



**Q2**

Second Quarter  
Report 2006

**BIOVAIL**

## Letter to Shareholders

**Dr. Douglas Squires**  
Chief Executive Officer



### Dear Fellow Shareholders,

In the second quarter and the first half of 2006, Biovail Corporation continued to take significant steps toward further fortifying its business strategy, while executing against its financial and operational objectives.

The Company posted strong revenues, net income and earnings per share for the three months ended June 30, 2006. Biovail also further reduced its long-term obligations and has strengthened its cash position. Various key areas of the Company's underlying business performed very well – meeting or exceeding our expectations.

Importantly, the second quarter of 2006 marked the first full quarter of commercialization for Ultram® ER, Biovail's extended-release formulation of tramadol for the treatment of moderate to moderately severe chronic pain. Upon receiving U.S. Food and Drug Administration (FDA) approval in June 2006 for all the marketing, literature and other product collateral, our marketing partner, Ortho-McNeil, Inc. (OMI) has now moved into the next phase of the Ultram® ER launch. All sales representatives now have full product availability, a full compliment of sales aids and importantly, the support of OMI's advertising campaign, which we believe is critical in creating greater awareness of the features and benefits of Ultram® ER. OMI and Biovail remain enthusiastic about the prospects for

Ultram® ER. Both companies are confident that the market potential for this product is significant, and our collective long-term outlook for Ultram® ER remains unchanged.

After the end of the second quarter, on August 1, 2006, the United States District Court for the Central District of California issued an order granting Anchen Pharmaceuticals, Inc.'s Motion for Summary Judgment in the Wellbutrin XL® patent-infringement case. Although we are disappointed by the Court's decision, we remain steadfastly committed to vigorously defending our intellectual property rights to the fullest extent. It is important to note that the timing of when Anchen may be in a position to launch a generic version of Wellbutrin XL® remains uncertain, and may be impacted by Biovail's open Citizen Petitions, among other ongoing and future legal and regulatory actions Biovail may take.

### FINANCIAL PERFORMANCE

Total revenues for the three months ended June 30, 2006 were \$252.8 million, compared with \$216.2 million for the second quarter of 2005. This 17% increase reflects the strong performance of Wellbutrin XL® and Zovirax, and partially offset by declines in revenues from Biovail Pharmaceuticals Canada (BPC), Cardizem® LA and Biovail's portfolios of legacy and generic products. Total revenues for the six months ended June 30, 2006 were \$473.3 million, compared with \$389.9 million for the first six months of 2005.

Second-quarter 2005 net income, in accordance with U.S. GAAP, was \$80.6 million, compared with \$3.7 million for the corresponding 2005 period. GAAP diluted earnings per share (EPS) for the second quarter of 2006 were \$0.50, versus \$0.02 for the second quarter of 2005. In the first half of 2006, GAAP EPS were \$0.91, compared with EPS of \$0.09 for the first half of 2005.

Second-quarter 2006 GAAP net income and EPS figures were impacted by costs associated with a recall of certain dosage strengths of Ultram® ER. This negatively impacted 2006 U.S. GAAP net income and EPS by \$13.4 million and \$0.08 respectively. In the first half of 2006, Biovail incurred charges that negatively impacted 2005 U.S. GAAP net income and EPS by \$50.1 million and \$0.31.

## PRODUCTS

Product revenues for Wellbutrin XL® in the second quarter of 2006 were \$114.0 million, compared with \$70.5 million in the prior year period, reflecting continued strength in prescription volume for the product and price increases instituted by our marketing partner, GlaxoSmithKline (GSK). In June 2006, the FDA approved Wellbutrin XL® for the prevention of seasonal affective disorder, the first and only medicine to receive FDA approval for this indication. Also in the second quarter of 2006, Biovail entered into the second tier of its tiered-pricing agreement with GSK.

Biovail's Zovirax franchise (Zovirax Ointment and Zovirax Cream) generated second-quarter 2006 revenues of \$29.1 million, compared with \$18.3 million in the second quarter of 2005. The increase can be attributed to the timing of wholesaler inventory purchase and a January 2006 price increase. The Zovirax franchise held a combined 71.9% share of the topical herpes market, an increase of 3.8 percentage points in market share versus second-quarter 2005 levels.

Second-quarter 2006 revenues for Biovail Pharmaceuticals Canada (BPC) were \$19.5 million, compared with \$23.7 million in the second quarter of 2005. The decline reflects the availability of generic formulations of

Tiazac® and Wellbutrin® SR. Partially offsetting factors included the continued growth of Tiazac® XC, which accounted for 35% of the total prescriptions written for the Tiazac brand in the second quarter, and the April 2006 launch of Wellbutrin® XL.

Cardizem® LA revenues were \$9.2 million in the second quarter of 2006, compared with \$17.6 million in the corresponding period in 2005. The decline reflects the May 2005 strategic alliance with Kos, whereby Biovail now manufactures and supplies the product to Kos for distribution at contractually determined prices that are in excess of 30% of their net selling prices.

Launched in February 2006, Ultram® ER generated revenues of \$0.9 million in the second quarter of 2006, which reflects the impact of a \$7.8-million return provision related to a recent recall of certain dosages of the product.

At this time, Biovail is financially strong. The Company generated cash flows from operations of \$110.8 million in the second quarter of 2006, and at the end of the second quarter of 2006, had cash on hand in excess of \$570 million. Biovail's strong financial and operational performance in the second quarter again allowed us to announce that Biovail will pay a dividend of twelve and a half cents per share payable September 1st, 2006 to shareholders of record as of August 18th, 2006.

## NEW PROMOTION AGREEMENTS

In the second quarter of 2006, Biovail further leveraged its existing sales and marketing infrastructure in both the U.S. and Canada. In May, Biovail's wholly owned U.S. subsidiary, Biovail Pharmaceuticals, Inc. (BPI), and AstraZeneca Pharmaceuticals LP entered into an agreement pursuant to which BPI's specialty sales force began promotional activities for Zoladex® 3.6mg to obstetricians and gynecologists for the treatment of endometriosis in the United States and Puerto Rico.

Also in May, BPC entered into an agreement with Novartis Pharmaceuticals Canada Inc. to market and promote cholesterol medicines Lescol®, and once-daily Lescol® XL, to

Canadian specialists and primary-care physicians. These medicines are complementary to BPC's existing product offerings, including Tiazac® XC and Glumetza™.

### LOOKING AHEAD

Thus far in 2006, we have executed to plan. We have grown our business, reduced our long-term obligations and have the resources to execute our strategies. Although the timing of any generic Wellbutrin XL® entry is still unknown, Biovail has multiple strategies that it will implement, as required, to strengthen its operational performance. Among them:

Biovail's Board of Directors has decided to not spin off its legacy products into a separate entity at this time. Revenues from these off-patent branded pharmaceutical products continue to provide significant cash flow that the Company may deploy to accelerate a number of research-and-development programs, as well as a number of business-development opportunities now under review. These include the acquisition and/or licensing of additional products and drug-delivery technologies to increase the breadth and depth of Biovail's current and emerging product portfolio and asset base.

The Company remains committed to product development and research-and-development activities. We are completing an extensive review of our various pipeline programs, with the goal to accelerate those of most value – and to reassess or terminate those of lesser value. An example of this is the acceleration of Biovail's Phase III clinical program for a combination product of tramadol and an undisclosed non-steroidal anti-inflammatory drug (NSAID). The Company's Investigational New Drug Application was submitted to the FDA in July, and we expect to initiate our Phase III study program before the end of 2006.

Biovail will continue to accelerate other developmental activities related to our carvedilol, venlafaxine and bupropion / selective serotonin reuptake inhibitor (SSRI) combination programs. We will continue to identify ways to reduce clinical trial and regulatory timelines

to decrease the "time-to-market" for a number of our active programs.

Biovail also remains on track to file our novel bupropion salt formulation, which may offer unique safety features, by the end of the third quarter of 2006.

The Company may also explore opportunities to partner products in its development pipeline at earlier stages in the process. Partnering with other companies should enable the Company to increase the number of ongoing programs and accelerate a number of programs that are currently under development. It may also allow us to manage our overall R&D spending more efficiently going forward.

Additionally, Biovail will continue to implement a number of initiatives as a result of an ongoing and comprehensive review to enhance operational efficiencies, and to reduce variable and non-essential spending.

Biovail's senior management team remains steadfastly committed to the Company's business model and its ability to formulate, test and gain approval for novel, clinically meaningful enhanced versions of well-established compounds. While it remains possible that a generic version of Wellbutrin XL® could be approved and launched later this year, we have assessed the potential of this happening – and we believe, for a number of reasons, that a generic version of Wellbutrin XL® will not occur until 2007, or later, if we are successful in protecting our intellectual property. However, we do not take this risk to our business lightly – and we therefore continue to take steps to build for the future.

In closing, I would like to thank our employees and shareholders for their continued support.



**Douglas Squires**  
Chief Executive Officer

## Consolidated Balance Sheets

In accordance with U.S. generally accepted accounting principles  
(All dollar amounts are expressed in thousands of U.S. dollars)  
(Unaudited)

	June 30	December 31
	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$571,326	\$445,289
Marketable securities	-	505
Accounts receivable	121,009	132,699
Assets of discontinued operation held for sale	-	1,893
Inventories	87,650	89,473
Deposits and prepaid expenses	8,081	14,923
	<b>788,066</b>	<b>684,782</b>
Long-term assets of discontinued operation held for sale	-	1,107
Marketable securities	5,627	6,859
Long-term investments	67,024	66,421
Property, plant and equipment, net	221,478	199,567
Intangible assets, net	876,040	910,276
Goodwill	100,294	100,294
Other assets, net	53,595	59,506
	<b>\$2,112,124</b>	<b>\$2,028,812</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$40,974	\$61,453
Accrued liabilities	92,482	88,870
Income taxes payable	41,882	37,713
Deferred revenue	61,905	61,160
Current portion of long-term obligations	17,848	24,360
	<b>255,091</b>	<b>273,556</b>
Deferred revenue	94,633	117,119
Deferred leasehold inducements	5,757	5,273
Contract loss contingency provision	4,500	-
Long-term obligations	400,546	412,508
	<b>760,527</b>	<b>808,456</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares	1,472,661	1,461,077
Additional paid-in capital	10,139	377
Deficit	(185,165)	(290,242)
Accumulated other comprehensive income	53,962	49,144
	<b>1,351,597</b>	<b>1,220,356</b>
	<b>\$2,112,124</b>	<b>\$2,028,812</b>

## Consolidated Statements of Income

In accordance with U.S. generally accepted accounting principles  
(All dollar amounts are expressed in thousands of U.S. dollars, except per share data)  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>REVENUE</b>				
Product sales	\$241,118	\$204,519	\$450,823	\$365,050
Research and development	3,951	6,369	8,860	13,569
Royalty and other	7,737	5,290	13,646	11,245
	<b>252,806</b>	216,178	<b>473,329</b>	389,864
<b>EXPENSES</b>				
Cost of goods sold	61,819	59,872	111,148	100,973
Research and development	18,402	22,268	40,730	42,222
Selling, general and administrative	66,670	57,167	123,220	131,861
Amortization	14,825	15,409	29,649	31,375
Contract loss contingency	4,500	-	4,500	-
Write-down of assets	-	26,560	-	26,560
Restructuring costs	-	18,607	-	18,607
	<b>166,216</b>	199,883	<b>309,247</b>	351,598
<b>Operating income</b>	<b>86,590</b>	16,295	<b>164,082</b>	38,266
Interest income	6,116	912	11,312	1,290
Interest expense	(8,485)	(9,574)	(17,509)	(18,471)
Foreign exchange gain (loss)	1,401	(153)	811	(691)
Other income (expense)	50	(263)	(268)	(533)
<b>Income from continuing operations before provision for income taxes</b>	<b>85,672</b>	7,217	<b>158,428</b>	19,861
Provision for income taxes	5,350	2,295	9,500	2,880
<b>Income from continuing operations</b>	<b>80,322</b>	4,922	<b>148,928</b>	16,981
Income (loss) from discontinued operation	272	(1,215)	(3,848)	(2,142)
<b>Net income</b>	<b>\$80,594</b>	\$3,707	<b>\$145,080</b>	\$14,839
<b>Basic and diluted earnings (loss) per share</b>				
Income from continuing operations	\$0.50	\$0.03	\$0.93	\$0.11
Income (loss) from discontinued operation	-	(0.01)	(0.02)	(0.02)
<b>Net income</b>	<b>\$0.50</b>	\$0.02	<b>\$0.91</b>	\$0.09
<b>Weighted average number of common shares outstanding (000s)</b>				
Basic	160,071	159,398	159,868	159,391
Diluted	160,071	159,441	159,905	159,444

## Consolidated Statements of Cash Flows

In accordance with U.S. generally accepted accounting principles  
(All dollar amounts are expressed in thousands of U.S. dollars)  
(Unaudited)

	Six Months Ended June 30	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$145,080	\$14,839
<b>Adjustments to reconcile net income to net cash provided by continuing operating activities</b>		
Depreciation and amortization	51,682	49,914
Amortization and write-down of deferred financing costs	1,237	2,074
Amortization and write-down of discounts on long-term obligations	793	1,344
Stock-based compensation	3,848	2,142
Loss from discontinued operation	9,762	-
Receipt of leasehold inducements	722	-
Equity loss	268	533
Write-down of assets	-	26,560
Other	43	(357)
Changes in operating assets and liabilities	(7,937)	58,994
<b>Net cash provided by continuing operating activities</b>	<b>205,498</b>	<b>156,043</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment, net	(32,231)	(11,267)
Proceeds from sales and maturities of marketable securities	4,854	4,618
Purchases of marketable securities	(3,196)	(5,470)
Acquisition of long-term investment	(329)	-
Proceeds on disposal of intangible assets, net of withholding tax	-	98,127
<b>Net cash provided by (used in) continuing investing activities</b>	<b>(30,902)</b>	<b>86,008</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(40,003)	-
Repayments of other long-term obligations	(18,357)	(28,500)
Issuance of common shares	11,584	199
Repurchase of Senior Subordinated Notes	(1,098)	-
Financing costs paid	-	(1,300)
<b>Net cash used in continuing financing activities</b>	<b>(47,874)</b>	<b>(29,601)</b>
<b>CASH FLOWS FROM DISCONTINUED OPERATION</b>		
Net cash used in operating activities	(558)	(1,113)
Net cash used in investing activities	-	(47)
<b>Net cash used in discontinued operation</b>	<b>(558)</b>	<b>(1,160)</b>
Effect of exchange rate changes on cash and cash equivalents	(127)	(171)
<b>Net increase in cash and cash equivalents</b>	<b>126,037</b>	<b>211,119</b>
Cash and cash equivalents, beginning of period	445,289	34,324
<b>Cash and cash equivalents, end of period</b>	<b>\$571,326</b>	<b>\$245,443</b>

# Shareholder Information

## BIOVAIL CORPORATION

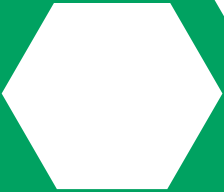
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## Corporate Information

### TRADING SYMBOL – BVF

New York Stock Exchange  
Toronto Stock Exchange



### REGISTRARS AND TRANSFER AGENTS

CIBC Mellon Trust Company  
Toronto, Ontario, Canada  
Mellon Investor Services, LLC  
New York, New York, USA

### HOW TO REACH US FOR MORE INFORMATION

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