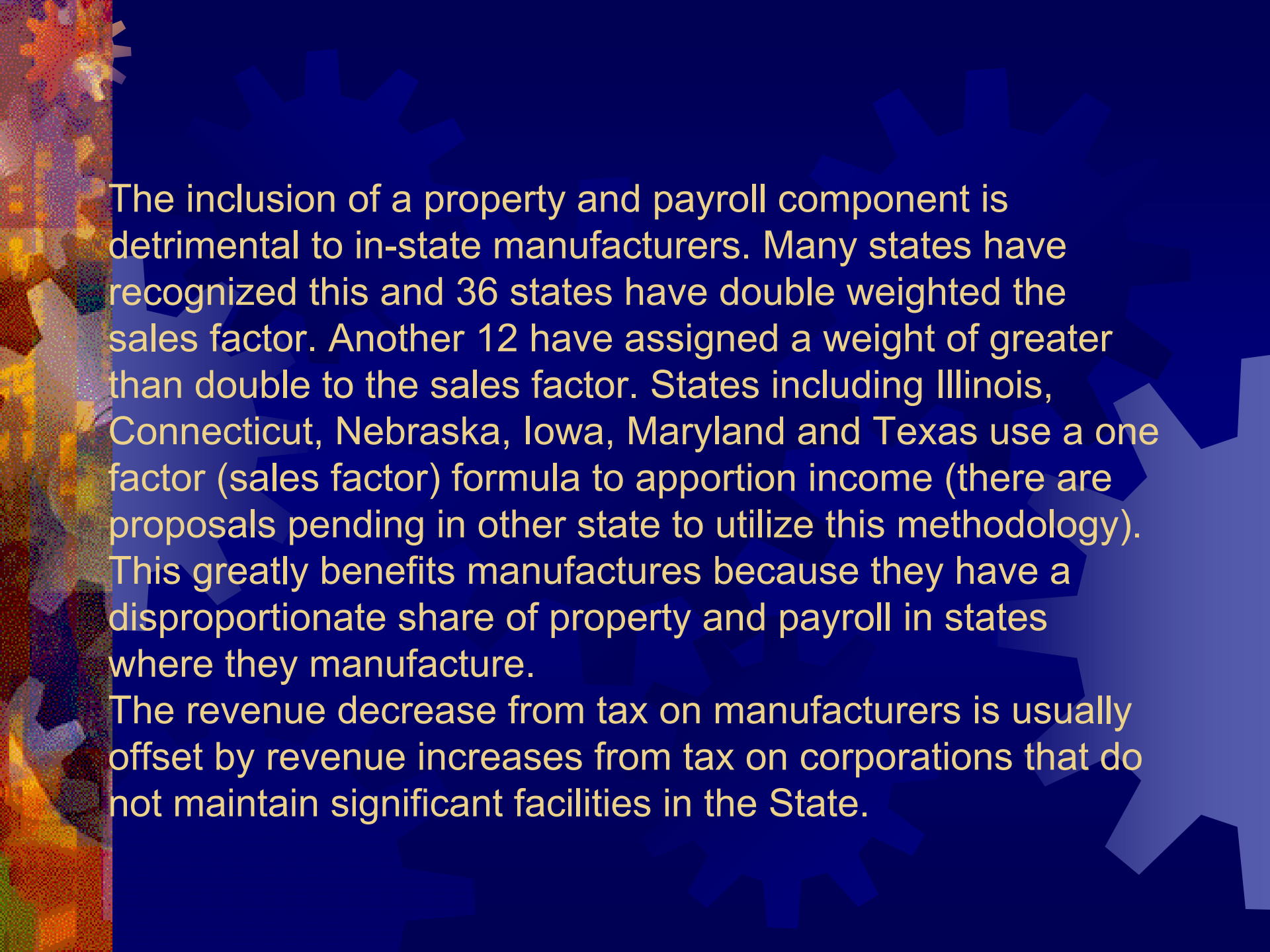


The State of Virginia previously proposed legislation that would have hurt manufacturers such as Barr. When the serverity of the impact on manufacturers was demonstrated to legislators, the onerous provisions were removed from the final bill.

Future legislation should foster an atmosphere that encourages the growth of manufacturing in Virginia.

States Can Attract/Retain Manufacturers:

States can use the corporate income tax code to benefit manufacturers. States generally use a three factor formula to apportion income. The factors are property, payroll and sales. The instate amounts are compared to the total amounts to determine a state apportionment percent. This percent is applied to total income to determine the amount that is subject to state tax.



The inclusion of a property and payroll component is detrimental to in-state manufacturers. Many states have recognized this and 36 states have double weighted the sales factor. Another 12 have assigned a weight of greater than double to the sales factor. States including Illinois, Connecticut, Nebraska, Iowa, Maryland and Texas use a one factor (sales factor) formula to apportion income (there are proposals pending in other state to utilize this methodology). This greatly benefits manufactures because they have a disproportionate share of property and payroll in states where they manufacture.

The revenue decrease from tax on manufacturers is usually offset by revenue increases from tax on corporations that do not maintain significant facilities in the State.



Recent Legislative Activity (Barr States)


New York: Enacted Phase-In of
Single Factor Formula (Sales)

Ohio: Proposed Legislation to
Eliminate Franchise (Corporate
Income) Tax and Personal
Property Tax



State Tax Incentives/Credits:

States have utilized incentives to attract and maintain manufacturers. The incentives include training grants, tax credits for new investments in property and/or increasing employment and personal property tax abatements.



These incentives/credits have been mutually beneficial to states (increasing employment, tax base, etc.) making them more attractive for corporations to locate and/or expand manufacturing operations and to corporations (reducing their cost to do business).



Sales and Use Tax:

Most states have exemptions for the purchase of inputs used in the manufacturing process. Some states have considered legislation narrowing the manufacturing exemption. This is shortsighted legislation that, in the long term, would result in the loss of manufacturing jobs in that state.

Personal Property Tax

Personal property tax is imposed in the States of Ohio and Virginia. Property tax accounts for approximately 47% of Virginia's total business tax burden.

New York and New Jersey do not impose personal property tax.

Ohio has proposed legislation to phase out the personal property tax on businesses.



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