

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

PHARMACEUTICAL RESOURCES INC

CIK: **878088** | IRS No.: **223122182** | State of Incorporation: **NJ** | Fiscal Year End: **0930**
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SIC: **2834** Pharmaceutical preparations

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of
1934

For Fiscal Year Ended September 30, 1996

Commission File Number 1-10827

PHARMACEUTICAL RESOURCES, INC.

(Exact name of registrant as specified in its charter)

NEW JERSEY 22-3122182
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

One Ram Ridge Road, Spring Valley, New York 10977
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: (914) 425-7100
Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock \$.01 par value	The New York Stock Exchange, Inc. The Pacific Stock Exchange, Inc.
-----	-----
Common Stock Purchase Rights	The New York Stock Exchange, Inc. The Pacific Stock Exchange, Inc.
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K x

\$73,988,128

Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 20, 1996 (assuming solely for purposes of this calculation that all directors and executive officers of the Registrant are "affiliates").

18,696,652
Number of shares of common stock outstanding as of December 20, 1996
DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into this Annual Report on Form 10-K:

IDENTITY OF DOCUMENTS	PARTS OF FORM 10-K INTO WHICH DOCUMENT IS INCORPORATED
Form 8-K of Registrant Filed September 8, 1995, as amended on October 4, 1995 and October 12, 1995	Part II, Item 9

PART I

ITEM 1. Business.

GENERAL

Pharmaceutical Resources, Inc. ("PRI") is a holding company which, through its subsidiaries, is in the business of manufacturing and distributing a broad line of generic drugs. PRI operates primarily through its wholly-owned subsidiary, Par Pharmaceutical, Inc. ("Par"), a

manufacturer and distributor of generic drugs. In May 1995, PRI-Research, Inc., a newly created subsidiary of PRI, formed a joint venture, Clal Pharmaceutical Resources Limited Partnership (the "Joint Venture"), with Clal Pharmaceutical Industries Ltd. ("Clal") to research and develop generic pharmaceutical products. PRI has five other subsidiaries, the activities of which are not significant. PRI was organized as a subsidiary of Par under the laws of the State of New Jersey on August 2, 1991. On August 12, 1991, Par effected a reorganization of its corporate structure, pursuant to which PRI became Par's parent company. References herein to the "Registrant" or the "Company" shall be deemed to refer to PRI and all of its subsidiaries since August 12, 1991, or Par and all of its subsidiaries prior thereto, as the context may require. The Company's executive offices are located at One Ram Ridge Road, Spring Valley, New York 10977, and its telephone number is (914) 425-7100.

The Company's current product line consists of prescription and, to a much lesser extent, over-the-counter drugs. Recently, the Company also has introduced one nutritional supplement. Approximately 102 products representing various dosage strengths of 38 drugs are currently being marketed (see "--Product Line Information"). Generic drugs are the pharmaceutical and therapeutic equivalents of brand name drugs and are usually marketed under their generic (chemical) names rather than by a brand name. Normally, a generic drug cannot be marketed until the expiration of applicable patents on the brand name drug. Generic drugs must meet the same government standards as brand name drugs, but are typically sold at prices below those of brand name drugs.

The Company markets its products primarily to wholesalers, drug distributors and retail drug store chains principally through its own sales staff. In addition, the Company, through its ParCare subsidiary, promotes the sales efforts of wholesalers and drug distributors that sell the Company's products to clinics, government agencies and other managed health care organizations. The Company has developed its internal sales staff in order to lessen its reliance on outside sales representatives (see "--Marketing and Customers").

Significant Developments:

Financial Condition. The Company, in fiscal year 1996, continued to experience declines in sales and gross margins which resulted in continued net losses of \$8,292,000. Net sales declined by 13% and gross margins declined by 54% from the prior fiscal year. The decreases in sales and gross margins continue to be attributable to lower pricing of the Company's products as a result of intense competition and a less profitable product mix (see "--Competition" and "Management's Discussion and Analysis of Financial Condition--Results of Operations").

Continuing losses incurred by the Company would adversely affect the Company's liquidity and, accordingly, its ability to fund its research and development operations as well as ventures relating to the development or distribution of new products (see "--Product Line Information", "--Research and Development" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"). The Company, in December 1996, entered into a new three-year loan arrangement providing for a revolving line of credit up to the lesser of \$20,000,000 or the borrowing base as provided in the loan agreement. The loan is secured by substantially all of the assets of the Company other than real property and the Company has entered into a new cash management system requiring the deposit of all receipts into a lockbox under the lender's control. The new loan arrangement replaces the Company's previous revolving and term loan facility with a separate bank (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Liquidity and Capital Resources").

In response to its operating results and industry trends, the Company implemented measures in the third quarter of fiscal year 1996 to reduce costs and increase operating efficiencies. Such measures included employee reductions of 49 people in various senior management and other positions and reductions in certain expenses. This restructuring involved a charge of \$549,000 for fiscal year 1996, which consisted principally of severance

payments and other employee termination benefits (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Operating Expenses"). The Company has also intensified its search for strategic alliances which would enable the Company, among other things, to expand its product line, increase research and development activities and obtain additional capital (see "--Product Line Information" and "--Research and Development").

Changes in Senior Management. The Company made significant

changes in senior management during fiscal year 1996, including changes of its chief financial officer and executives in charge of operations, regulatory and scientific affairs, human resources and sales and marketing. Generally, such changes were associated with the Company's efforts to improve efficiencies and reduce costs in key areas of operations. As a result of these changes, a significant portion of the Company's senior management have been promoted from within the Company and are currently in the process of assuming greater responsibility (see "Directors and Executive Officers of the Registrant--Executive Officers"). The Company is also seeking to hire a president of Par to assume the day-to-day responsibilities for Par's operations and is negotiating with a candidate.

PRODUCT LINE INFORMATION

The Company operates primarily in one industry segment, namely, the manufacture and distribution of generic pharmaceuticals. Products are marketed principally in oral solid form consisting of tablets, caplets and two-piece hard-shell capsules, and to a lesser extent the Company distributes a small number of products in the forms of creams and liquids (see "--Research and Development").

Par markets approximately 84 products, representing various dosage strengths of 29 drugs manufactured by the Company and approximately 18 products, representing various dosage strengths of 9 drugs, that are manufactured for it by other companies (see "--Research and Development", "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Sales", "--Gross Margins" and "Notes to Financial Statements--Distribution Agreements"). Par holds ANDAs (as defined below) for the drugs which it manufactures. The names of all of the drugs under the caption "Competitive Brand-Name Drug" are trademarked. The holders of the trademarks are non-affiliated pharmaceutical manufacturers.

Name ----	Competitive Brand-Name Drug -----
Central Nervous System:	
Alprazolam	Xanax
Benzotropine Mesylate	Cogentin
Carisoprodol and Aspirin	Soma Compound
Chlorzoxazone	Paraflex
Cyproheptadine Hydrochloride	Periactin
Doxepin Hydrochloride	Sinequan, Adapin
Fluphenazine Hydrochloride	Prolixin
Flurazepam Hydrochloride	Dalmane
Haloperidol	Haldol
Imipramine Hydrochloride	Tofranil
Meclizine Hydrochloride	Antivert
Methocarbamol and Aspirin	Robaxisal
Temazepam	Restoril
Triazolam	Halcion

Cardiovascular:	
Atenolol	Tenormin
Captopril	Capoten
Clonidine and Chlorthalidone	Combipres
Hydralazine Hydrochloride	Apresoline
Hydra-Zide	Apresazide
Isosorbide Dinitrate	Isordil

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Cardiovascular (continued):	
Methyldopa and Hydrochlorothiazide	Aldoril
Metoprolol Tartrate	Lopressor
Minoxidil	Loniten
Pindolol	Visken
Triamterene and Hydrochlorothiazide	Maxzide

Anti-Inflammatory:	
Ibuprofen	Advil, Nuprin, Motrin
Indomethacin	Indocin
Piroxicam	Feldene

Anti-Infective:	
Metronidazole	Flagyl
Nystatin	Mycostatin

Anti-Cancer:	
Megestrol Acetate	Megace

Other:	
Allopurinol	Zyloprim
Dexamethasone	Decadron

Glipizide
Metaproterenol Sulfate
Propantheline Bromide
Silver Sulfadiazine (Thermazene)

Glucotrol
Alupent
Pro-Banthine
Silvadene

In January 1996, the Company established a subsidiary, Nutriceutical Resources, Inc., to focus on the development and manufacture of pharmaceutical quality nutritional supplements. To date, the Company has introduced one nutritional supplement, melatonin. Revenues generated from this product have not been significant.

The Company seeks to introduce new products not only through internal research and development, but also through joint venture, distribution and other agreements with pharmaceutical companies located throughout the world (collectively, "Collaborative Agreements"). As part of that strategy, it has pursued and continues to pursue arrangements or affiliations which it believes, in general, will provide access to raw materials at favorable prices, share development costs, generate profits from jointly developed products and expand distribution channels for new and existing products. The Company has various Collaborative Agreements, none of which in fiscal year 1996 generated, or currently generates, significant revenues (see "Notes to Financial Statements--Distribution Agreements").

In May 1995, the Company formed a strategic alliance with Clal, an Israeli company, to develop, manufacture and distribute generic pharmaceuticals worldwide. The alliance included an equity investment by Clal in the Company and the establishment of the Joint Venture, which is owned 49% by the Company and 51% by Clal. As part of the equity investment in the Company, Mony Ben-Dor of Clal Industries Ltd. was elected to the Company's Board of Directors in May 1995 (see "Directors and Officers of the Registrant" and "Certain Relationships and Related Transactions"). While approximately 35 compounds have been identified for development by the Joint Venture, eight currently are under active development. The Company has not filed any ANDAs with respect to such potential products at this time. The scientific process of developing new products is complex and time consuming, as is obtaining U.S. Food and Drug Administration ("FDA") approval, and the development of products by the Joint Venture may be curtailed in the early or later stages of development due to the introduction of competing generic products or for other reasons (see "--Research and Development" and "--Competition"). In fiscal year 1996, the Company and Clal only made contributions of \$1,470,000 and \$1,530,000, respectively, to the Joint Venture, although their funding commitments for the fiscal year were \$2,935,000 and \$3,055,000, respectively. The Company and Clal are negotiating to amend their remaining funding commitments for 1996 in order to reflect the present and contemplated capital requirements of the Joint Venture, although they have not yet amended their written agreement. The Company and Clal currently have additional funding commitments of \$2,455,000 and \$2,555,000, respectively, in 1997. In the event that the Company and Clal do not reach a written agreement and either party makes an additional capital contribution to the Joint Venture, the other party's share in the profits and capital of the Joint Venture will be diluted.

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The Company has a distribution agreement with Sano Corporation ("Sano") which gives Par the right to exclusively distribute Sano's generic transdermal products in the United States, and the right of first refusal in other markets. Sano develops transdermal delivery systems utilizing a patch that incorporates the appropriate drug dosage into an adhesive that attaches the patch to the skin. Transdermal delivery offers significant benefits over oral delivery, including improved efficacy, increased patient compliance, reduced side effects, reduced interaction with other drugs in use by a patient and a more consistent and appropriate drug level in the bloodstream, all of which generally result in lower overall patient care costs. Sano is developing two generic nitroglycerin patches, one generic nicotine patch and one generic clonidine patch which are covered by the agreement. Par has paid Sano a portion of the development expense for such products. To date, Sano has submitted three ANDAs to the FDA and anticipates submitting additional ANDAs in the future. The Company intends to purchase manufactured products from Sano, when approved by the FDA, at cost and share in the gross profits from the sale. However, there can be no assurance that the products under Sano's ANDAs will obtain FDA approval or, if brought to market, will generate significant revenues (see "--Research and Development", "--Competition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Liquidity and Capital Resources").

RESEARCH AND DEVELOPMENT

The Company's research and development activities consist of (i) identifying and conducting patent and market research on brand name drugs

for which patent protection has expired or is to expire in the near future, (ii) researching and developing new product formulations based upon such drugs, (iii) obtaining approval from the FDA for such new product formulations, and (iv) introducing state-of-the-art technology to improve production efficiency and enhance product quality. The Company contracts with outside laboratories to conduct biostudies which, in the case of oral solids, generally are required for FDA approval. Biostudies are used to demonstrate that the rate and extent of absorption of a generic drug are not significantly different from the corresponding brand name drug and currently cost in the range of \$100,000 to \$500,000 per study. During the 1996 fiscal year, the Company contracted with outside laboratories to conduct biostudies for two potential new products and will continue to do so in the future. Biostudies must be conducted and documented in conformity with FDA standards (see "--Government Regulation").

The research and development of oral solid products, including preformulation research, process and formulation development, required studies and FDA approval, has historically taken approximately two to three years. Accordingly, Par typically selects for development products that it intends to market several years in the future. However, the length of time necessary to bring a product to market can vary significantly and can depend on, among other things, availability of funding or problems relating to formulation, safety or efficacy (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Liquidity and Capital Resources"). Currently, the Company has ANDAs pending with the FDA for three potential products, one application of which is subject to litigation with a brand name pharmaceutical company. No assurance can be given that the Company will successfully complete the development of products currently under development or proposed for development, that it will obtain regulatory approval for any such product or that any approved product will be produced in commercial quantities. The Company's profitability depends on the introduction of successful new products to replace declining revenues from older products. The failure of the Company to introduce new products in a timely manner could have a material adverse effect on the Company's operating results and financial condition.

The Company entered into a distribution agreement with Sano which gives Par the right to exclusively distribute Sano's generic transdermal drug products in the United States and the right of first refusal in other markets. Under the terms of the agreement, the Company advanced to date \$5,371,000 to Sano for the development of four products, of which \$2,942,000 was advanced in fiscal year 1996. Sano has submitted an ANDA to the FDA for one of its nicotine patches and two ANDAs for nitroglycerin patches. Sano has advised the Company that, assuming approval by the FDA in a timely manner, the nicotine patch may be available for sale during the first six months of calendar 1997. After an initial public offering of Sano's common stock, Sano repaid \$1,500,000 of the

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advances in November 1995 which was treated as a credit to research and development expenses in fiscal year 1996 (see "--Product Line Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Liquidity and Capital Resources" and "Notes to Financial Statements--Distribution Agreements").

For its 1996, 1995 and 1994 fiscal years, the net research and development expenses of the Company's continuing operations were approximately \$5,160,000, \$5,487,000 and \$3,874,000, respectively. The Company plans that its expenditures will remain at approximately current levels over the next fiscal year (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Operating Results--Research and Development" and "--Financial Condition--Liquidity and Capital Resources").

In May 1995, the Company formed the Joint Venture with Clal. The Joint Venture has identified approximately 35 products for research and eight are currently under development by the Joint Venture. The Joint Venture continues to build its staff and has begun the preliminary stages of research on certain of the identified products (see "--Product Line Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Liquidity and Capital Resources").

MARKETING AND CUSTOMERS

The Company markets its products to drug wholesalers, distributors and retail drug chains principally through its own sales staff. In 1995, the Company completed its plans to eliminate its dependence upon outside sales representatives and add additional internal sales personnel. These changes were part of the strategy of the Company to emphasize sales of Par products to wholesalers versus distributors (see "Management's Discussion

and Analysis of Financial Condition and Results of Operations--Results of Operations--Sales").

The Company markets its products under both Par and private labels principally to wholesalers, distributors, retail drug store chains and, to a lesser extent, drug manufacturers, repackagers and government agencies. The Company plans to increase its sales and marketing efforts to increase sales to customers in the managed health care market through ParCare, a subsidiary established in September 1995 to focus on meeting the specialized needs of managed health care organizations. Such customers include health maintenance organizations, nursing homes, hospitals, clinics, pharmacy benefit management companies and mail order customers.

The Company has experienced in the last several years a significant change in its distribution channels. In general, sales of generic drugs to distributors have been decreasing, while sales to wholesalers has been increasing. The Company believes that competition between distributors and wholesalers and consolidation among retailers has resulted in additional and separate pressures to decrease prices. Additionally, aggressive pricing strategies by distributors which are attempting to maintain or increase market share have adversely affected the Company's ability to market its products. Consequently, price reductions have resulted in lower gross margins for the Company (see "--Competition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations").

The Company has approximately 200 customers. During fiscal year 1996, sales to the Company's two largest customers, McKesson Drug Co., a subsidiary of McKesson Corporation, and Goldline Laboratories, Inc., a subsidiary of Ivax Corporation, amounted to 11% and 9%, respectively, of net sales (see "Notes to Financial Statements--Accounts Receivable--Major Customers"). Neither of such customers has written agreements with the Company.

ORDER BACKLOG

The dollar amount of open orders, as of September 30, 1996, believed by management to be firm, was approximately \$7,800,000 and compares to approximately \$8,100,000 at September 30, 1995. Although these orders are subject to cancellation without penalty, management expects to fill substantially all of them in the near future. The Company has orders for shipments for its customers which are consistent with the seasonal purchasing patterns of its customers.

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COMPETITION

The generic pharmaceutical industry is highly and increasingly competitive. The Company has identified at least ten principal competitors, and experiences varying degrees of competition from numerous other companies in the health care industry. The Company's competitors include many generic drug manufacturers and a number of major branded pharmaceutical companies which, as part of their business, market both brand-name prescription drugs and generic versions of these brand-name drugs. Many of the Company's competitors have greater financial and other resources than the Company and are able to expend more for product development and marketing.

Many major branded pharmaceutical companies have directly launched, or have formed alliances to market, their patented drugs prior to patent expiration as generic drugs. Because branded pharmaceutical companies do not have to wait until the expiration of patent protection before manufacturing such generic drugs, they have a distinct timing advantage over strictly generic drug manufacturers. This competitive effort has had a negative impact on the Company's ability to sell certain generic drugs to its customers and to generate customary revenues from the launch of its new products, as the channel of distribution is either closed or severely limited or the Company is forced to meet lower market pricing.

As other manufacturers introduce generic products in competition with the Company's existing products, market share and prices with respect to such existing products typically decline. Similarly, the Company's potential for profits is significantly reduced, if not eliminated, as competitors introduce products prior to the Company. Accordingly, the level of revenues and gross profit generated by the Company's current and prospective products depends, in part, on the number and timing of introductions of competing products and the Company's timely development and introduction of new products (see"--Research and Development").

During fiscal year 1996, four of the Company's products accounted for approximately 58% of its net sales and yielded the substantial portion of the gross margin of the Company, with one of such products representing a substantial portion of both net sales and gross margin. During the second half of calendar year 1995, two generic pharmaceutical manufacturers

received FDA approval of a product for which the Company previously had been the sole generic manufacturer. This product, along with two other products, historically had accounted for a significant portion of net sales and gross margin of the Company. Further, a competitor of the Company in fiscal year 1996 received FDA approval for a very significant product of the Company for which the Company previously had been the sole generic manufacturer. Due to the increased competition with respect to these products, the Company's sales and gross margins have been materially and adversely affected.

The principal competitive factors in the generic pharmaceutical market are (i) price, (ii) the ability to introduce generic versions of brand name drugs promptly after their patents expire, (iii) reputation as a manufacturer with integrity and quality products, (iv) level of service (including maintenance of sufficient inventories for timely deliveries), (v) product appearance, and (vi) breadth of product line. The Company has expended more effort and resources, including financial, in the areas of sales, marketing, and research and development to better its competitive position in the industry over the last three years.

RAW MATERIALS

The raw materials essential to the Company's manufacturing business are purchased primarily from United States distributors of bulk pharmaceutical chemicals manufactured by foreign companies. To date, the Company has experienced no significant difficulty in obtaining raw materials and expects that raw materials will generally continue to be available in the future. However, since the federal drug application process requires specification of raw material suppliers, if raw materials from a specified supplier were to become unavailable, FDA approval of a new supplier would be required. While a new supplier becomes qualified by the FDA and its manufacturing process is judged to meet FDA standards, a delay of six months or more in the manufacture and marketing of the drug involved could result, which could in turn have an adverse effect on the Company's financial condition. Generally the Company attempts to minimize the effects of any such situation by specifying, where economical and feasible two or more suppliers for its drug approvals.

EMPLOYEES

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As of September 30, 1996, the Company had approximately 390 employees.

GOVERNMENT REGULATION

All pharmaceutical manufacturers are subject to extensive regulation by the Federal government, principally by the FDA, and, to a lesser extent, by the Drug Enforcement Administration and state governments. The Federal Food, Drug, and Cosmetic Act, the Controlled Substances Act, and other Federal statutes and regulations govern or influence the testing, manufacture, safety, labeling, storage, recordkeeping, approval, advertising and promotion of the Company's products. Noncompliance with applicable requirements can result in judicially and/or administratively imposed sanctions including the initiation of product seizures, injunction actions, fines and criminal prosecutions. Administrative enforcement measures can involve the recall of products, as well as the refusal of the government to enter into supply contracts or to approve new drug applications. The FDA also has the authority to withdraw approval of drugs in accordance with regulatory due process procedures.

FDA approval is required before any new drug, including a generic equivalent of a previously approved drug, can be marketed. To obtain FDA approval for a new drug, a prospective manufacturer must, among other things, demonstrate that its manufacturing facilities comply with the FDA's current Good Manufacturing Practices ("CGMP") regulations. The FDA may inspect the manufacturer's facilities to assure such compliance prior to approval or at any other reasonable time. CGMP regulations must be followed at all times during the manufacture and other processing of drugs. To comply with the standards set forth in these regulations, the Company must continue to expend significant time, money and effort in the areas of production, quality control and quality assurance.

To obtain FDA approval of a new drug, a manufacturer must demonstrate, among other requirements, the safety and effectiveness of the proposed drug. There are currently three basic ways to satisfy the FDA's safety and effectiveness requirements:

1. New Drug Applications ("NDA" or "full NDA"):
Unless either of the procedures discussed in paragraphs 2 and 3 below is available, a prospective manufacturer must submit to the FDA full reports

of well-controlled clinical studies and other data to prove that a drug is safe and effective and meets other requirements for approval.

2. "Paper" NDAs: In certain instances in the past, the FDA permitted safety and effectiveness to be shown by submission of published literature and journal articles in a so-called "paper" NDA. As a result of passage of the Drug Price Competition and Patent Term Restoration Act of 1984 (the "Waxman-Hatch Act"), "paper" NDAs are now recognized in the statute, although they are infrequently used because of the lack of sufficient or otherwise useable information in the literature on the majority of drugs.

3. Abbreviated New Drug Applications ("ANDAs"): The Waxman-Hatch Act established a statutory procedure for submission and FDA review and approval of ANDAs for generic versions of drugs previously approved by the FDA (such previously approved drugs are hereinafter referred to as "listed drugs"). In place of clinical studies to establish the generic drug's safety and effectiveness, an ANDA applicant typically is required to submit bioavailability data generated from biostudies demonstrating that the proposed product is bioequivalent to the listed drug. Bioavailability data indicate the rate and extent of absorption of a drug's active ingredient and its availability at the site of drug action, typically measured through blood levels. A generic drug usually is deemed to be bioequivalent to the listed drug if the rate and extent of absorption of the generic drug are not significantly different from those of the listed drug. For some drugs (e.g., topical antifungals), other means of demonstrating bioequivalence may be required by the FDA, especially where rate and/or extent of absorption are difficult or impossible to measure. In addition to the bioequivalence data, an ANDA must contain virtually all other information required of a full NDA (e.g., chemistry, manufacturing, labeling, and stability data).

The Waxman-Hatch Act also established certain statutory protections for listed drugs. Under the Waxman-Hatch Act approval of an ANDA for a generic drug may not be made effective for interstate marketing until all relevant patents for the listed drug have expired or been determined to be invalid or not infringed by the generic drug. Prior to enactment of the Waxman-Hatch Act, the FDA did not consider the patent status of a previously

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approved drug. In addition, under the Waxman-Hatch Act, statutory non-patent exclusivity periods are established following approval of certain listed drugs, where specific criteria are met by the drug. If exclusivity is applicable to a particular listed drug, the effective date of approval of ANDAs (and, in at least one case, submission of an ANDA) for the generic version of the listed drug is usually delayed until the expiration of the exclusivity period, which, for newly approved drugs, can be either three or five years. The Waxman-Hatch Act also provides for extensions of up to five years of certain patents covering drugs to compensate the patent holder for reduction of the effective market life of the patented drug resulting from the time involved in the Federal regulatory review process.

During 1995, patent terms for a number of listed drugs were extended when the Uruguay Round Agreements Act (the "URAA") went into effect to implement the latest General Agreement on Tariffs and Trade (the "GATT") to which the United States became a treaty signatory in 1994. Under GATT, the term of patents was established as 20 years from the date of patent application. In the United States, the patent terms historically have been calculated at 17 years from the date of patent grant. The URAA provided that the term of issued patents be either the existing 17 years from the date of patent grant or 20 years from the date of application, whichever was longer. The effect generally was to add patent life to already issued patents, thus delaying FDA approvals of applications for generic products.

In addition to the Federal government, states have laws regulating the manufacture and distribution of pharmaceuticals, as well as regulations dealing with the substitution of generic for brand-name drugs. The Company's operations are also subject to regulation, licensure and inspection by the states in which they are located and/or do business.

The Company also is governed by Federal and state laws of general applicability, including laws regulating matters of environmental quality, working conditions, and equal employment opportunity.

The Federal government made significant changes to Medicaid drug reimbursement as part of the Omnibus Budget Reconciliation Act of 1990 ("OBRA"). Generally, OBRA provides that a generic drug manufacturer must offer the states an 11% rebate on drugs dispensed under the Medicaid program and must have entered into a formal drug rebate agreement, as the Company has, with the Federal Health Care Financing Administration. Although not required under OBRA, the Company has also entered into similar state agreements.

The Company received a warning letter in May 1994 from the FDA setting forth certain alleged deviations from cGMP regulations and alleged violations of related provisions of the Federal Food, Drug and Cosmetic Act. In March of 1995, the FDA completed a reinspection of the Company's main facility and confirmed that the Company is in substantial compliance with cGMP. The reinspection confirmed effective correction of all violations noted in the warning letter.

ITEM 2. Properties.

The Company's executive offices and a substantial portion of its research and production facilities are housed in a 92,000 square foot facility built to Par's specifications and occupied since fiscal 1986. This building also includes research and quality control laboratories, as well as packaging and warehouse facilities. The building is located in Chestnut Ridge, New York, on a parcel of land of approximately 24 acres, of which approximately 15 acres are available for future expansion. The purchase of the land, facility and equipment was financed, in part,

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by Industrial Development Bonds issued by the County of Rockland Industrial Development Agency in October 1984. The Bonds were fully paid in fiscal year 1996, and the collateral documents associated with such bonds are in the process of being released. Upon their release, title to the property will formally transfer from the Industrial Development Agency to the Company (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Financing" and "Notes to Financial Statements--Long Term Debt").

The Company purchased, in fiscal year 1994, a 36,000 square foot building on two acres of land in Chestnut Ridge, New York, across the street from its executive offices for office space. The purchase of the land and building was financed by a mortgage loan (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Financing" and "Notes to Financial Statements--Long Term Debt").

Par owns a third facility consisting of six acres of land and a 33,000 square foot building located in Congers, New York, which is used for tablet coating operations and product manufacturing. The purchase of the facility and related renovations and equipment were financed in full by term loans. The equipment serves as collateral for the loan (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Financial Condition--Financing" and "Notes to Financial Statements--Long Term Debt").

Under a lease expiring December 1997, with three five year extension options, Par occupies approximately 77,000 square feet for office, warehouse, and research and development space in Chestnut Ridge, New York (see "Notes to Financial Statements--Commitments--Leases").

Par leases an 11,000 square foot facility in Upper Saddle River, New Jersey, for certain of its manufacturing operations. The lease covering this facility expires November 1998, and has three two-year renewal options. (see "Notes to Financial Statements--Commitments--Leases").

The Company believes that its owned and leased properties are sufficient in size, scope and nature to meet its anticipated needs for the reasonably foreseeable future.

ITEM 3. Legal Proceedings.

The Company is involved in certain litigation matters, including certain product liability actions and actions by two former employees for, among other things, breach of contract. Such actions seek damages from the Company, including compensatory and punitive damages. The Company intends to defend these actions vigorously. The Company believes that these actions are incidental to the conduct of its business, and that the ultimate resolution thereof will not have a material adverse effect on its financial condition, results of operations or liquidity.

ITEM 4. Submission of Matters to a Vote of Security Holders.

A Meeting of Shareholders of the Company was held on October 23, 1996. The following matters were voted on and approved by the holders of shares of the Company's Common Stock:

1. The first proposal presented to the shareholders was to elect two members of the Company's Board of Directors, which consists of seven members, to serve for a three-year term and until their successors are duly elected and qualified. There were 14,590,177 and 14,584,170 shares of Common Stock cast in favor of electing Kenneth I. Sawyer and Robin O. Motz, respectively, which represented a majority of the shares of the Company's Common Stock cast for such proposal, and 1,267,369 and 1,273,376 shares were withheld, respectively. There were no broker non-votes. The terms of office of Melvin Van Woert, Andrew Maguire, Mark Auerbach, H. Spencer Matthews and Mony Ben-Dor continued as directors after the meeting.

2. The second proposal presented to the shareholders was to approve an amendment to the Company's 1990 Stock Incentive Plan to increase the number of shares of the Company's Common Stock for which options

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may be granted thereunder. There were 14,220,041 shares of Common Stock cast in favor of such proposal, which represented a majority of the shares of the Company's Common Stock cast for such proposal, 1,514,033 shares of Common Stock cast against such proposal, and 123,472 shares abstained.

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PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

(a) Market information. The Company's Common Stock is traded on The New York Stock Exchange ("NYSE") and the Pacific Stock Exchange under the ticker symbol PRX. The following table shows the range of closing prices for the Common Stock as reported by the NYSE for each calendar quarter during the Company's two most recent fiscal years.

<TABLE>
<CAPTION>

Quarter Ended	Fiscal Year Ended In			
	1996		1995	
	High	Low	High	Low
December 31	\$9.13	\$7.25	11.50	\$7.50
March 31	8.00	6.75	11.13	7.75
June 30	8.50	5.00	12.88	9.88
September 30	5.50	3.38	11.38	8.38

</TABLE>

(b) Holders. As of December 20, 1996, there were approximately 3,700 holders of record of the Common Stock. The Company believes that, in addition, there are a significant number of beneficial owners of its Common Stock whose shares are held in "street name."

(c) Dividends. During the two most recent fiscal years, the Company paid no cash dividends on its Common Stock. The payment of future dividends on its Common Stock is subject to the discretion of the Board of Directors and is dependent upon many factors, including the Company's earnings, its capital needs, the terms of its financing agreements and its general financial condition (see "Notes to Financial Statements--Long Term Debt"). The Company's current loan agreement prohibits the declaration or payment of any dividend, or the making of any distribution to any of the Company's stockholders.

(d) Recent Stock Price. On December 20, 1996, the closing price of the Common Stock on the NYSE was \$4.00 per share.

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ITEM 6. Selected Financial Data

<TABLE>
<CAPTION>

Fiscal Year Ended In

	1996	1995	1994	1993	1992
INCOME STATEMENT DATA					
<S>					
<C>					
Net sales	\$ 57,959	\$66,503	\$69,169	\$ 74,535	\$52,493
Cost of goods sold	48,299	45,514	45,774	48,387	32,448
Gross margin	9,660	20,989	23,395	26,148	20,045
Operating expenses:					
Research and development	5,160	5,487	3,874	1,959	1,299
Selling, general and administrative	17,168	16,192	13,463	12,673	11,486
Restructuring charge	549	-	-	-	-
Total operating expenses	22,877	21,679	17,337	14,632	12,785
Operating income (loss)	(13,217)	(690)	6,058	11,516	7,260
Settlements	-	2,029	-	(10,500)	(230)
Other income	2,557	608	425	347	142
Interest expense	(432)	(499)	(465)	(602)	(923)
Income (loss) from continuing operations before provision for income taxes	(11,092)	1,448	6,018	761	6,249
Provision for income taxes	-	836	1,785	650	2,150
Income (loss) from continuing operations	(11,092)	612	4,233	111	4,099
Income from discontinued operations	2,800	-	466	-	1,696
Income (loss) before extraordinary item	(8,292)	612	4,699	111	5,795
Extraordinary item - tax benefit of utilization of net operating loss carryforward	-	-	-	300	2,150
Income (loss) before change in accounting principle	(8,292)	612	4,699	411	7,945
Cumulative effect of change in accounting principle	-	-	14,128	-	-
Net income (loss)	\$ (8,292)	\$ 612	\$18,827	\$ 411	\$ 7,945
Income (loss) per share of common stock:					
Continuing operations	\$ (.60)	\$.04	\$.26	\$.01	\$.28
Discontinued operations	.15	-	.03	-	.11
Extraordinary item	-	-	-	.02	.15
Change in accounting principle	-	-	.85	-	-
Net income (loss)	\$ (.45)	\$.04	\$1.14	\$.03	\$.54
Weighted average number of common and common equivalent shares outstanding	18,467	17,143	16,495	15,814	14,826
BALANCE SHEET DATA					
Working capital	\$ 20,716	\$34,907	\$19,996	\$ 13,141	\$ 8,061
Property, plant and equipment (net)	26,068	24,371	23,004	20,037	19,579
Total assets	84,946	90,917	69,202	57,239	45,089
Long-term debt, less current portion	2,971	4,259	5,490	5,820	7,528
Shareholders' equity	70,624	71,954	49,276	24,081	21,087

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ITEM 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations.

Certain statements in this Form 10-K constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including those concerning management's expectations with respect to future financial performance and future events, particularly relating to sales of current products as well as the introduction of new manufactured and distributed products. Such statements involve known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the Company, which could cause actual results and outcomes to differ materially from those expressed herein. Factors that might affect such forward-looking statements set forth in this Form 10-K include, among others, (i) increased competition from new and existing competitors and pricing practices from such competitors, (ii) the amount of funds continuing to be available for internal research and development and research and development joint ventures, (iii) research and development project delays or delays in obtaining regulatory approvals and (iv) the ability of the Company to retain and attract management personnel in key operational areas.

RESULTS OF OPERATIONS

General

The Company incurred operating losses for the fiscal year ended September 30, 1996 of \$13,217,000 compared to operating losses of \$690,000 in the prior fiscal year. The losses are principally due to sales and gross margin declines, as described below. If sales declines are not offset by increased sales of new distributed or manufactured products, lower net sales and gross margins will continue and, accordingly, result in further losses. In response to recent results and industry trends, the Company has implemented measures to reduce costs and increase operating efficiencies (see "Notes to Financial Statements--Commitments, Contingencies and Other Matters--Restructuring").

The continued price and profit margin erosion on certain of the Company's products reflects a trend currently being experienced in the generic drug industry in general in the United States. The factors contributing to the intense competition and affecting both the introduction of new products and the pricing and profit margins of the Company, include, among other things, (i) introduction of other generic drug manufacturers' products in direct competition with the Company's significant products, (ii) competition from brand name drug manufacturers selling generic versions of their drugs, (iii) increased ability of generic competitors to enter the market after patent expiration, diminishing the amount and duration of significant profits, and (iv) willingness of generic drug customers, including wholesalers and retail customers, to switch among pharmaceutical manufacturers.

The Company plans to continue to invest in its internal research and development efforts in addition to pursuing additional products for sale through new and existing distribution agreements and research and development joint ventures. There were no significant sales of any new manufactured or distributed products introduced in the current fiscal year. The Company hopes that it will, subject to FDA approval and other factors, introduce new products in the next fiscal year as a result of its research and development efforts and distribution agreements, including nicotine and nitroglycerine patches from Sano and an internally developed product for which ANDAs have been filed (see "--Research and Development"). No assurance can be given that any additional products for sale by the Company will result or that sales of additional products will reduce losses or return the Company to profitability. Continuing losses would adversely affect the Company's liquidity and, accordingly, its ability to fund research and development or ventures relating to the distribution of new products (see "--Financial Condition--Liquidity and Capital Resources").

Sales

Net sales of \$57,959,000 for the fiscal year ended September 30, 1996 decreased \$8,544,000, or 13%, from the prior fiscal year. The decline is primarily due to decreased sales of manufactured products which resulted in large part from lower pricing and continuing decreases in volume of one of the Company's significant products, and to a lesser extent, two other significant products. The sales decline was caused principally by the introduction of competitive products by other drug manufacturers. Increased sales of a lower margin distributed product

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partially offset the decline in sales of manufactured products. This product contributed significantly to the increase in sales of distributed products to \$9,035,000 in fiscal year 1996 from \$5,881,000 in the prior fiscal year.

Sales for the fourth quarter of fiscal 1996 were \$12,951,000, a decrease of \$4,539,000, or 26%, from \$17,490,000 for the fourth fiscal quarter of 1995. The decrease was primarily due to lower pricing and decreased volume of certain of the Company's significant products as previously discussed, caused principally by the introduction of competitive products by other drug manufacturers.

Sales for the year ended September 30, 1995 of \$66,503,000 decreased \$2,666,000, or 4%, from the year ended October 1, 1994. Distributed product sales decreased \$5,492,000 principally due to decreased demand and lower pricing resulting from intense competition from both generic and brand name pharmaceutical companies. Sales of manufactured products increased \$2,826,000 primarily due to higher volume of one of the Company's lower margin products and higher pricing of one of the Company's significant products.

Levels of sales are principally dependent upon, among other things, (i) pricing levels and competition, (ii) market penetration for the

existing product line, (iii) approval of ANDAs and introduction of new manufactured products, (iv) introduction of new distributed products and (v) the level of customer service (see "Business--Competition").

Gross Margins

The Company's gross margin for the year ended September 30, 1996 was \$9,660,000 (17% of net sales) compared to \$20,989,000 (32% of net sales) for the prior fiscal year. The gross margin decline is primarily due to continued lower selling prices and decreased volumes of certain significant manufactured products resulting from the introduction of other generic drug manufacturers' products in direct competition with the Company's significant products. Gross margins on distributed products for the current year also decreased from the prior year principally due to continuing lower sales levels of higher margin products and increased sales of a lower margin product.

The gross margin for the quarter ended September 30, 1996 decreased \$6,126,000 to \$(1,317,000) (-10% of net sales) from the \$4,809,000 (27% of net sales) recorded in the fourth quarter of the prior fiscal year. The decline is primarily due to the continuing lower sales of certain significant manufactured products, as discussed above. In addition, an inventory adjustment, which lowered the cost of one of the Company's products to its current market value, adversely affected the margin during the current period.

Inventory write-offs, which are taken in the normal course of business, amounted to \$1,395,000 and \$2,203,000 for the years ended September 30, 1996 and September 30, 1995, respectively, and \$463,000 and \$632,000 for the fourth quarters of fiscal years 1996 and 1995, respectively. The inventory write-offs are related to the disposal of finished products due to short shelf life and work in process inventory not meeting the Company's quality control standards.

During fiscal year 1996, four of the Company's products accounted for approximately 58% of its net sales and yielded the substantial portion of the gross margin of the Company, with one of such products representing a substantial portion of both net sales and gross margin. During the second half of calendar year 1995, two generic pharmaceutical manufacturers received FDA approval of a product for which the Company previously had been the sole generic manufacturer. This product, along with two other products, historically had accounted for a significant percentage of net sales and gross margin of the Company. Primarily as a result of this increased competition, net sales of this product decreased from \$5,652,000 in fiscal year 1995 to \$3,959,000 in fiscal year 1996, and gross margin declined from \$5,073,000 in fiscal year 1995 to \$3,427,000 in fiscal year 1996. Further, a competitor of the Company in fiscal year 1996 received FDA approval for a very significant product of the Company for which the Company previously had been the sole generic manufacturer. As a result of the increased competition, net sales of that product decreased from \$20,834,000 in fiscal year 1995 to \$13,581,000 in fiscal year 1996, and gross margin declined from \$16,893,000 in fiscal year 1995 to \$10,223,000 in fiscal year 1996. Due to the increased competition with respect to these products, the Company's sales and gross margins have been materially and adversely affected.

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Gross margin of \$20,989,000 (32% of net sales) in fiscal year 1995 decreased \$2,406,000 from \$23,395,000 (34% of net sales) in 1994 primarily as a result of lower pricing and a decline in sales of distributed product, as well as increased inventory write-offs and a shift in product mix of manufactured product reflecting an increase in sales of lower margin products and a decrease in sales of certain higher margin products.

Operating Expenses

Research and Development

During the first quarter of fiscal year 1996, the Company received a \$1,500,000 reimbursement from Sano Corporation ("Sano") for advances made to them in prior fiscal years for research and development expenses. As a result of this reimbursement, net research and development expenses for the year ended September 30, 1996 equalled \$5,160,000 compared to \$5,487,000 in the prior fiscal year. Gross research and development expenses for the year ended September 30, 1996 were \$6,660,000 including payments to Sano of \$2,942,000 for the development of certain generic transdermal products compared to \$1,429,000 in the prior year. The Company has a distribution agreement with Sano to distribute generic transdermal products developed by Sano (see "Notes to Financial Statements--Investments").

Research and development expenses for the fourth quarter ended September 30, 1996 were \$841,000 versus \$2,102,000 in the corresponding quarter of the prior fiscal year. The decrease is primarily attributable to \$996,000 of Sano payments incurred in the prior year.

To further expand its product line, the Company is continuing its efforts to introduce new products from internal research and development and from existing joint ventures, as well as searching for additional research and development joint ventures. In May 1995, the Company formed an alliance with Clal to develop, manufacture and distribute generic pharmaceuticals worldwide (see "Business--Product Line Information" and "Notes to Financial Statements--Investment in Joint Venture", "Shareholders' Equity" and "--Financial Condition--Liquidity and Capital Resources"). A research and development joint venture, formed in Israel and owned 49% by the Company and 51% by Clal, has commenced operations and identified approximately 35 products for research. The Company recorded its share of such joint venture's research and development expenses of \$499,000 for the current fiscal year.

For the year ended September 30, 1995, research and development costs increased \$1,613,000 to \$5,487,000 from the prior fiscal year reflecting management's efforts to expand its product line under various internal and co-development programs.

Selling, General and Administrative

Selling, general and administrative costs were \$17,168,000 (30% of net sales) for the year ended September 30, 1996 versus \$16,192,000 (24% of net sales) for the prior fiscal year. The increase is primarily attributable to fees for consulting and professional services, increased advertising and developmental marketing costs, severance costs, increased bad debt expense and costs related to implementing information systems to support the Company's operations. In addition, the Company incurred costs in strengthening its managed care and in-house sales force in an effort to compete more effectively under the current market conditions.

Selling, general and administrative costs were \$4,292,000 (33% of net sales) for the three month period ended September 30, 1996 compared to \$4,248,000 (24% of net sales) for the corresponding period in the prior fiscal year.

Selling, general and administrative costs for the fiscal year ended September 30, 1995 increased 20% to \$16,192,000 (24% of net sales) from \$13,463,000 (19% of net sales) for the year ended October 1, 1994 principally due to certain non-recurring charges including legal and accounting expenses related to merger and acquisition or other strategic alliance negotiations, expenses incurred in connection with the Company's response to FDA inquiries with respect to current Good Manufacturing Practices and costs associated with the termination of the broker network used by the Company to sell its products.

Restructuring Charge

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The Company recorded a restructuring charge of \$549,000 in the current period to provide for costs associated with the reduction and reorganization of current personnel (see "Business--General--Significant Developments"). The implementation of measures to reduce costs and expenses, including a reduction in spending on advertising, marketing, and professional services, is expected to reduce operating costs in subsequent periods due to established efficiencies and lower head count (see "Notes to Financial Statements--Commitments, Contingencies and Other Matters--Restructuring").

Settlements

In fiscal year 1995, the Company resolved claims against certain former management members of the Company for recovery of, among other items, salaries and money paid for indemnification. The settlements, in the form of cash and securities of the Company, were valued at \$2,029,000.

Other Income

Other income for the fiscal year ended September 30, 1996 increased to \$2,557,000 from \$608,000 in the prior fiscal year. The increase is attributable to a gain on the sale of Sano common stock sold during the fourth quarter of fiscal year 1996 (see "--Financial Condition--Liquidity and Capital Resources").

Income Taxes

Management has determined, based on the Company's performance this year and the uncertainty of the generic business in which the Company

operates, that future operating income might not be sufficient to recognize fully the net operating loss carryforwards of the Company. Therefore, the Company is not recognizing a benefit for its operating losses this year (see "Notes to Financial Statements--Income Taxes"). In the prior fiscal year, the Company recorded income tax expense of \$836,000.

In fiscal year 1994, the Company adopted SFAS 109, "Accounting For Income Taxes" ("SFAS 109") and recorded income of \$14,128,000 which is reflected as the cumulative effect of a change in accounting principle in the financial statements. Significant portions of the income recognized consist of net operating loss carryforwards and have been included to the extent that the realization of such benefits is more likely than not.

The Internal Revenue Service ("IRS") has determined that certain credits taken by the Company in prior years for research activities are not permitted. A reserve of approximately \$1,000,000 was provided upon implementation of SFAS 109 in fiscal 1994. The Company paid to the IRS approximately \$1,000,000 during fiscal 1995 for the disallowed credits and such payments were charged against the reserve which was previously provided.

Discontinued Operations

In fiscal year 1996, the Company recorded income from discontinued operations of \$2,800,000, reversing the remaining reserves which had been provided for Quad Pharmaceuticals, Inc. ("Quad"), whose operations were discontinued in 1991 (see "Notes to Financial Statements--Discontinued Operations").

FINANCIAL CONDITION

Liquidity and Capital Resources

Working capital of \$20,716,000 at September 30, 1996 represents a decrease of \$14,191,000 from the last fiscal year end principally due to the use of cash for capital expenditures of \$4,746,000, for investments in research and development joint ventures of \$1,470,000 and in Fine-Tech Ltd. of \$1,000,000, as discussed below, and to fund operating losses. The working capital ratio of 2.9x declined from 3.5x at the prior fiscal year end. Inventory levels increased to \$19,352,000 from \$15,364,000 in the prior fiscal year, primarily due to the building of inventories of certain manufactured products.

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In September 1996, the Company sold 135,000 shares of its holdings in Sano Corporation at average prices ranging from \$19.50 to \$19.88 per share. Net proceeds received from the transactions amounted to approximately \$2,669,000.

As part of the alliance formed with Clal, the Company invested \$1,960,000 in the research and development joint venture in fiscal 1995 and \$1,470,000 was invested during fiscal 1996. The Company is committed to invest an additional \$3,920,000 (which includes the balance of the commitment from fiscal year 1996) in the joint venture through fiscal 1997. The Company and Clal are negotiating to amend their remaining funding commitments for 1996 in order to reflect the present and contemplated capital requirements of the Joint Venture, although they have not yet amended yet their written agreement (see "Business--Product Line Information").

In December 1995, the Company purchased 10% of the shares of Fine-Tech Ltd., an Israeli pharmaceutical research and development company in which Clal has a significant ownership interest, for \$1,000,000 and obtained certain exclusive rights to purchase products from Fine-Tech Ltd. not commonly sold in North America, South America or the Caribbean.

The Company expects to fund its research and development activities, including its obligations under the existing distribution and development arrangements discussed above, out of its working capital, and if necessary with borrowings against its line of credit, to the extent then available (see "--Financing"). If, however, the Company continues to experience significant losses, its liquidity and, accordingly, its ability to fund research and development or ventures relating to the distribution of new products will be materially and adversely affected.

Financing

At September 30, 1996, the Company's total outstanding long-term debt was \$5,113,000. The long-term debt consists principally of outstanding loans to two banks of \$4,683,000 which are secured by certain assets of the Company and are to be repaid in monthly installments through 2001.

On December 27, 1996, Par Pharmaceutical, Inc. ("Par") entered into a Loan and Security Agreement (the "Loan Agreement") with General Electric Capital Corporation ("GECC") which provides Par with a three-year revolving line of credit. Pursuant to the Loan Agreement, Par is permitted to borrow up to the lesser of (i) the borrowing base established under the Loan Agreement or (ii) \$20,000,000. The borrowing base is limited to 85% of eligible accounts receivable plus 50% of eligible inventory of Par as determined from time to time by GECC. The interest rate charge on the line of credit is based upon a rate per annum of 2.50% above the 30-day commercial paper rate for high-grade unsecured notes adjusted monthly. The line of credit with GECC is secured by the assets of Par and Pharmaceutical Resources, Inc. ("PRI") other than real property and is guaranteed by PRI. As a condition to such facility, Par, PRI, and their affiliates have established a cash management system pursuant to which all cash and cash equivalents received by any of such entities are deposited into locked accounts over which GECC has sole operating control and which are applied on a daily basis to reduce amounts outstanding under the line of credit. As of December 30, 1996, approximately \$3,500,000 was outstanding under such line of credit. The revolving credit facility, which is subject to covenants based on various financial benchmarks, replaced PRI's previous \$16,000,000 revolving facility and \$4,000,000 term loan facility, with Fleet Bank, N.A. Any significant reduction in the borrowing base will adversely affect the Company's liquidity.

At September 30, 1996, the Company had borrowed \$355,000 under a line of credit maintained at a second bank, which line is secured by equipment purchased. The interest rate is based on the prime rate plus a premium. Additionally, the Company has a mortgage loan with this lender in the original principal amount of \$1,340,000. The loan bears interest during the first five years of its term at a rate of 8.5% per annum and thereafter at the Prime Rate plus 1.75%. It is due in equal monthly installments until May 1, 2001, at which time the remaining principal balance with interest is due. The loan is secured by certain real property (see "Business--Property"). At September 30, 1996, the outstanding balance of the loan was \$1,183,000 (see "Notes to Financial Statements--Long-Term Debt").

ITEM 8. Financial Statements and Supplementary Data.

 See Index to Financial Statements after Signature Page.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and

 Financial Disclosure.

 In September 1995, the Company changed accountants, from Richard A. Eisner and Co., LLP. to Arthur Andersen LLP. The Company filed a Report on Form 8-K in connection with such change with the Securities and Exchange Commission on September 8, 1995 - which Form 8-K subsequently was amended on October 4, 1995 and on October 12, 1995, all of which are hereby incorporated herein by reference.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

 Directors

The Company's Certificate of Incorporation provides that the Board shall be divided into three classes, with the term of office of one class expiring each year. The Class I, Class II and Class III directors of the Company have terms which expire in 1997, 1998 and 1999, respectively. The following table sets forth certain information with respect to each of Class I, II and III directors and the year each was first elected as a director:

<TABLE>
 <CAPTION>

Name	Age (as of 12/96)	Year of First Election
-----	-----	-----
Class I		
<S>	<C>	<C>

Mark Auerbach (1) (2) 58 1990

Since June 1993, the Senior Vice President and Chief Financial Officer of Central Lewmar L.P., a distributor of fine papers. From August 1992 to June 1993, a partner of Marron Capital L.P., an investment banking firm. From July 1990 to August 1992, President, Chief Executive Officer and Director of Implant Technology Inc., a manufacturer of artificial hips and knees. Director of Acorn Venture Capital Corporation, a closed end investment company, and director and Chairman of the Board of Oakhurst Company, Inc., a holding company whose subsidiaries operate automotive after-market distributors.

H. Spencer Matthews (2) 75 1990

Since 1986, President and Chief Executive Officer of Dispense-All South Coast, Inc., and Dispense-All of Central Florida, Inc., two companies which are wholesalers of juice concentrates. Rear Admiral, United States Navy (Retired).

Mony Ben-Dor (1) (2) (4) 50 1995

Since August 1993, Vice President, New Business Development of Clal Industries, Ltd., a holding company based in Israel which owns all of the stock of Clal, and since December 1995, a director of Clal. From 1988 to August 1993, Mr. Ben-Dor was an executive with Eisenberg Group of Companies, a holding company based in Israel.

</TABLE>

<TABLE>

<S> <C> <C>

Class II

Andrew Maguire, Ph.D. (1) (3) (4) 56 1990

Since January 1990, President and Chief Executive Officer of Appropriate Technology International, a not-for profit development assistance corporation.

Melvin H. Van Woert, M.D. (1) (4) (5) 67 1990

Since 1974, Physician and Professor of Neurology and Pharmacology and Doctoral Faculty, Mount Sinai Medical Center, New York.

Class III

Kenneth I. Sawyer (3) (4) (5) 51 1989

Since October 1990, Chairman of the Board of the Company. Since October 1989, President and Chief Executive Officer of the Company. From September 1989 to October 1989, Interim President and Chief Executive Officer of the Company. From August 1989 to September 1989, counsel to the Company. Director of Acorn Venture Capital Corporation, a closed-end investment company.

Robin O. Motz, M.D., Ph.D. (2) (3) (5) 57 1992

Since July 1978, Assistant Professor of Clinical Medicine, Columbia University College of Physicians and Surgeons. Physician engaged in a private practice of internal medicine.

</TABLE>

- (1) A member of the Audit Committee of the Board of the Company.
- (2) A member of the Compensation and Stock Option Committee of the Board of the Company.
- (3) A member of the Nominating Committee of the Board of the Company.
- (4) A member of the Strategic Planning Committee of the Board of the Company.
- (5) A member of the Executive Committee of the Board of the Company.

In June 1995, Mony Ben-Dor was elected by the Board to fill a vacancy on the Board as a Class I director in accordance with the terms of the Stock Purchase Agreement (as defined below). Under such agreement, Clal has the right to designate one-seventh of the members of the Board as long as Clal owns 8% of the issued and outstanding Common Stock, and a total of two-sevenths of the members of the Board if Clal owns at least 16% of the issued and outstanding Common Stock. The Company has the right to reject a designee of Clal if such person is not satisfactory to the Company

for good faith reasons. The Company also agreed to elect Clal's designee to the Audit Committee, Compensation and Stock Option Committee and Strategic Planning Committee of the Board. In the event that Clal does not nominate directors to the Board or its committees or if Clal's designees are not elected to the Board or its committees, Clal is permitted, under the Stock Purchase Agreement, to designate representatives who may attend meetings of the Board and its committees. Additionally, if Clal's appointment of a director to the Audit Committee is prohibited by the rules and regulations of the New York Stock Exchange, Inc., the Company will provide Clal materials which are provided to committee members, the appointment of the Company's auditors will be approved by the entire Board, the Company will consult with directors nominated by Clal with respect to Audit Committee actions and the directors nominated by Clal will have the right to consent to certain changes in the Company's accounting principles.

Clal designated Mr. Ben-Dor, a director of Clal and a vice president of Clal Industries Ltd., as its representative to serve on the Board. Clal Industries Ltd. owns all of Clal's stock. Mr. Ben-Dor serves on the Audit, Strategic Planning, and Compensation and Stock Option Committees of the Board of Directors.

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Executive Officers

The executive officers of the Company consist of Mr. Sawyer as President, Chief Executive Officer and Chairman of the Board and Dennis J. O'Connor as Vice President, Chief Financial Officer and Secretary (elected October 23, 1996). The executive officers of Par consist of Mr. Sawyer and Mr. O'Connor. Mr. O'Connor has served as Vice President, Chief Financial Officer and Secretary of the Company since October 1996. From June 1995 to October 1996, he served as Controller of Par. Mr. O'Connor served as Vice President--Controller of Tambrands, Inc., a consumer products company, from November 1989 to June 1995. The Company is currently negotiating to hire a president of Par who would assume the day-to-day responsibilities for the operations.

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ITEM 11. Executive Compensation.

The following table sets forth compensation earned by or paid to during fiscal years 1994 through 1996, the Chief Executive Officer of the Company, and the most highly compensated executive officers of the Company and/or Par at the end of fiscal year 1996 who earned over \$100,000 in salary and bonus. The Company awarded or paid such compensation to all such persons for services rendered in all capacities during the applicable fiscal years.

<TABLE>
<CAPTION>

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation		
		Salary (\$)	Bonus (\$)	Restricted Stock Awards(\$)(1)	Securities Underlying Options(#)	All Other Compensation(\$)(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Kenneth I. Sawyer, President, Chief Executive Officer and Chairman	1996	370,692	-	-	75,000	38,530
	1995	427,153	200,000	-	-	49,806
	1994	407,253	100,000	-	-	59,018
Robert I. Edinger, Executive Vice President, Chief Financial Officer and Secretary(3)	1996	190,000	-	-	20,000	3,481
	1995	189,038	-	-	40,000	19,628
	1994	180,000	50,000	-	-	11,072
Robert M. Fisher, Jr., Executive Vice President, Corporate Development, Sales & Marketing (4)	1996	170,000	-	-	20,000	3,232
	1995	188,691	-	-	20,000	15,898
	1994	122,359	23,500	-	10,000	3,504

</TABLE>

(1) The Named Executives did not hold any shares of restricted stock at the end of fiscal year 1996.

(2) For fiscal year 1996, includes insurance premiums paid by the Company for term life insurance for the benefit of the Named Executives as follows: Mr. Sawyer-\$80; Mr. Edinger-\$70; and Mr. Fisher-\$63. The amount for Mr. Sawyer also includes \$38,376, representing the maximum potential estimated dollar value of the Company's portion of insurance premium payments from a split-dollar life insurance policy as if 1996 premiums were advanced to the executive without interest until the earliest time the premiums may be refunded by Mr. Sawyer to the Company. Also includes the following amounts contributed by the Company to the Company 401(k) plan: Mr. Edinger-\$3,411 and Mr. Fisher-\$3,169. Messrs. Sawyer, Edinger and Fisher waived contributions of \$11,865 each to be made on their behalf in fiscal year 1996 by the Company with respect to the Par Pharmaceutical Inc. Retirement Plan.

(3) Effective October 7, 1996, Mr. Edinger's employment with the Company terminated (see "--Employment Agreements and Termination Arrangements").

(4) Effective November 15, 1996, Mr. Fisher's employment with the Company terminated (see "--Employment Agreements and Termination Arrangements").

The following table sets forth stock options granted to the Named Executives during fiscal year 1996.

Stock Option Grants in Last Fiscal Year

<TABLE>
<CAPTION>

Name Granted (#)	Shares Underlying Options in Fiscal Year	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
		% of Total Options Granted to Employees Price (\$)	Exercise Date	Expiration 0% (\$)	5% (\$)	10% (\$)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Kenneth I. Sawyer(1)	75,000	15.96%	\$7.125	5/23/01	\$0	\$682,013	\$860,616
Robert I. Edinger (2)	20,000	4.26%	\$ 7.00	3/13/01	\$0	\$178,679	\$225,471
Robert M. Fisher, Jr. (3)	20,000	4.26%	\$ 7.00	3/13/01	\$0	\$178,679	\$225,471

</TABLE>

(1) Represents options granted pursuant to the Company's 1990 Incentive Option Plan on May 24, 1996 of which 25,000 became exercisable immediately and 25,000 become exercisable on each of May 24, 1997 and May 24, 1998, respectively.

(2) Represents options granted pursuant to the Company's 1990 Incentive Option Plan on March 14, 1996. Such options terminated on October 7, 1996 (see "--Employment Agreements and Termination Arrangements").

(3) Represents options granted pursuant to the Company's 1990 Incentive Option Plan on March 14, 1996 of which 6,666 become exercisable on March 14, 1997 and 6,667 become exercisable on each of March, 14, 1998 and March 14, 1999, respectively. Such options will terminate earlier than the expiration date in connection with Mr. Fisher's termination of employment on November 15, 1996 (see "--Employment Agreements and Termination Arrangements").

The following table sets forth the stock options exercised by the Named Executives during fiscal year 1996 and the value, as of September 30, 1996, of unexercised stock options held by the Named Executives.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

<TABLE>
<CAPTION>

Name	Shares Acquired on Exercise (#)	Value Realized(\$)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-the-Money Options at FY-End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Kenneth I. Sawyer	380,000	\$1,378,862	645,000	50,000	--	--
Robert I. Edinger	0	0	60,000	40,000	--	--

</TABLE>

Compensation of Directors

For service on the Board, Directors who are not employees of the Company or any of its subsidiaries receive an annual retainer of \$12,000, a fee of \$1,000 for each meeting of the Board attended, and a fee of \$750 for each committee meeting attended, subject to a maximum of \$1,750 per day. Chairmen of committees receive an additional annual retainer of \$5,000 per committee. New Directors are granted options to purchase shares on the date initially elected to the Board. Directors who are employees of the Company or any of its subsidiaries or are designated by Clal receive no additional remuneration for serving as directors or as members of committees of the Board. All directors are entitled to reimbursement for out-of-pocket expenses incurred in connection with their attendance at Board and committee meetings.

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Employment Agreements and Termination Arrangements

The Company has entered into an Employment Agreement with Mr. Sawyer, which provides for his employment in his current position through October 4, 1996, subject to earlier termination by the Company for Cause (as such term is defined in the agreement). Mr. Sawyer's term of employment will be automatically extended each year for an additional one-year period unless either party provides written notice by July 4th of such year that he or it desires to terminate the agreement. Under the agreement with Mr. Sawyer, the Company is required to use its best efforts to cause him to be reelected to the Board of Directors during his term of employment. Mr. Sawyer, pursuant to the terms of his employment agreement, is and will be required to serve, if so elected, on the Board of Directors of the Company and subsidiary, as well as any committees thereof.

Mr. Sawyer's agreement provides for certain payments upon termination of his employment as a result of a material breach by the Company of his employment agreement following a Change of Control (as such term is defined in the agreement) of the Company. A material breach by the Company of the employment agreement includes, but is not limited to, termination without Cause and a change of his responsibilities. Mr. Sawyer is entitled to receive, if such a termination occurs within two years following the Change of Control of the Company, a lump sum payment equal to the lesser of three times the sum of his annual base salary and most recent bonus or the maximum amount permitted without the imposition of an excise tax on Mr. Sawyer or the loss of a deduction to the Company under the Internal Revenue Code of 1986, as amended (the "Code"), plus reimbursement of certain legal and relocation expenses incurred by Mr. Sawyer as a result of the termination of his employment and maintenance of insurance, medical and other benefits for 24 months or until Mr. Sawyer is covered by another employer for such benefits.

In addition, Mr. Sawyer's employment agreement provides for the Company to purchase a residence within the vicinity of the Company's principal offices for Mr. Sawyer to occupy for the duration of his term of employment. In this connection, the Company purchased a condominium for the price of \$192,500, which Mr. Sawyer leased from the Company from February 1995 until July 1996. The Company sold the condominium on July 31, 1996, and has no further obligation to provide a residence for Mr. Sawyer (see "Certain Relationships and Related Transactions"). In fiscal year 1996, Mr. Sawyer voluntarily agreed to reduce his salary, effective July 1, 1996, to \$350,000 per year.

The Company terminated Mr. Edinger's employment on October 7, 1996, and is not currently making severance payments to him. The severance arrangement of Mr. Edinger is the subject of a lawsuit filed against the Company seeking \$427,500 plus punitive damages of at least \$106,875 (see "Legal Proceedings").

The Company is paying Mr. Fisher severance payments of 12 months continuation of his prevailing base salary, payable in weekly installments from the date of termination of his employment. The Company also has agreed to pay medical and other benefits for twelve months or until he is covered by another employer for such benefits.

Pension Plan

The Company maintains a defined benefit plan (the "Pension Plan") intended to qualify under Section 401(a) of the Code. Effective October 1, 1989, the Company ceased benefit accruals under the Pension Plan with respect to service after such date. The Company intends that distributions will be made, in accordance with the terms of the Plan, to participants as of such date and/or their beneficiaries. The Company will continue to make contributions to the Pension Plan to fund its past service obligations.

Generally, all employees of the Company or a participating subsidiary who completed at least one year of continuous service and attained 21 years of age were eligible to participate in the Pension Plan. For benefit and vesting purposes, the Pension Plan's "Normal Retirement Date" is the date on which a participant attains age 65 or, if later, the date of completion of 10 years of service. Service is measured from the date of employment. The retirement income formula is 45% of the highest consecutive five-year average basic earnings during the last 10 years of employment, less 83 1/3% of the participant's Social Security benefit, reduced proportionately for years of service less than 10 at retirement. The normal form of benefit is life annuity, or for married persons, a joint survivor annuity. None of the Named Executives had any years of credited service under the pension plan.

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Par currently maintains a retirement plan (the "Retirement Plan") and a retirement savings plan. The Board of Directors of Par has authorized the cessation of employer contributions to the Retirement Plan effective December 30, 1996. Consequently, participants in the Retirement Plan will no longer be entitled to any employer contributions under such plan for 1996 or subsequent years.

Compensation and Stock Option Committee

The compensation and stock option committee consists of Mark Auerbach, Mony Ben-Dor, H. Spencer Matthews, and Robin O. Motz.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of the close of business on December 20, 1996, the beneficial ownership of the Common Stock by (i) each person known (based solely on a review of Schedules 13D) to the Company to be the beneficial owner of more than 5% of the Common Stock, (ii) each director of the Company, (iii) the Named Executives, as defined in the "Executive Compensation" section of this report, and (iv) all directors and current executive officers of the Company and Par as a group (based upon information furnished by such persons). Under the rules of the Securities and Exchange Commission, a person is deemed to be a beneficial owner of a security if such person has or shares the power to vote or direct the voting of such security or the power to dispose of or to direct the disposition of such security. In general, a person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Accordingly, more than one person may be deemed to be a beneficial owner of the same securities.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner	Shares of Common Stock	% of Common Stock
Clal Pharmaceutical Industries Ltd. (1) (2).....	4,032,379	19.6
Kenneth I. Sawyer (3) (4).....	801,900	4.2
Melvin H. Van Woert, M.D. (3) (4).....	70,050	*
Andrew Maguire, Ph.D. (3) (4).....	36,300	*
H. Spencer Matthews (3) (4).....	36,300	*
Mark Auerbach (3) (4).....	47,000	*
Mony Ben Dor (1) (2) (4).....	0	*
Robin O. Motz, M.D., Ph.D. (3) (4).....	42,000	*
Robert I. Edinger (5).....	40,200	*
Robert M. Fisher, Jr. (6).....	30,870	*
All directors and current executive officers (as of 12/20/96) as a group (8 persons) (3) (7).....	1,044,212	6.0

</TABLE>

* Less than 1%.

- (1) The address of Clal Pharmaceutical Industries Ltd. ("Clal") and Mr. Ben Dor is Clal House, 5 Druyanov Street, Tel Aviv 63143, Israel. Of the 4,032,379 shares of Common Stock shown as beneficially owned by Clal, 2,127,272 shares are issued and outstanding, and 1,905,107 shares are issuable upon exercise of issued and outstanding warrants owned by Clal.
- (2) Mr. Ben Dor disclaims beneficial ownership of shares owned by Clal, of which he is a director (see "Directors and Executive Officers of the Registrant" and "Certain Relationships and Related Transactions").
- (3) The business address of each of these individuals, for the purposes hereof, is in care of Pharmaceutical Resources, Inc., One Ram Ridge Road, Spring Valley, New York 10977. Includes shares of Common Stock which may be acquired upon the exercise of options which are exercisable on or prior to

February 18, 1997, under the Company's stock option plans as follows: Mr. Sawyer, 645,000 shares; Dr. Van Woert 69,000 shares; Mr. Maguire, 36,000 shares; Mr. Matthews, 36,000 shares; Mr. Auerbach, 47,000 shares; Dr. Motz, 42,000 shares; and Mr. O'Connor, 10,000 shares.

- (4) A director of the Company.
- (5) A former executive officer of the Company (see "Executive Compensation"). Mr. Edinger's address is 60 Old Crown Road, Old Tappan, New Jersey 07675.
- (6) A former executive officer of the Company. Includes 30,000 shares which may be acquired upon the exercise of options which are exercisable on or prior to February 18, 1997 (see "Executive Compensation"). Mr. Fisher's address is 74 Turtleback Lane West, New Canaan, Connecticut 06840.

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- (7) Current executive officers consist of Kenneth I. Sawyer and Dennis O'Connor (see "Directors and Executive Officers of the Registrant--Executive Officers"). Includes 10,662 shares beneficially owned by Dennis O'Connor, of which 10,000 shares may be acquired on the exercise of options which are exercisable on or prior to February 18, 1997.

Voting Arrangements

The Company and Clal entered into a Stock Purchase Agreement, dated March 25, 1995, as amended on May 1, 1995 (the "Stock Purchase Agreement"), pursuant to which Clal, on May 1, 1995, purchased 2,027,272 shares of Common Stock and the Company issued to Clal two three-year warrants to purchase an aggregate of 2,005,107 shares of Common Stock (the "Warrants"). Under the Stock Purchase Agreement, Clal agreed to vote all of the shares of Common Stock held by it in favor of certain business combination transactions of the Company and certain sales of assets or securities of the Company (see "Certain Relationships and Related Transactions"). In addition, Clal has certain rights under the Stock Purchase Agreement to nominate directors to the Company's Board and committees thereof (see "Directors and Executive Officers of the Registrant--Directors").

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ITEM 13. Certain Relationships and Related Transactions.

Clal Agreements. On May 1, 1995, the Company consummated a strategic alliance with Clal consisting primarily of (i) the sale by the Company of 2,027,272 shares of the Company's Common Stock for \$20,000,000, or \$9.87 per share, (ii) the issuance by the Company of the Warrants and (iii) the formation of the Joint Venture. Mony Ben Dor, a director of the Company, is also a director of Clal. Prior to the closing of the Stock Purchase Agreement, Clal owned no shares of the Common Stock (see "Business--Product Line Information", "Directors and Executive Officers of the Registrant" and "Security Ownership of Certain Beneficial Owners and Management").

The Stock Purchase Agreement includes terms of the Company's and Clal's business relationship, including issuance to Clal of 2,027,272 shares of Common Stock, rights to nominate Board members, rights of first refusal, voting agreements, rights to invest in others, standstill agreements and agreements with respect to the issuance of the Warrants.

Subject to the satisfaction of certain conditions, Clal obtained the right to designate one or more of the members of the Company's Board of Directors and committees thereof and the right to designate a member of the Company's management.

Clal has a right of first refusal with respect to certain business combination transactions of the Company and certain sales of the assets or securities of the Company. Such right extends until May 1, 2000, provided that Clal, when exercising such right (i) has not sold or disposed of shares of Common Stock representing more than 337,045 shares of Common Stock and (ii) owns or has the right to acquire 16% of the Common Stock (the "Restricted Period"). If Clal does not exercise its right of first refusal with respect to any of the above-mentioned transactions, Clal will, subject to certain exceptions, be required to vote its shares of Common Stock in favor of such transactions. Such obligation will terminate upon the expiration of the Restricted Period. Clal has no obligation to vote its shares of Common Stock in favor of such a transaction if (i) Clal exercises its right of first refusal with respect to such transaction, (ii) fewer than 75% of the members of the Board (excluding member(s) of the Board nominated by Clal) vote in favor of the transaction or (iii) any member of the Board (excluding member(s) of the Board nominated by Clal) votes against the transaction. In the event that Clal has an obligation to vote its shares in favor of such a transaction, Clal also has agreed to take such other actions reasonably required or appropriate to facilitate the consummation of the transaction. Clal has no obligation to vote its shares in favor of, or take other actions to facilitate, any such

transaction if Clal notifies the Company that, in Clal's opinion, the consummation of such a transaction would be detrimental to the Company and/or its shareholders, except if the Company, in response to such a notice, delivers to Clal a fairness opinion from a nationally recognized investment banking firm.

Clal has agreed to limit acquisitions, including acquisitions under the Warrants, of the Company's securities to 19.99% of the issued and outstanding Common Stock prior to May 1, 1998. In addition, Clal has agreed to limit such acquisitions to 25% of the issued and outstanding Common Stock after May 1, 1998. Clal has the right to tender for or purchase no less than 70% of the issued and outstanding Common Stock after May 1, 2000. These limitations expire six months following the expiration of the Restricted Period (the "Consent Period"). Clal also has the right to acquire up to 20% of any equity securities issued by the Company in an underwritten public offering so long as Clal, at the time, owns 10% of the issued and outstanding Common Stock (assuming, for this purpose, the full exercise of the Warrants). Clal has also agreed not to sell or otherwise dispose of Common Stock or other securities convertible into Common Stock during the Consent Period unless such securities are registered or may be sold without registration under Rule 144 promulgated under the Securities Act of 1933, as amended, or are sold in certain business combination transactions, unless the sale is approved by the Board (excluding member(s) of the Board nominated by Clal). Clal will limit, during the Consent Period, sales of Common Stock to any one person, entity or group to no more than 3% of the issued and outstanding Common Stock, except as otherwise permitted under the Stock Purchase Agreement.

In consideration of the rights and benefits obtained by the Company under the Stock Purchase Agreement, the Company issued to Clal the Warrants. The Warrants entitle Clal to purchase up to 1,905,107 shares of Common Stock at an exercise price of \$12.00 per share. The Warrants are exercisable at any time until May 1, 1998, subject to earlier termination or redemption in certain circumstances. The Warrants provide that the number of shares of Common Stock issuable upon their exercise will be reduced by the number of shares of Common Stock, or

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securities exercisable or exchangeable for or convertible into shares of Common Stock, acquired by Clal in open market transactions and certain other transactions.

In consideration of the rights and benefits obtained by the Company under the Stock Purchase Agreement, the Company also granted to Clal certain registration rights under a registration rights agreement (the "Registration Rights Agreement"). In general, Clal will not be able to sell freely the shares of Common Stock purchased by Clal or the shares of Common Stock issuable upon exercise of the Warrants without registration under applicable securities laws or unless an exemption from registration is available. Clal is entitled to two demand registrations. In addition, if the Warrants are exercised Clal is entitled to an additional demand registration. In addition, the Company granted to Clal the right to register shares of Common Stock owned by Clal on each occasion that the Company registers shares of Common Stock, subject to certain limitations and exceptions.

Clal currently owns 2,127,272 shares of Common Stock. Of such shares, 100,000 were purchased from Mr. Sawyer at a price of \$7.125 per share on June 3, 1996.

As part of the alliance formed by the Company and Clal on May 1, 1995, the Company and Clal formed the Joint Venture to develop, manufacture and distribute generic pharmaceutical products worldwide. In connection with the Joint Venture, the Company and Clal have granted each other certain manufacturing and distribution rights for products developed by the other and for products developed by the Joint Venture (see "Business--Product Line Information" and "--Research and Development").

Investment in FineTech. Under the Stock Purchase Agreement, the Company obtained the right to participate with Clal and certain of its affiliates in connection with pharmaceutical acquisitions and transactions. In connection therewith, the Company purchased 10% of the shares of FineTech Ltd. ("FineTech") in December 1995 for \$1,000,000. FineTech is an Israeli pharmaceutical research and development company in which Clal has a significant ownership interest. The Company also obtained the exclusive right to purchase products not commonly sold in North America, South America and the Caribbean. Mony Ben Dor, a director of Clal and a director of the Company, is also a director of FineTech. The Company's purchases of chemical components from FineTech in fiscal year 1996 totalled approximately \$1,500,000. The Company's purchases have been and will be on terms no less favorable than could be obtained from non-affiliated third parties.

The foregoing descriptions of certain terms of the Stock Purchase Agreement, the Warrants, the Registration Rights Agreement and the Joint Venture do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which were filed as exhibits to the Form 8-K filed by the Company with the Securities and Exchange Commission on May 12, 1995.

Transactions with Officers and Directors. In February 1995, the Company purchased a condominium for \$192,500. The Company leased the condominium to Mr. Sawyer for \$1,800 per month, which represented the fair market value as determined by a disinterested third party. The Company sold the condominium on July 31, 1996 for \$225,000 (see "Executive Compensation").

At various times during fiscal year 1996, the Company made certain unsecured loans to Mr. Sawyer in connection with the exercise of his options. Such loans currently are evidenced by a single promissory note, which replaces a series of previously issued notes, in the aggregate principal amount of \$128,607. The note bears interest at the rate of 8.25% per annum. Interest and principal are due on April 14, 1997. As of November 22, 1996, the outstanding balance of the note, with interest, was approximately \$129,548.

During 1996, Bio-Dar Ltd., an Israeli company and affiliate of Clal Industries Ltd., sold chemicals to the Company for approximately \$500,000.

The Company believes that all of the above transactions were on terms that were fair and reasonable to the Company.

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PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) & (2) Financial Statements.

See Index to Financial Statements after Signature Page.

(a) (3) Exhibits.

- 3.1 Certificate of Incorporation of the Registrant. (4)
- 3.1.1 Certificate of Amendment to the Certificate of Incorporation of the Registrant, dated August 6, 1992--incorporated by reference to the Registrant's Registration Statement on Form 8-A (Commission File No. 0-20834), filed with the Commission November 10, 1992.
- 3.2 By-Laws of the Registrant, as amended and restated. (3)
- 4 Rights Agreement, dated August 6, 1991, between the Registrant and Midlantic National Bank, as Rights Agent. (5)
- 4.1 Amendment to Rights Agreement, dated as of April 27, 1992. (3)
- 10.1 1983 Stock Option Plan of the Registrant, as amended. (2)
- 10.2 1986 Stock Option Plan of the Registrant, as amended. (2)
- 10.3 1989 Directors' Stock Option Plan of the Registrant, as amended. (5)
- 10.4 1989 Employee Stock Purchase Program of the Registrant. (7)
- 10.5 1990 Stock Incentive Plan of the Registrant, as amended. (2)
- 10.6 Form of Retirement Plan of Par. (11)
- 10.6.1 First Amendment to Par's Retirement Plan, dated October 26, 1984. (6)
- 10.7 Form of Retirement Savings Plan of Par. (11)
- 10.7.1 Amendment to Par's Retirement Savings Plan, dated July 26, 1984. (12)
- 10.7.2 Amendment to Par's Retirement Savings Plan, dated November 1, 1984. (12)
- 10.7.3 Amendment to Par's Retirement Savings Plan, dated September 30, 1985. (12)

- 10.8 Par Pension Plan, effective October 1, 1984. (4)
- 10.9 Employment Agreement, dated as of October 4, 1992, among the Registrant, Par and Kenneth I. Sawyer. (1)
- 10.10 Lease Agreement between Par and the County of Rockland Industrial Development Agency, dated as of October 1, 1984. (6)
- 10.10.1 Lessee Guaranty between Par and Midlantic National Bank, dated as of October 1, 1984. (6)

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- 10.10.2 Mortgage from County of Rockland Industrial Development Agency to Midlantic National Bank, as Trustee, dated as of October 1, 1984. (12)
- 10.10.3 Security Agreement between County of Rockland Industrial Development Agency and Midlantic National Bank, as Trustee, dated as of October 1, 1984. (12)
- 10.11 Lease for premises located at 12 Industrial Avenue, Upper Saddle River, New Jersey, between Par and Charles and Dorothy Horton, dated October 21, 1978 and extension dated September 15, 1983. (11)
- 10.12 Lease agreement between Par and Ramapo Corporate Park Associates, dated as of January 1, 1993.
- 10.13 Employment Agreement, dated as of May 19, 1993, between the Registrant and Robert I. Edinger. (13)
- 10.14 Distribution Agreement, dated as of October 16, 1993, between Genpharm, Inc., the Registrant and PRX Distributors, Ltd. (13)
- 10.15 Letter Agreement, dated April 30, 1993, between the Generics Group B.V. and Par. (15)
- 10.16 Distribution Agreement, dated as of February 24, 1994, between Sano Corporation, the Registrant and Par, as amended. (15)
- 10.17 Mortgage and Security Agreement, dated May 4, 1994, between Urban National Bank and Par. (14)
- 10.17.1 Mortgage Loan Note, dated May 4, 1994. (14)
- 10.17.2 Corporate Guarantee, dated May 4, 1994, by the Registrant to Urban National Bank. (14)
- 10.18 Letter Agreement, dated as of October 13, 1994, between Par and Robert I. Edinger. (15)
- 10.19 1995 Directors Stock Option Plan. (19)
- 10.20 Stock Purchase Agreement, dated March 25, 1995, between the Registrant and Clal Pharmaceutical Industries Ltd. (17)
- 10.21 Amendment No. 1 to Stock Purchase Agreement, dated May 1, 1995, between the Registrant and Clal Pharmaceutical Industries Ltd. (17)
- 10.22 Warrant to Purchase Common Stock, dated May 1, 1995, delivered by the Registrant to Clal Pharmaceutical Industries Ltd. (17)
- 10.23 Registration Rights Agreement, dated May 1, 1995, between the Registrant and Clal Pharmaceutical Industries Ltd. (17)
- 10.24 Clal Pharmaceutical Resources L.P. Limited Partnership Agreement, dated as of May 1, 1995, among PRI-Research, Inc., C.T.P. Research and Development (1995) Ltd. and Clal Pharmaceutical Resources (1995) Ltd. (17)
- 10.25 Clal Pharmaceutical Resources (1995) Ltd. Stockholders Agreement, dated May 1, 1995, among PRI Research, Inc., C.T.P. Research and Development (1995) Ltd. and Clal Pharmaceutical Resources Ltd. (17)
- 10.26 Supplemental Agreement, dated as of May 1, 1995, among the Registrant, Clal Pharmaceutical Industries Ltd. and Clal Pharmaceutical Resources L.P. (17)

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- 10.27 Guarantee of the Registrant, dated May 1, 1995. (17)
- 10.28 Guarantee of Clal Pharmaceutical Industries Ltd., dated May 1, 1995. (17)
- 10.29 Warrant to Purchase Common Stock, dated September 21, 1995, delivered by the Registrant to Clal Pharmaceutical Industries Ltd.
- 10.30 Commercial Revolving Loan and Term Loan Agreement, dated December 28, 1995, between Fleet Bank, N.A. and the Registrant. (20)
- 10.31 Master Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.32 Equipment Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.33 Promissory Note, dated December 28, 1995, of the Registrant. (20)
- 10.34 Master Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.35 Equipment Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.36 Cross Acceleration Agreement, dated December 28, 1995, between Fleet Bank, N.A. and the Registrant. (20)
- 11 Computation of per share data.
- 16 Letter regarding change in accountants (18).
- 21 Subsidiaries of the Registrant.
- 23.1 Consent of Arthur Andersen LLP.
- 23.2 Consent of Richard A. Eisner and Company, LLP.
- 27 Financial Data Schedule.
- (a) (4) Reports on Form 8-K. No reports on Form 8-K were filed in the last quarter of the fiscal year ended September 30, 1996.

-
- (1) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 3, 1992 and incorporated herein by reference.
 - (2) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Proxy Statement dated August 10, 1992 and incorporated herein by reference.
 - (3) Previously filed with the Securities and Exchange Commission as an Exhibit to Amendment No. 1 on Form 8 to the Registrant's Registration Statement on Form 8-B, filed May 15, 1992, and incorporated herein by reference.
 - (4) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended September 28, 1991 and incorporated herein by reference.

- (5) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Proxy Statement dated August 14, 1991 and incorporated herein by reference.
- (6) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K (Commission File No. 1-9449) for the year ended September 29, 1990 and incorporated herein by reference.
- (7) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Proxy Statement dated August 16, 1990 and incorporated herein by reference.
- (8) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K for 1989 and incorporated herein by reference.

- (9) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K for 1988 and incorporated herein by reference.
- (10) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K for 1987 and incorporated herein by reference.
- (11) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Registration Statement on Form S-1 (No. 2-86614) and incorporated herein by reference.
- (12) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Registration Statement on Form S-1 (No. 33-4533) and incorporated herein by reference.
- (13) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrants' Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 2, 1993 and incorporated herein by reference.
- (14) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Quarterly Report on Form 10-Q (Commission File No. 1-10827) for the quarter ended April 2, 1994 and incorporated herein by reference.
- (15) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 1, 1994 and incorporated herein by reference.
- (16) Previously filed by amendment with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 1, 1994 and incorporated herein by reference.
- (17) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Report on Form 8-K (Commission File No. 1-10827) dated May 2, 1995.
- (18) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Report on Form 8-K (Commission File No. 1-10827) dated September 8, 1995 and subsequently amended on October 4, 1995 and October 12, 1995 and incorporated herein by reference.
- (19) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended September 30, 1995.
- (20) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Quarterly Report on Form 10-Q (Commission File No. 1-10827) for the quarter ended December 30, 1995 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: December 30, 1996 PHARMACEUTICAL RESOURCES, INC.

(Registrant)

By: /s/ Kenneth I. Sawyer

Kenneth I. Sawyer
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

Signature	Title	Date
-----------	-------	------

----- <S> /s/ Kenneth I. Sawyer ----- Kenneth I. Sawyer	----- <C> President, Chief Executive Officer, and Chairman of the Board of Directors	----- <C> December 30, 1996
/s/ Dennis J. O'Connor ----- Dennis J. O'Connor	Vice President, Chief Financial Officer and Secretary (Principal Accounting and Financial Officer)	December 30, 1996
/s/ Mark Auerbach ----- Mark Auerbach	Director	December 30, 1996
/s/ Mony Ben-Dor ----- Mony Ben-Dor	Director	December 30, 1996
/s/ Andrew Maguire ----- Andrew Maguire	Director	December 30, 1996
/s/ H. Spencer Matthews ----- H. Spencer Matthews	Director	December 30, 1996
/s/ Robin O. Motz ----- Robin O. Motz	Director	December 30, 1996
/s/ Melvin Van Woert ----- Melvin Van Woert	Director	December 30, 1996

</TABLE>

PHARMACEUTICAL RESOURCES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE
FILED WITH THE ANNUAL REPORT OF THE
COMPANY ON FORM 10-K

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996

<TABLE>
<CAPTION>

----- <S> Included in Part II: -----	----- <C> Page
Reports of Independent Public Accountants	F-2, F-3
Consolidated Balance Sheets at September 30, 1996 and September 30, 1995	F-4
Consolidated Statements of Operations and Retained Earnings (Deficit) for the years ended September 30, 1996, September 30, 1995 and October 1, 1994	F-5
Consolidated Statements of Cash Flows for the years ended September 30, 1996, September 30, 1995 and October 1, 1994	F-6
Notes to Consolidated Financial Statements	F-7 through F-18
----- Included in Part IV: ----- SCHEDULE:	
II Valuation and qualifying accounts	F-19

</TABLE>

Other financial statement schedules are omitted because the conditions

requiring their filing do not exist or the information required thereby is included in the financial statements filed, including the notes thereto.

REPORT OF INDEPENDENT AUDITOR

Board of Directors and Shareholders
Pharmaceutical Resources, Inc.
Spring Valley, New York

We have audited the accompanying consolidated statements of operations, retained earnings (deficit) and cash flows for Pharmaceutical Resources, Inc. and subsidiaries for the year ended October 1, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the results of operations and cash flows of Pharmaceutical Resources, Inc. and subsidiaries for the year ended October 1, 1994, in conformity with generally accepted accounting principles.

The above audit includes Schedule II, for the year ended October 1, 1994. In our opinion, the schedule referred to above presents fairly the information set forth therein, in conformity with the applicable accounting regulation of the Securities and Exchange Commission.

/s/ Richard A. Eisner & Company, LLP

New York, New York
November 30, 1994

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Pharmaceutical Resources, Inc.:

We have audited the accompanying consolidated balance sheets of Pharmaceutical Resources, Inc. (a New Jersey corporation) and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations and retained earnings (deficit) and cash flows for each of the two years in the period ended September 30, 1996. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pharmaceutical Resources, Inc. and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

New York, New York
December 27, 1996

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PHARMACEUTICAL RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

ASSETS	September 30, 1996	September 30, 1995
-----	-----	-----
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	\$ 299,000	\$17,986,000
Temporary investments	158,000	271,000
Accounts receivable, net of allowances of \$2,643,000 and \$1,588,000	7,645,000	9,011,000
Inventories	19,352,000	15,364,000
Prepaid expenses and other current assets	3,894,000	1,866,000
Current deferred tax benefit	-	4,172,000
	-----	-----
Total current assets	31,348,000	48,670,000
Property, plant and equipment, at cost less accumulated depreciation and amortization	26,068,000	24,371,000
Deferred charges and other assets	1,222,000	1,883,000
Investment in marketable securities	8,672,000	3,520,000
Investment in joint venture	3,028,000	2,037,000
Non-current deferred tax benefit, net	14,608,000	10,436,000
	-----	-----
	\$84,946,000	\$90,917,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Current portion of long-term debt	\$ 2,142,000	\$ 1,470,000
Accounts payable	4,163,000	6,422,000
Accrued salaries and employee benefits	3,299,000	2,336,000
Accrued expenses and other current liabilities	1,028,000	705,000
Estimated current liabilities of discontinued operations	-	2,830,000
	-----	-----
Total current liabilities	10,632,000	13,763,000
Long-term debt, less current portion	2,971,000	4,259,000
Accrued pension liability	719,000	941,000
Shareholders' equity:		
Common Stock, par value \$.01 per share; authorized 60,000,000 shares; issued and outstanding 18,661,869 and 18,168,625 shares	187,000	182,000
Additional paid in capital	67,081,000	65,276,000
Retained earnings (deficit)	(1,509,000)	6,783,000
Additional minimum liability related to defined benefit pension plan	(117,000)	(287,000)
Unrealized gain on investment	4,982,000	-
	-----	-----
Total shareholders' equity	70,624,000	71,954,000
	-----	-----
	\$84,946,000	\$90,917,000
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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PHARMACEUTICAL RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

<TABLE>

<CAPTION>

	Year Ended		
	September 30, 1996	September 30, 1995	October 1, 1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales	\$ 57,959,000	\$66,503,000	\$ 69,169,000
Cost of goods sold	48,299,000	45,514,000	45,774,000
	-----	-----	-----
Gross margin	9,660,000	20,989,000	23,395,000
Operating expenses:			
Research and development	5,160,000	5,487,000	3,874,000

Selling, general and administrative	17,168,000	16,192,000	13,463,000
Restructuring charge	549,000	-	-
Total operating expenses	22,877,000	21,679,000	17,337,000
Operating income (loss)	(13,217,000)	(690,000)	6,058,000
Settlements	-	2,029,000	-
Other income	2,557,000	608,000	425,000
Interest expense	(432,000)	(499,000)	(465,000)
Income (loss) from continuing operations before provision for income taxes	(11,092,000)	1,448,000	6,018,000
Provision for income taxes	-	836,000	1,785,000
Income (loss) from continuing operations	(11,092,000)	612,000	4,233,000
Income from discontinued operations	2,800,000	-	466,000
Income (loss) before change in accounting principle	(8,292,000)	612,000	4,699,000
Cumulative effect of change in accounting principle	-	-	14,128,000
Net income (loss)	(8,292,000)	612,000	18,827,000
Dividend on preferred stock	-	7,000	(312,000)
Retained earnings (deficit), beginning of year	6,783,000	6,164,000	(12,351,000)
Retained earnings (deficit), end of year	\$ (1,509,000)	\$ 6,783,000	\$ 6,164,000
Income (loss) per share of common stock:			
Continuing operations	\$(.60)	\$.04	\$.26
Discontinued operations	.15	-	.03
Change in accounting principle	-	-	.85
Net income (loss)	\$(.45)	\$.04	\$1.14
Weighted average number of common and common equivalent shares outstanding	18,467,248	17,143,381	16,494,898

</TABLE>

The accompanying notes are an integral part of these statements.

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PHARMACEUTICAL RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended		
	September 30, 1996	September 30, 1995	October 1, 1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ (8,292,000)	\$ 612,000	\$ 18,827,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change	-	-	(14,128,000)
Common stock for research and development expense	-	150,000	-
Payment of tax audit settlement	-	(995,000)	-
Income from discontinued operations	(2,800,000)	-	(466,000)
Restructuring charge	549,000	-	-
Joint venture research and development	499,000	-	-
Provision for income taxes	-	836,000	1,785,000
Depreciation and amortization	2,873,000	2,588,000	2,391,000
Allowances against accounts receivable	(1,055,000)	(1,180,000)	140,000
Write-off of inventories	1,395,000	2,203,000	1,333,000
Other	158,000	-	213,000
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	2,421,000	1,516,000	(2,631,000)
(Increase) in inventories	(5,383,000)	(1,215,000)	(3,568,000)
(Increase) decrease in prepaid expenses and other assets	(1,191,000)	(845,000)	581,000
(Decrease) increase in accounts payable	(2,398,000)	822,000	(1,429,000)
Increase (decrease) in accrued expenses and other liabilities	633,000	(722,000)	(930,000)
(Decrease) in settlements	-	-	(6,500,000)
Net cash (used in) provided by operating activities	(12,591,000)	3,770,000	(4,382,000)
Cash flows from investing activities:			
Capital expenditures	(4,746,000)	(3,975,000)	(5,688,000)
Investment in joint venture	(1,470,000)	(2,037,000)	-
(Increase) in marketable securities	(190,000)	(2,520,000)	(1,000,000)

Decrease (increase) in temporary investments	113,000	(95,000)	1,003,000
Cash (used in) discontinued operations	(8,000)	(12,000)	(267,000)
	-----	-----	-----
Net cash (used in) investing activities	(6,301,000)	(8,639,000)	(5,952,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock	1,826,000	21,661,000	1,679,000
Proceeds from issuance of notes payable and other debt	4,843,000	2,315,000	4,552,000
Principal payments under long-term debt and other borrowings	(5,459,000)	(3,946,000)	(4,901,000)
Payments due to stock conversion	(5,000)	-	-
Preferred dividends paid	-	(305,000)	-
	-----	-----	-----
Net cash provided by financing activities	1,205,000	19,725,000	1,330,000
Net (decrease) increase in cash and cash equivalents	(17,687,000)	14,856,000	(9,004,000)
Cash and cash equivalents at beginning of year	17,986,000	3,130,000	12,134,000
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 299,000	\$17,986,000	\$ 3,130,000
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 1996

Pharmaceutical Resources, Inc. ("PRI") operates in one business segment, the manufacture and distribution of generic pharmaceuticals. Marketed products are principally in oral solid (tablet, caplet and capsule) form, with a small number of products in the form of creams and liquids.

Summary of Significant Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of PRI and its wholly-owned subsidiaries, of which Par Pharmaceutical, Inc. ("Par") is its principal operating subsidiary. References herein to the "Company" refer to PRI and its subsidiaries. The investment in a corporate joint venture with Clal Pharmaceutical Industries Ltd. ("Clal") in which PRI has 49% ownership is accounted for by the equity method.

Certain items on the consolidated financial statements for the prior years have been reclassified to conform to the current year financial statement presentation.

Use of Estimates:

The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgements.

Accounting Period:

In fiscal 1996, the Company changed its fiscal year end from the Saturday nearest to September 30 to September 30. This change had no material impact on the fiscal 1996 year end results. Fiscal years 1996, 1995 and 1994 ended on September 30, 1996, September 30, 1995 and October 1, 1994, respectively.

Temporary Investments:

Investments are stated at the lower of cost or market value. These investments are classified as "available for sale securities" pursuant to Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

Inventories:

Inventories are stated at the lower of cost (first-in, first-out basis) or market value.

Depreciation and Amortization:

Property, plant and equipment are depreciated straight-line over their estimated useful lives which are from three to forty years. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the lease.

Research and Development:

Research and development expenses represent costs incurred by the Company

to develop new products and obtain premarketing regulatory approval for such products. All such costs are expensed as incurred.

Income Taxes:

Deferred income taxes are provided for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Business tax credits and net operating loss carryforwards are recognized to the extent that realization of such benefit is more likely than not.

Revenue Recognition:

The Company recognizes revenue at the time it ships product and it provides for returns and allowances based upon actual subsequent allowances and historical trends.

Per Share Data:

Per share data is based upon the weighted average number of common shares and equivalents outstanding. For purposes of per share data, the Series A Convertible Preferred Stock is considered to be a common stock equivalent. The dilutive effect of

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

outstanding options and warrants is computed using the "treasury stock" method. Fully dilutive has not been presented because it is not materially different from primary amounts.

Cash Equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid money market instruments with original maturity of three months or less to be cash equivalents. At September 30, 1996, cash equivalents were deposited in financial institutions and consisted of immediately available fund balances.

Fair Value of Financial Instruments:

The carrying amounts of the Company's accounts receivable, accounts payable, accrued liabilities and debt approximate fair market value based upon the relatively short-term nature of these financial instruments.

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to credit risk consist of trade receivables and interest-bearing short-term treasury obligations. The Company markets its products primarily to domestic distributors, wholesalers and retail drug store chains. The risk associated with this concentration is believed by the Company to be limited due to the large number of distributors, wholesalers, and drug store chains, their geographic dispersion and the performance of certain credit evaluation procedures (see "Accounts Receivable--Major Customers").

Discontinued Operations:

In September 1996, the Company recorded \$2,800,000 as income from discontinued operations, reversing the remaining reserves of Quad Pharmaceuticals, Inc. ("Quad"), a wholly owned subsidiary of Par whose operations were discontinued in fiscal year 1991. The principal components of the liabilities in the prior year were notes payable to former officers of \$813,000, amounts due to customers of \$1,657,000, and accrued expenses and accounts payable \$360,000.

The income from discontinued operations does not reflect any tax effect in the current period.

In March 1994, the Company completed the disposition of Quad and, at that time, reversed into income the remaining reserve for operating losses of \$466,000.

Settlements:

Fiscal Year 1995:

The Company settled claims against former management members of the Company for recovery of, among other things, salaries and money paid for indemnification. The total amount of the settlement was \$2,029,000, which was collected between February and April of 1995.

Fiscal Year 1993:

Minnesota Mining and Manufacturing Settlement:

The Company, in January 1994, reached a settlement agreement with Minnesota Mining & Manufacturing Company ("3M") and its subsidiary Riker Laboratories, Inc. ("Riker", collectively with 3M, "3M/Riker"). The settlement was reflected in fiscal year 1993 results of operations. In fiscal year 1994, in accordance with the terms of the settlement, the Company paid 3M/Riker approximately \$5,000,000 in cash and issued 119,500 shares of common stock of the Company ("Common Stock"). The lawsuit brought in 1993 by 3M/Riker against Par stemmed from actions occurring during the tenure of prior management at Par. 3M/Riker alleged that Par improperly obtained United States Food and Drug Administration (the "FDA") approvals by bribing FDA officials and submitting false information to FDA, as a result of which 3M/Riker claimed to have suffered competitive injury in an amount up to \$24,000,000.

U.S. Trading Settlement:

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

In December 1993, the Company and United States Trading Corporation ("UST") settled their respective suits. This settlement was also reflected in fiscal year 1993 results of operations. In fiscal year 1994, in accordance with the terms of the settlement, the Company paid \$250,000 in cash and issued \$250,000 in merchandise credit to UST. The lawsuit stemmed from actions occurring during the tenure of prior management at Par.

Mylan Settlement:

In November 1993, the Company reached a settlement agreement with Mylan Laboratories, Inc. ("Mylan") with respect to a lawsuit brought in 1989 by Mylan against Par, Quad and others. This settlement was reflected in fiscal year 1993 results of operations. In fiscal year 1994, in accordance with the terms of the settlement, the Company paid Mylan \$1,000,000 in cash and issued it approximately 111,000 shares of Common Stock. The lawsuit stemmed from actions occurring during the tenure of prior management at Par. Mylan alleged that two of the Company's subsidiaries improperly obtained FDA approvals by bribing FDA officials and submitting false information to the FDA, as a result of which Mylan claimed to have suffered competitive injury in an amount of up to \$600,000,000.

Accounts Receivable:

<TABLE>

<CAPTION>

	1996	1995
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Accounts receivable	\$10,288	\$10,599
	-----	-----
Allowances:		
Doubtful accounts	694	208
Returns and allowances	251	227
Price adjustments	1,698	1,153
	-----	-----
	2,643	1,588
	-----	-----
Accounts receivable, net of allowances	\$ 7,645	\$ 9,011
	=====	=====

</TABLE>

Major Customers:

Two of the Company's customers accounted for approximately 11% and 9%, 6% and 8%, and 3% and 9% of net sales from continuing operations in fiscal years 1996, 1995 and 1994, respectively.

At September 30, 1996, amounts due from these same two customers accounted for approximately 23% and 3% of the net accounts receivable balance. At September 30, 1995, the amounts due from these same two customers accounted for approximately 13% and 10% of the net accounts receivable balance.

Inventories:

<TABLE>
<CAPTION>

	1996	1995
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Raw materials and supplies	\$11,130	\$ 8,157
Work in process and finished goods	8,222	7,207
	-----	-----
	\$19,352	\$15,364
	=====	=====

</TABLE>

Investment in Joint Venture:

As part of a strategic alliance in May 1995, the Company and Clal formed the Joint Venture, a limited partnership formed under the laws of the State of Israel, to develop, manufacture and distribute generic pharmaceutical products worldwide. The Company and Clal to date have funded the Joint Venture in the amount of \$3,430,000 and \$3,570,000, respectively. Including the additional fiscal 1996 commitment not yet funded, the Company has committed to invest \$3,920,000 in the Joint Venture during the next year. The Company and Clal are negotiating to amend their remaining funding commitments for 1996 in order to reflect the present and contemplated capital requirements of the Joint Venture, although they have not yet amended their written agreement. In the event that the Company and Clal do not reach a written agreement and either party makes an additional contribution to the Joint Venture,

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

the other party's share in the profits and capital of the Joint Venture will be diluted. The Joint Venture is owned 49% by the Company and 51% by Clal and is located primarily in Israel. The investment is accounted for by the equity method.

Investments:

The Company has a distribution agreement with Sano which gives Par the right of first refusal to exclusively distribute Sano's generic transdermal products in the United States, Canada, and several other international markets. Sano develops transdermal delivery systems utilizing a patch that incorporates the appropriate drug dosage into an adhesive that attaches the patch to the skin. According to Sano, transdermal delivery offers significant benefits over oral delivery, including improved efficacy, increased patient compliance, reduced side effects, reduced interaction with other drugs in use by a patient and a more consistent and appropriate drug level in the bloodstream, all of which generally result in lower overall patient care costs. Sano is developing two generic nitroglycerin patches, one generic nicotine patch and one generic clonidine patch which are covered by the agreement. For each product the Company elects to distribute, Par must pay Sano a portion of the development expenses. To date, Sano has submitted three ANDAs to the FDA and anticipates submitting additional ANDAs in the future. The Company intends to purchase manufactured products from Sano, when approved by the FDA, at cost and share in the gross profits from the sale.

As part of the Sano agreement, the Company invested \$3,500,000 in the preferred stock of Sano in the prior years. In November 1995, Sano sold common stock through an initial public offering and the Company's preferred stock converted into 513,887 shares of common stock. In September 1996, the Company sold 135,000 shares of its Sano stock resulting in a gain of \$1,859,000 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Other Income"). The investment is classified as an "available for sale security" pursuant to SFAS No. 115. This standard requires that certain investments in debt and equity securities be adjusted to fair market value at the end of each accounting period and unrealized gains or losses recorded as a separate component of shareholders' equity. In accordance with SFAS No. 115, the remaining investment is carried at its fair market value on September 30, 1996 of \$20 1/4 per share, or \$7,672,000, and the unrealized gain on the investment of \$4,982,000 is reflected as a separate component in shareholders' equity.

Additionally, the Company advanced \$2,942,000 and \$1,429,000 in 1996 and 1995, respectively, to Sano as funding for the research and development costs of the generic transdermal products. The Company renegotiated the agreement to

enable the advances to be recovered within three years by obtaining a greater share of gross profits. Due to the uncertainty with respect to the collectability of such advances, the Company has expensed them and will treat them as a reduction of research and development expense if repaid. In November 1995, the Company received \$1,500,000 from the proceeds of Sano's initial public offering in repayment of a portion of total advances outstanding from the Company. The Company has reflected this as a reduction of research and development expense in fiscal 1996.

In December 1995, the Company purchased a 10% interest in Fine-Tech Ltd., an Israeli pharmaceutical research and development company in which Clal Pharmaceutical Industries Ltd. ("Clal") has a significant ownership interest, for \$1,000,000. Clal is a significant stockholder of the Company and, through its subsidiary, owns 51% of a research and development joint venture in which the Company, through its subsidiary, owns 49%. In addition, the Company obtained certain exclusive rights to purchase products from Fine-Tech Ltd. not commonly sold in North America, South America or the Caribbean. During 1996, the Company purchased raw materials of approximately \$1,500,000 at the market value at the time of purchase.

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

Property, Plant and Equipment:

<TABLE>

<CAPTION>

	1996	1995
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Land	\$ 2,230	\$ 2,230
Buildings	17,237	16,859
Machinery and equipment	20,532	17,987
Office equipment, furniture and fixtures	5,863	4,825
Leasehold improvements	944	950
	-----	-----
	46,806	42,851
Less accumulated depreciation and amortization	20,738	18,480
	-----	-----
	\$26,068	\$24,371
	=====	=====

</TABLE>

Distribution Agreements:

As described in a previous note, the Company entered into a distribution agreement with Sano in February 1994, which gives Par the right of first refusal to exclusively distribute Sano's generic transdermal products in the United States, Canada, and several other international markets.

In May 1993, the Company was appointed by The Generics Group B.V. (the "Group"), an international pharmaceutical business, as the exclusive United States distributor of up to five generic pharmaceuticals to be manufactured by the Group's affiliates pending approval by the FDA (the "May 1993 Agreement"). ANDA approvals for Alprazolam, Triazolam, and Atenolol were received in fiscal year 1994 and the Company began distributing them. Two additional drugs, which will be made available to the Company for distribution, have yet to be designated by the Group. The May 1993 Agreement also contains provisions for development by the Group of additional generic pharmaceuticals for distribution by the Company. Under the May 1993 Agreement, the Company is obligated to issue a warrant to purchase 150,000 shares of Common Stock for \$10 per share. The terms of the warrant will be similar to the warrant issued pursuant to the October 1992 Agreement (see below); however, the warrant granted under the May 1993 Agreement will become exercisable only upon reaching certain levels of sales for the distributed products.

In October 1992, the Company entered into an agreement (the "October 1992 Agreement") with Genpharm Inc. ("Genpharm"), a Canadian manufacturer of generic pharmaceuticals (which is an affiliate of the Group) under which Par became the exclusive United States distributor of two of Genpharm's pharmaceutical products. The agreement has an initial term of ten years (subject to earlier termination by either party as provided therein), and thereafter automatically renews from year to year unless either party gives notice of non-renewal. The cost to the Company of such products is based upon a percentage of gross profits as defined in the October 1992 Agreement. In connection with the October 1992 Agreement, the Company issued a warrant to Genpharm to purchase 150,000 shares of PRI's common stock for \$6 per share. The warrant became exercisable in March

1993, has an initial term of five years (subject to earlier termination in the event the Company ceases to be Genpharm's exclusive distributor of the products covered by the October 1992 Agreement), and may be extended for up to an additional five years in the event that the closing price of Common Stock has not reached levels specified in the warrant agreement. In fiscal year 1994, the warrant was exercised to purchase 5,300 shares of Common Stock.

Long Term Debt:

At September 30, 1996, the Company's debt of \$5,113,000 is on a long-term basis, due to two banks, to be repaid in monthly installments through May 2001. The outstanding loans are secured by the assets of the Company.

The Company has a line of credit it uses to acquire equipment. The line of credit is collateralized by the equipment purchased. Borrowings under this line are at a fixed rate based upon the prime rate in effect at the time of borrowing, with a minimum 1/2% premium which increases based on the length of time the loan is outstanding. At September 30, 1996, \$355,000 was outstanding under this line. This bank also provides an 8.5% fixed rate mortgage loan. The loan was made in fiscal 1994, and at September 30, 1996, \$1,184,000 was outstanding.

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PHARMACEUTICAL RESOURCES, INC.
 NOTES TO FINANCIAL STATEMENTS--Continued
 September 30, 1996

<TABLE>
 <CAPTION>

	1996	1995
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Industrial Revenue Bond (a)	-	\$1,437
Term loans (b)	\$4,683	3,936
Other (c)	430	356
	-----	-----
	5,113	5,729
Less current portion	2,142	1,470
	-----	-----
	\$2,971	\$4,259
	=====	=====

</TABLE>

(a) The bond was repaid in full in fiscal 1996.

(b) All of these loans, except the mortgage loan, bear interest at the prime rate, Libor or cost of funds, and amortize in monthly installments through 2001, when the remaining balance of \$877,000 becomes due. The mortgage loan has a fixed rate of 8.5% until May 1999, at which time the fixed rate will be reset.

(c) Includes amount outstanding under line of credit, with interest based upon prime rate in effect at the time of borrowing, with a minimum of 1/2 of 1% per annum premium which increases based upon the length of time the loan is outstanding. Also includes amounts due under a capital lease.

Long-term debt maturities during the next five years, including the portion classified as current, are \$2,142,000 in 1997, \$1,577,000 in 1998, \$395,000 in 1999, \$61,000 in 2000 and \$938,000 in 2001.

On December 27, 1996, Par entered into a Loan and Security Agreement (the "Loan Agreement") with General Electric Capital Corporation ("GECC") which provides Par with a three-year revolving line of credit. Pursuant to the Loan Agreement, Par is permitted to borrow up to the lesser of (i) the borrowing base established under the Loan Agreement or (ii) \$20,000,000. The borrowing base is limited to 85% of eligible accounts receivable plus 50% of eligible inventory of Par as determined from time to time by GECC. The interest rate charge on the line of credit is based upon a rate per annum of 2.50% above the 30-day commercial paper rate for high-grade unsecured notes adjusted monthly. The line of credit with GECC is secured by the assets of Par and PRI other than real property and is guaranteed by PRI. As a condition to such facility, Par, PRI, and their affiliates have established a cash management system pursuant to which all cash and cash equivalents received by any of such entities are deposited into locked accounts over which GECC has sole operating control and which are applied on a daily basis to reduce amounts outstanding under the line of credit. As of December 30, 1996, approximately \$3,500,000 was outstanding under such line of credit. The revolving credit facility, which is subject to covenants which are based on various financial benchmarks, replaced PRI's previous \$16,000,000 revolving facility and \$4,000,000 term loan facility with Fleet Bank, N.A. Any significant reduction in the borrowing base will adversely affect the Company's liquidity.

During the fiscal years ended 1996, 1995 and 1994, the Company incurred total interest expense of \$432,000, \$499,000, and \$465,000, respectively. Interest paid approximated interest expense in each of the years.

Shareholders' Equity:

Preferred Stock:

In 1990, the Company's shareholders authorized 6,000,000 shares of a newly created class of preferred stock with a par value of \$.0001 per share. The preferred stock is issuable in such series and with such dividend rates, redemption prices, preferences and conversion or other rights as the Board of Directors may determine at the time of issuance.

Pursuant to a settlement of shareholder litigation reached in 1991, 2,000,000 shares of Series A Convertible Preferred Stock (the "Preferred Stock") had been issued in 1992. In fiscal 1995, the Company converted each remaining outstanding share of Preferred Stock into 1.1 shares of Common Stock for an aggregate of 1,055,815 common shares.

Common Stock:

In May 1995, the Company formed a strategic alliance with Clal Pharmaceutical Industries Ltd. ("Clal"), an Israeli company, to develop, manufacture and distribute generic pharmaceuticals worldwide. The Company sold 2,027,272 shares of PRI Common

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

Stock, representing 12% of the Company's Common Stock, to Clal for \$20,000,000 (\$9.87 per share). Clal also received two three year warrants to purchase up to 2,005,107 shares of Common Stock at prices between \$11 and \$12 per share. The shares and two warrants will allow Clal to purchase up to 19.9% of the Company's Common Stock. During fiscal 1996, Clal purchased an additional 100,000 shares of the Company's Common Stock.

Dividend:

The fiscal 1994 dividend on Preferred Stock was paid in February 1995. There was no dividend on common stock in fiscal 1994, 1995, or 1996.

Changes in Shareholders' Equity:

Changes in the Company's Common Stock, Preferred Stock and Additional Paid in Capital accounts during the fiscal years ended in 1994, 1995, and 1996 were as follows:

<TABLE>
<CAPTION>

	Series A Convertible Preferred Stock		Common Stock		Additional Paid In Capital
	Shares	Amount	Shares	Amount	
<S>	<C>	<C>	<C>	<C>	<C>
Balance, October 2, 1993	1,479,070	\$ 1,000	13,466,182	\$135,000	\$36,296,000
Exercise of stock options	-	-	343,000	3,000	1,495,000
Exercise of warrants	-	-	5,300	-	32,000
Issuance of warrants	-	-	-	-	250,000
Conversion of preferred shares	(420,670)	-	420,670	4,000	(4,000)
Compensatory arrangements	-	-	16,869	1,000	1,392,000
Stock issued pursuant to settlement	-	-	230,611	2,000	3,605,000
Balance, October 1, 1994	1,058,400	1,000	14,482,632	145,000	43,066,000
Exercise of stock options	-	-	424,750	4,000	2,247,000
Exercise of warrants	-	-	45,000	-	270,000
Investment shares issued	-	-	2,042,272	21,000	19,139,000
Conversion of preferred shares	(1,058,400)	\$(1,000)	1,153,647	12,000	(32,000)
Compensatory arrangements	-	-	20,324	-	586,000
Balance, September 30, 1995	-	-	18,168,625	182,000	65,276,000
Exercise of stock options	-	-	470,000	5,000	1,017,000
Investment shares issued	-	-	-	-	(12,000)
Conversion of preferred shares	-	-	-	-	(5,000)
Compensatory arrangements	-	-	23,244	-	805,000
Balance, September 30, 1996	-	-	18,661,869	\$187,000	\$67,081,000

</TABLE>

Share Purchase Rights Plan:

Each share of Common Stock outstanding carries with it one Common Share Purchase Right ("Right"). Generally, the Rights will become exercisable only if a person or group has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the Common Stock, or if the Board of Directors has determined that a person or group has sought control of the Company with the result that control by such person or group ("Disqualifying Persons") would be detrimental to the maintenance, renewal or acquisition of the Company's governmental or regulatory approvals. If a person or group thereafter acquires beneficial ownership of 25% or more of the outstanding Common Stock or if the Board of Directors determines that there is a reasonable likelihood that control of the Company by a Disqualifying Person would result in the loss of, or denial of approval for, any governmental or regulatory approval of the Company, each outstanding Right not owned by such person or group would entitle the holder to purchase, for \$25 (the exercise price of the Right), Common Stock having a market value of \$50. Under certain other circumstances, including the acquisition of the Company in a merger or other business combination, each Right not owned by the acquiring party will entitle the holder to purchase for \$25, securities of the acquirer having a market value of \$50. The Rights are subject to redemption by the Company at a redemption price of \$.01 per Right.

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PHARMACEUTICAL RESOURCES, INC.
 NOTES TO FINANCIAL STATEMENTS--Continued
 September 30, 1996

Employee Stock Purchase Program:

The Company maintains an Employee Stock Purchase Program ("Program"). The Program is designed to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. It enables eligible employees to purchase shares of Common Stock at a discount of up to 15% from the fair market value. An aggregate of 1,000,000 shares of Common Stock have been reserved for sale to employees under the Program. Employees purchased 22,796 shares, 18,074 shares and 16,928 shares during fiscal years 1996, 1995 and 1994, respectively. At September 30, 1996, 917,740 shares remain available for sale under the Program.

Stock Options:

The following is a summary of stock option activity during the fiscal years ended in 1996, 1995 and 1994:

<TABLE>
 <CAPTION>

	1996		1995		1994	
	Shares	Price Per Share	Shares	Price Per Share	Shares	Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	2,357,750	\$2.63 to \$14.13	2,533,500	\$2.63 to \$14.13	2,699,250	\$2.63 to \$10.50
Granted	210,500	\$7.00 to \$7.38	289,500	\$8.50 to \$10.63	266,500	\$7.00 to \$14.13
Exercised	(470,000)	\$3.50 to \$7.00	(424,750)	\$2.63 to \$10.50	(343,000)	\$2.63 to \$10.13
Cancelled/Surrendered	(84,500)	\$2.63 to \$14.13	(40,500)	\$7.38 to \$14.13	(89,250)	\$3.50 to \$14.13
Outstanding at end of year	2,013,750	\$3.13 to \$13.88	2,357,750	\$2.63 to \$14.13	2,533,500	\$2.63 to \$14.13

</TABLE>

Shareholders approved the 1995 Directors' Stock Option Plan (the "1995 Directors' Plan") through which options will be awarded to future non-employee directors upon the date elected to the Board. Current directors are not eligible for awards under the 1995 Directors' Plan. The Company has reserved 100,000 shares of Common Stock for issuance under the 1995 Directors' Plan.

The Company's 1990 Stock Incentive Plan (the "1990 Plan") provides for the granting of stock options, restricted stock awards, deferred stock awards, stock appreciation rights and other stock based awards or any combination thereof to employees of the Company or to others. The Company has reserved 2,050,000 shares of Common Stock for issuance under the 1990 Plan.

Under the 1989 Directors' Stock Option Plan (the "Directors' Plan"), options were granted to directors of the Company who are not employees of the Company or are otherwise ineligible to receive options under any other plan adopted by the Company. The Company has reserved 550,000 shares of Common Stock for issuance under the Directors' Plan. The Company does not intend to grant

further options under this plan.

The Company's 1986 Stock Option Plan provides that options may be granted to employees of the Company or to others for the purchase of up to 900,000 shares of the Company's Common Stock. Options granted under the Plan may be incentive stock options or nonqualified options.

At September 30, 1996 and September 30, 1995, options for 388,000 and 568,625 shares, respectively, were available for future grant under the various plans.

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

Income Taxes:

In February 1992, the Financial Accounting Standards Board issued SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109"), which required the Company to recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, SFAS 109 required the recognition of future tax benefits, such as net operating loss ("NOL") carryforwards, to the extent that realization of such benefits is more likely than not. The Company adopted the new accounting standard during the quarter ended January 1, 1994 and, as a result, recognized future tax benefits of \$14,128,000. This amount is reflected in the net income of the Company in fiscal 1994 as the cumulative effect of a change in accounting principle.

Management believes, based on its formation of strategic alliances and commitment to research and development of new products, it is more likely than not that the Company will generate taxable income sufficient to utilize the tax benefit of its NOL carryforwards prior to their expiration. However, there can be no assurance that the Company will generate taxable earnings or any specific level of continuing earnings in the future. Consequently, the Company is not recognizing benefit for its operating losses this year. Management believes, based on its formation of strategic alliances, this year's restructuring, commitments to research and development of new product, and its investments in equity securities, that its valuation allowance is adequate. If the Company is unable to generate sufficient taxable income in the future, increases in the valuation allowance will be required through a charge to expense. At September 30, 1996, the Company had NOL carryforwards for tax purposes of approximately \$50,000,000 that expire in September 2005 through September 2010.

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Deferred assets:		
Federal NOL carryforwards	\$17,598	\$14,068
Accounts receivable	1,058	636
Accrued expenses	830	732
Research and development expenses	1,194	600
Inventory	302	499
State tax NOL	1,603	1,053
Taxes payable to the IRS	171	171
Other	630	490
	-----	-----
	23,386	18,249
Valuation allowance	(5,978)	(861)
	-----	-----
	17,408	17,388
Deferred liabilities:		
Fixed assets	2,800	2,780
	-----	-----
Net deferred assets	\$14,608	\$14,608
	=====	=====

</TABLE>

Included in the recognition of future tax benefits is approximately \$1,678,000 of stock option compensation credited to additional capital. Of this amount, \$1,244,000 was recorded upon adoption of SFAS 109 and \$434,000 was credited in fiscal 1995. A valuation allowance was recorded in fiscal 1996 and fiscal 1995 for an additional \$683,000 and \$558,000, respectively, related to

stock option compensation which will be credited to equity upon utilization of tax carryforwards.

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PHARMACEUTICAL RESOURCES, INC.
 NOTES TO FINANCIAL STATEMENTS--Continued
 September 30, 1996

The components of income tax expense follow:

<TABLE>
 <CAPTION>

	1995	1994
	----	----
	(In Thousands)	
<S>	<C>	<C>
Federal:		
Current	\$1,769	-
Deferred	(995)	\$ 2,585
	-----	-----
	\$ 774	\$ 2,585
	-----	-----
State:		
Current	62	-
Deferred	-	(800)*
	-----	-----
	62	(800)
	-----	-----
	\$ 836	\$ 1,785
	=====	=====

</TABLE>

* During fiscal year 1994, there was a change in state tax laws which permitted recognition of NOL carryforwards.

The table below provides the details of the differences between the provision for income taxes and the amount determined by multiplying income before income taxes by the applicable federal statutory rate:

<TABLE>
 <CAPTION>

	1995	1994
	----	-----
<S>	<C>	<C>
Statutory tax rate	34%	34%
State tax NOL generated	-	(13%)
State tax - net	6%	-
Interest on IRS settlement - net	18%	-
Other - non-deductible	-	9%
	----	-----
Effective tax rate	58%	30%
	=====	=====

</TABLE>

The Internal Revenue Service has determined that certain credits taken by the Company in prior years for research activities are not permitted. A reserve of approximately \$1,000,000 was provided upon implementation of FAS 109 in fiscal 1994. The Company paid to the Internal Revenue Service approximately \$1,000,000 during fiscal 1995 for the disallowed credits and such payments were charged against the reserve which was previously provided.

Commitments, Contingencies and Other Matters:

Leases:

At September 30, 1996, the Company had minimum rental commitments aggregating \$1,881,000 under noncancelable operating leases expiring through 2004. Amounts payable thereunder are \$805,000 in 1997, \$381,000 in 1998, \$151,000 in 1999, \$107,000 in 2000, \$107,000 in 2001, and \$330,000 thereafter. Rent expense charged to operations in fiscal years 1996, 1995 and 1994 was \$612,000, \$811,000, and \$907,000, respectively.

Retirement Plans:

The Company has a defined contribution, social security integrated Retirement Plan providing retirement benefits to eligible employees as defined in the Plan. The Board of Directors of Par has authorized the cessation of employer contributions effective December 30, 1996. Consequently, participants in the Retirement Plan will no longer be entitled to any employer contributions under such plan for 1996 or subsequent years. It also maintains a Retirement Savings Plan whereby eligible employees are permitted to contribute from 1% to 12% of

pay to this Plan. The Company contributes an amount equal to 50% of the first 6% of the pay contributed by the employee. The Company's provisions for these plans and the defined benefit plan discussed below were \$1,229,000 in 1996 (reduced by \$24,000 in forfeitures), \$1,107,000 in 1995 (reduced by \$289,000 in forfeitures) and \$598,000 in 1994 (reduced by \$250,000 in forfeitures). In fiscal 1997, the Company intends to merge the Retirement Plan into the Retirement Savings Plan.

The Company maintains a Defined Benefit Pension Plan covering eligible employees as defined in the Plan,

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

which was frozen October 1, 1989. Since the benefits under this Plan are based on the participants' length of service and compensation (subject to Employee Retirement Income Security Act of 1974 and Internal Revenue Service limitations), service costs subsequent to October 1, 1989 are excluded from benefit accruals under the Plan. The funding policy for this Plan is to contribute amounts actuarially determined as necessary to provide sufficient assets to meet the benefit requirements of the Plan retirees. The assets of the Plan are invested in mortgages and bonds.

Net pension expense for fiscal years 1996, 1995 and 1994 included the following components:

	1996	1995	1994
	-----	-----	-----
	(In Thousands)		
<S>	<C>	<C>	<C>
Interest cost	\$ 132	\$ 129	\$ 128
Actual return on assets	(71)	(200)	129
Net amortization and deferral:			
Asset (loss) gain	(34)	77	(266)
Amortization of initial unrecognized transition obligation	51	51	51
Amortization of unrecognized net gain	3	-	-
	-----	-----	-----
Net pension expense	\$ 81	\$ 57	\$ 42
	=====	=====	=====

</TABLE>

The discount rate used to measure the projected benefit obligation for the Plan is 7%. The assumed long-term rate of return on plan assets in 1996 was 7%.

The Plan's funded status and the amounts recorded on the Company's consolidated balance sheets are as follows:

	1996	1995
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Vested benefit obligations	\$1,989	\$2,175
	=====	=====
Accumulated benefit obligations	\$1,989	\$2,175
	=====	=====
Projected benefit obligations	\$1,989	\$2,175
Market value of assets	1,594	1,565
	-----	-----
Projected benefit obligation in excess of market value	(395)	(610)
Unrecognized net obligation	602	654
Unrecognized net loss	117	287
Adjustment for minimum liability	(719)	(941)
	-----	-----
Net recorded pension (liability)	\$ (395)	\$ (610)
	=====	=====

</TABLE>

In accordance with SFAS 87, the Company has recorded an additional minimum pension liability for underfunded plans of \$719,000 in fiscal 1996 and \$941,000 in fiscal 1995, representing the excess of underfunded accumulated benefit obligations over previously recorded pension cost liabilities. A corresponding amount is recognized as an intangible asset except to the extent that these additional liabilities exceed related unrecognized prior service cost and net transition obligation, in which case the increase in liabilities is charged directly to shareholders' equity. As of September 30, 1996, \$117,000 of the excess minimum pension liability resulted in a charge to equity. As of

September 30, 1995, the excess minimum liability was \$287,000.

Legal Proceedings:

The Company is involved in certain litigation matters, including certain product liability actions and actions by two former employees for, among other things, breach of contract. Such actions seek damages from the Company, including compensatory and punitive damages. The Company intends to defend these actions vigorously. The Company believes that these actions are incidental to the conduct of its business, and that the ultimate resolution thereof will not have a material adverse effect on its financial condition, results of operations or liquidity.

In June 1996, the Company settled a claim with its insurance carrier, filed in 1995, for \$1,455,000 related to the interruption of business at one of its manufacturing facilities. The settlement favorably affected gross margins by \$618,000 in the third quarter of fiscal year 1996, but did not have a material effect on its financial condition, results of operations or liquidity for the fiscal year.

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PHARMACEUTICAL RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS--Continued
September 30, 1996

Restructuring:

Recently, the Company implemented measures in an effort to reduce costs and increase operating efficiencies. Such measures provided for a reduction of the work force including the layoff of forty nine employees in various manufacturing, administrative, and development functions, a reorganization of certain personnel, and a planned reduction in spending on advertising, marketing and professional services which is expected to reduce operating costs in subsequent periods.

A liability of \$549,000 was established in the current period for the cost of the restructuring and the subsequent charge to expense is classified as "Restructuring charge" on the statement of operations. The charge includes \$424,000 for severance pay, employee benefits, and outplacement services and \$125,000 in consulting and legal fees. The amount of actual termination benefits paid will be charged against the liability as they are incurred.

Other Matters:

During fiscal year 1996, four of the Company's products accounted for approximately 58% of its net sales and yielded the substantial portion of the gross margin of the Company, with one of such products representing a substantial portion of both net sales and gross margin. During the second half of calendar 1995, two generic pharmaceutical manufacturers received FDA approval of a product for which the Company previously had been the sole generic manufacturer. This product, along with two other products, historically had accounted for a significant percentage of net sales and gross margin of the Company. Further, a competitor of the Company in fiscal year 1996 received FDA approval for a very significant product of the Company for which the Company previously had been the sole generic manufacturer.

The raw materials essential to the Company's manufacturing business are purchased primarily from United States distributors of bulk pharmaceutical chemicals manufactured by foreign companies. To date, the Company has experienced no significant difficulty in obtaining raw materials and expects that raw materials will generally continue to be available in the future.

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SCHEDULE II
PHARMACEUTICAL RESOURCES, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

Column A	Column B	Column C	Column D	Column E
-----	-----	-----	-----	-----
Description	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts:				
Year ended September 30, 1996	\$208,000	\$486,000	\$0	\$694,000

Year ended September 30, 1995	\$124,000	\$108,000	\$24,000 (b)	\$208,000
Year ended October 1, 1994	\$137,000	\$ (9,000) (a)	\$ 4,000 (b)	\$124,000
Allowance for returns and price adjustments:				
Year ended September 30, 1996	\$1,380,000	\$5,886,000	5,317,000 (c)	\$1,949,000
Year ended September 30, 1995	\$2,644,000	\$3,632,000	4,896,000 (c)	\$1,380,000
Year ended October 1, 1994	\$2,491,000	\$5,481,000	5,328,000 (c)	\$2,644,000

</TABLE>

(a) Reduction of allowance no longer necessary.

(b) Write-off of uncollectible accounts.

(c) Returns and allowances charged against allowance provided therefor.

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EXHIBIT INDEX

EXHIBIT NO.

- 3.1 Certificate of Incorporation of the Registrant. (4)
- 3.1.1 Certificate of Amendment to the Certificate of Incorporation of the Registrant, dated August 6, 1992--incorporated by reference to the Registrant's Registration Statement on Form 8-A (Commission File No. 0-20834), filed with the Commission November 10, 1992.
- 3.2 By-Laws of the Registrant, as amended and restated. (3)
- 4 Rights Agreement, dated August 6, 1991, between the Registrant and Midlantic National Bank, as Rights Agent. (5)
- 4.1 Amendment to Rights Agreement, dated as of April 27, 1992. (3)
- 10.1 1983 Stock Option Plan of the Registrant, as amended. (2)
- 10.2 1986 Stock Option Plan of the Registrant, as amended. (2)
- 10.3 1989 Directors' Stock Option Plan of the Registrant, as amended. (5)
- 10.4 1989 Employee Stock Purchase Program of the Registrant. (7)
- 10.5 1990 Stock Incentive Plan of the Registrant, as amended. (2)
- 10.6 Form of Retirement Plan of Par. (11)
- 10.6.1 First Amendment to Par's Retirement Plan, dated October 26, 1984. (6)
- 10.7 Form of Retirement Savings Plan of Par. (11)
- 10.7.1 Amendment to Par's Retirement Savings Plan, dated July 26, 1984. (12)
- 10.7.2 Amendment to Par's Retirement Savings Plan, dated November 1, 1984. (12)
- 10.7.3 Amendment to Par's Retirement Savings Plan, dated September 30, 1985. (12)
- 10.8 Par Pension Plan, effective October 1, 1984. (4)
- 10.9 Employment Agreement, dated as of October 4, 1992, among the Registrant, Par and Kenneth I. Sawyer. (1)
- 10.10 Lease Agreement between Par and the County of Rockland Industrial Development Agency, dated as of October 1, 1984. (6)
- 10.10.1 Lessee Guaranty between Par and Midlantic National Bank, dated as of October 1, 1984. (6)
- 10.10.2 Mortgage from County of Rockland Industrial Development Agency to Midlantic National Bank, as Trustee, dated as of October 1, 1984. (12)
- 10.10.3 Security Agreement between County of Rockland Industrial Development Agency and Midlantic National Bank, as Trustee, dated as of October 1, 1984. (12)
- 10.11 Lease for premises located at 12 Industrial Avenue, Upper

- Saddle River, New Jersey, between Par and Charles and Dorothy Horton, dated October 21, 1978 and extension dated September 15, 1983. (11)
- 10.12 Lease Agreement between Par and Ramapo Corporate Park Associates, dated as of January 1, 1993.
- 10.13 Employment Agreement, dated as of May 19, 1993, between the Registrant and Robert I. Edinger. (13)
- 10.14 Distribution Agreement, dated as of October 16, 1993, between Genpharm, Inc., the Registrant and PRX Distributors, Ltd. (13)
- 10.15 Letter Agreement, dated April 30, 1993, between the Generics Group B.V. and Par. (15)
- 10.16 Distribution Agreement, dated as of February 24, 1994, between Sano Corporation, the Registrant and Par, as amended. (15)
- 10.17 Mortgage and Security Agreement, dated May 4, 1994, between Urban National Bank and Par. (14)
- 10.17.1 Mortgage Loan Note, dated May 4, 1994. (14)
- 10.17.2 Corporate Guarantee, dated May 4, 1994, by the Registrant to Urban National Bank. (14)
- 10.18 Letter Agreement, dated as of October 13, 1994, between Par and Robert I. Edinger. (15)
- 10.19 1995 Directors Stock Option Plan. (19)
- 10.20 Stock Purchase Agreement, dated March 25, 1995, between the Registrant and Clal Pharmaceutical Industries Ltd. (17)
- 10.21 Amendment No. 1 to Stock Purchase Agreement, dated May 1, 1995, between the Registrant and Clal Pharmaceutical Industries Ltd. (17)
- 10.22 Warrant to Purchase Common Stock, dated May 1, 1995, delivered by the Registrant to Clal Pharmaceutical Industries Ltd. (17)
- 10.23 Registration Rights Agreement, dated May 1, 1995, between the Registrant and Clal Pharmaceutical Industries Ltd. (17)
- 10.24 Clal Pharmaceutical Resources L.P. Limited Partnership Agreement, dated as of May 1, 1995, among PRI-Research, Inc., C.T.P. Research and Development (1995) Ltd. and Clal Pharmaceutical Resources (1995) Ltd. (17)
- 10.25 Clal Pharmaceutical Resources (1995) Ltd. Stockholders Agreement, dated May 1, 1995, among PRI Research, Inc., C.T.P. Research and Development (1995) Ltd. and Clal Pharmaceutical Resources Ltd. (17)
- 10.26 Supplemental Agreement, dated as of May 1, 1995, among the Registrant, Clal Pharmaceutical Industries Ltd. and Clal Pharmaceutical Resources L.P. (17)
- 10.27 Guarantee of the Registrant, dated May 1, 1995. (17)
- 10.28 Guarantee of Clal Pharmaceutical Industries Ltd., dated May 1, 1995. (17)
- 10.29 Warrant to Purchase Common Stock, dated September 21, 1995, delivered by the Registrant to Clal Pharmaceutical Industries Ltd.
- 10.30 Commercial Revolving Loan and Term Loan Agreement, dated December 28, 1995, between Fleet Bank, N.A. and the Registrant. (20)
- 10.31 Master Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.32 Equipment Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.33 Promissory Note, dated December 28, 1995, of the Registrant. (20)
- 10.34 Master Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.35 Equipment Security Agreement, dated December 28, 1995, between Fleet Bank, N.A. and Par. (20)
- 10.36 Cross Acceleration Agreement, dated December 28, 1995, between Fleet Bank, N.A. and the Registrant. (20)

11	Computation of per share data.
16	Letter regarding change in accountants (18).
21	Subsidiaries of the Registrant.
23.1	Consent of Arthur Andersen LLP.
23.2	Consent of Richard A. Eisner and Company, LLP.
27	Financial Data Schedule.

- (1) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 3, 1992 and incorporated herein by reference.
- (2) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Proxy Statement dated August 10, 1992 and incorporated herein by reference.
- (3) Previously filed with the Securities and Exchange Commission as an Exhibit to Amendment No. 1 on Form 8 to the Registrant's Registration Statement on Form 8-B, filed May 15, 1992, and incorporated herein by reference.
- (4) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended September 28, 1991 and incorporated herein by reference.
- (5) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Proxy Statement dated August 14, 1991 and incorporated herein by reference.
- (6) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K (Commission File No. 1-9449) for the year ended September 29, 1990 and incorporated herein by reference.
- (7) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Proxy Statement dated August 16, 1990 and incorporated herein by reference.
- (8) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K for 1989 and incorporated herein by reference.
- (9) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K for 1988 and incorporated herein by reference.
- (10) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Annual Report on Form 10-K for 1987 and incorporated herein by reference.
- (11) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Registration Statement on Form S-1 (No. 2-86614) and incorporated herein by reference.
- (12) Previously filed with the Securities and Exchange Commission as an Exhibit to Par's Registration Statement on Form S-1 (No. 33-4533) and incorporated herein by reference.
- (13) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrants' Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 2, 1993 and incorporated herein by reference.
- (14) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Quarterly Report on Form 10-Q (Commission File No. 1-10827) for the quarter ended April 2, 1994 and incorporated herein by reference.
- (15) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 1, 1994 and incorporated herein by reference.
- (16) Previously filed by amendment with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended October 1, 1994 and incorporated herein by reference.
- (17) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 8-K (Commission File No. 1-10827)

dated May 2, 1995.

- (18) Previously filed with the Securities and Exchange Commission as on exhibit to the Registrant's Report Form 8-K (Commission File No. 1-10827) dated September 8, 1995 and subsequently amended on October 4, 1995 and October 12, 1995 and incorporated herein by reference.
- (19) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Annual Report on Form 10-K (Commission File No. 1-10827) for the year ended September 30, 1995.
- (20) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registrant's Quarterly Report on Form 10-Q (Commission File No. 1-10827) for the quarter ended December 30, 1995 and incorporated herein by reference.

LEASE

between

RAMAPO CORPORATE PARK ASSOCIATES,

Landlord

and

PAR PHARMACEUTICAL, INC.,

Tenant

For Premises at
100 Red Schoolhouse Road
Chestnut Ridge, New York 10977-6715

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LEASE AGREEMENT

LEASE AGREEMENT made as of this 1st day of January, 1993, between RAMAPO CORPORATE PARK ASSOCIATES ("LANDLORD"), with offices at 100 Red Schoolhouse Road, Chestnut Ridge, New York 10977-6715, and PAR PHARMACEUTICAL, INC. ("TENANT") at One Ram Ridge Road, Chestnut Ridge, New York 10977.

PREAMBLE

The TENANT is leasing, pursuant to a certain written lease, part of the premises located at 100 Red Schoolhouse Road, Chestnut Ridge, New York 10977-6715. The LANDLORD represents and TENANT accepts that the leased premises consist of approximately 77,180 square feet of floor area, being such portions of Buildings "A" and "B" at that location as follows: Building "A" - Units, 1, 2, 3, 4, 5, 6, 7B, 7D, 8, 10 and 11 and Building "B" - Units 2, 3, 4, 5, 6, 7, and 8, all as more particularly described in the schedule attached hereto as Exhibit A, which is incorporated by reference herein. The leased premises shall hereafter be referred to in this Lease as "the Leased Premises."

The term of the previous lease governing the Leased Premises expired on or about December 31, 1992, and such lease is of no further force and effect; TENANT and LANDLORD desire to enter into a new lease to govern their relationship for at least the next five years upon the terms and conditions contained in this Agreement.

TENANT and LANDLORD, therefore, agree as follows:

TERMS AND CONDITIONS

1. TERM

1.1 Initial Term

The lease term shall be for a period of 5 years starting as of January 1, 1993 and ending on December 31, 1997 (hereafter: the "Initial Term"), subject to extension under Paragraph 1.2 below.

1.2 Extension Options

TENANT shall have the option to extend the lease term for at least three (3) periods of five (5) years each subject to all of the other provisions of this Lease, by giving written notice of its intent to renew the lease at least nine (9) months prior to the expiration of the Initial Term (or any extension thereof).

2. USE OF THE LEASED PREMISES

The Leased Premises may be used for any lawful purpose including, but not limited to, office, warehousing, distribution and receiving of goods and manufacturing; provided however, that as a result of any change in the present use of the Leased Premises TENANT shall not be entitled to any substantially greater portion of the existing parking facilities than it uses at the date of this Lease.

3. RIGHT OF FIRST REFUSAL

In the event that any space in Buildings A or B (but not Building C) at 100 Schoolhouse Road that is not currently part of the Leased Premises should, from time to time, become unoccupied or otherwise available ("Available Space"), the following shall apply:

3.1 The LANDLORD shall not offer to lease Available Space to any person, including without limitation, any other tenant of LANDLORD, unless and until LANDLORD shall have first offered to lease the same to TENANT, in writing ("First Offer"), specifying the rent, term, designated space and other material terms acceptable to LANDLORD. Unless TENANT accepts such offer in writing within thirty (30) days after receipt by TENANT of the First Offer (subject to the negotiation in good faith, execution and delivery of a written lease for the Available Space), LANDLORD shall have the right to enter into a lease for such space with a third party; provided however, that such lease with a third party shall: (i) include terms and conditions no more favorable to the tenant than those specified in the First Offer, and (ii) be executed and delivered within six (6) months after the date of the First Offer.

3.2 Notwithstanding that TENANT shall not have accepted the First Offer pursuant to Section 3.1 above, the LANDLORD shall not enter into any lease with a third party for the Available Space, which lease provides for an effective rent (after giving effect to all concessions, allowances, abatements and the cost of any LANDLORD's work) less than ninety (90%) percent of the effective rent provided in the First Offer, unless and until LANDLORD shall have first offered to TENANT in writing (the "Offer of First Refusal") the right to enter into a lease for such space upon substantially all of the same terms and conditions as contained in the lease offered and acceptable to such third party. Unless TENANT accepts such Offer of First Refusal within seven (7) days after its receipt of the same, the LANDLORD shall have the right to enter into such lease with such third party; provided however, that unless LANDLORD enters into such lease within the next succeeding forty-five (45) days, the then-current lease offered to a third party shall again become subject to the foregoing restrictions.

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4. RENT AND SECURITY DEPOSIT

4.1 Base Rent

4.1.1 During the Initial Term, TENANT shall pay as Base Rent the following:

Months 1-30 an annual rent of \$416,772.00 or \$34,731.00 per month.

Months 31-60 an annual rent of \$436,067.00 or \$36,338.92 per month.

4.1.2 During the extension periods under Paragraph 1.2, TENANT shall pay the following as annual Base Rent:

4.1.2.1 During the first thirty (30) months of the first extension period, an annual Base Rent of \$455,362. During the second thirty (30) months of the first extension period, an annual Base Rent of \$474,657.

4.1.2.2 During the second and third extension periods, the annual rent shall be equal to 95% of the projected fair market rental value of the Leased Premises as of the commencement date of the applicable extension period.

4.1.2.2.1 In the event that the LANDLORD and TENANT shall not have agreed upon the fair market value of the Leased Premises at least four (4) months prior to the commencement date of the second or third extension periods, as applicable, such value shall be determined by commercial real estate MAI appraisers, one of which is selected by the LANDLORD and one of which is selected by the TENANT.

4.1.2.2.2 If the appraisals of such two appraisers shall differ by less than 10%, the two appraisals shall be averaged and the result thereof shall constitute the agreed upon fair market rental

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value of the Leased Premises for the purposes hereof. If the two appraisals shall differ by 10% or more, then the two appraisers so selected shall select another mutually acceptable MAI appraiser who shall select from the two existing appraisals that appraisal which the third appraiser believes to be the most fair and accurate appraisal of the fair market rental, which appraisal shall constitute the agreed upon fair market rental value of the Leased Premises for the purposes hereof. The cost and expense of the third licensed appraiser, if required, shall be shared equally by LANDLORD and TENANT.

4.2 Payment of Base Rent

Upon execution of this Lease, TENANT shall pay LANDLORD the Base Rent in the amount stated in Paragraph 4.1 above for the first month of the Initial Term. On the first day of the second month of the Lease Term and each month thereafter (and during any extension period), TENANT shall pay LANDLORD the applicable Base Rent, in advance, without offset (except as expressly provided in this Lease), deduction and/or prior demand. The Base Rent shall be payable at LANDLORD's address first set forth above or at such other place as LANDLORD may designate in writing, except as expressly provided

for in this Lease.

4.3 Security Deposit

LANDLORD and TENANT acknowledge that TENANT previously had deposited the sum of \$42,000 as a security deposit (hereafter: "security deposit") relative to TENANT'S prior lease of the Leased Premises and that this sum shall continue to be retained by LANDLORD as security against TENANT'S performance of its duties under this Lease. Commencing as of January 1, 1993, LANDLORD shall retain the security deposit in an interest bearing account separate from all other funds of or held by LANDLORD, with one-half of the interest accruing to the benefit of TENANT and paid to TENANT annually. Upon ten (10) days prior notice to TENANT, the LANDLORD may apply all or part of the Security Deposit under this lease as and to the extent necessary to cure any outstanding material default of TENANT provided that any applicable grace period shall have expired. If LANDLORD uses any part of the Security Deposit, TENANT shall restore the Security Deposit to its full amount with thirty (30) days after

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LANDLORD'S written request. TENANT'S failure to do so shall be a material default under this Lease.

4.4 Lease Allowance

Within fifteen (15) days after the execution of this Lease, LANDLORD shall pay to TENANT the sum of \$120,000 in consideration of this Lease. If the Term is not extended after the Initial Term, except due to the default of LANDLORD, TENANT shall refund to LANDLORD, within fifteen days of the expiration of the Initial Term, the sum of \$60,000; provided however, that if the Initial Term is terminated by reason of the default of TENANT, such refund shall be due within fifteen (15) days after such termination.

4.5 LANDLORD'S Refund of Portion of Base Rent

LANDLORD shall pay to TENANT a lump sum payment equal to one percent (1%) of the total aggregate Base Rent for the balance of the then current Term upon the occurrence of either and each of the following events: (a) the execution of this Lease and (b) the commencement of any extension period under this Lease.- In addition, in the event that an agreement is executed whereby TENANT leases space at the Project in addition to the Leased Premises, LANDLORD shall pay to TENANT a lump sum payment equal to one (1%) percent of the aggregate Base Rent payable with respect to such additional space for the balance of the then current Term. In the event any payment due by reason of this Section 4.5 is not received by TENANT within thirty (30) days after it is due, in addition to such other rights and remedies

available at law or in equity, TENANT shall have the right to offset against the rent or additional rent next coming due to LANDLORD the amount due under this section together with interest, thereon at the rate of eighteen (18%) percent per annum (the "Default Rate") from the date which is thirty (30) days after the due date, to and including the date payment in full is actually so applied.

4.6 Late Charges

TENANT's failure to pay rent or additional rent promptly may cause LANDLORD to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on LANDLORD by any ground lease, mortgage or trust deed encumbering the Leased Premises. Therefore, if LANDLORD does not receive any rent payment within ten (10) days after it becomes due, TENANT shall pay LANDLORD a late charge equal to five percent (5%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of

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the costs LANDLORD will incur by reason of such late payment. In addition to the foregoing late charge, in the event that such rent payment is not paid within (90) days after it becomes due, LANDLORD shall be entitled to interest on the unpaid amount from and after such 90th day at the Default Rate (as defined in Section 4.5 above).

5. ADDITIONAL RENT

All charges payable by TENANT to LANDLORD, other than Base Rent are called Additional Rent. All Additional Rent that has been billed shall be paid within thirty (30) days (fifteen (15) days with respect to TENANT's Tax share) following receipt by TENANT of the invoice relating thereto. TENANT shall be entitled to receive from LANDLORD such documentation to support a demand for payment of Additional Rent as TENANT may reasonably require. Additional Rent shall include the items described in this Article 5.

5.1 Real Property Taxes:

5.1.1 For purposes of this Section 5.1, the following terms shall have the following meanings:

5.1.1.1 "Real Property Taxes" shall mean (i) any fee, license fee, license tax, commercial rental tax, levy, charge, assessment, or tax imposed by any taxing authority on the LANDLORD relative to the Leased Premises or the

land upon which the Leased Premises are located; (ii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Leased Premises by any governmental agency; (iii) any tax imposed upon this transaction or based upon a reassessment of the Leased Premises due to a change in ownership or transfer of all or part of LANDLORD's interest in the Leased Premises; and (iv) any charge or fee replacing any tax previously included within the definition of Real Property Taxes. "Real Property Taxes" do not, however, include LANDLORD's federal, state, or local income, franchise, inheritance or estate taxes, or any other tax not related to the Leased Premises.

5.1.1.2 "TENANT's Proportionate Share" shall mean an amount calculated by the LANDLORD based upon the following:

5.1.1.2.1 The land assessment for the entire Project shall be allocated to the

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Leased Premises based upon the ratio of the floor area of the Leased Premises to the entire floor area for all of the buildings comprising the Project, which the parties acknowledge is equal to 50.2% as of the date of this Lease; plus

5.1.1.2.2 The assessment for the buildings in which the Leased Premises are located shall be allocated to the Leased Premises based upon the assessment for each building as determined by the municipal records and the portion of such assessment for the Leased Premises shall be based upon the ratio of the floor area of the Leased Premises to the entire floor area for each building.

5.1.1.2.3 The amount (a) determined pursuant to Section 5.1.1.2.1 plus the amount determined by Section 5.1.1.2.2 (b) divided by the total assessment for the entire Project shall be the TENANT's Proportionate Share.

5.1.1.2.4 If the above formula for the allocation of taxes must be discontinued because of the unavailability of adequate information

from municipal records, a similar formula for the equitable allocation of the taxes shall be developed by the LANDLORD, using any reasonable method to allocate TENANT's Proportionate Share.

5.1.1.2.5 Notwithstanding the foregoing, if the taxing authority discontinues the separate assessment of the improvements (for its internal worksheet purposes) at the Project, then, based upon improvements existing as of the date of this Lease, "Tenant's Proportionate Share" shall mean 50.2% provided however, that such percentage is intended to represent the percentage of floor area comprising the Leased Premises divided by the total floor area comprising the Project (hereinbelow defined). In the

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event that the Project is expanded, or the amount of floor area included in the Project is increased, the TENANT's Proportionate Share shall be reduced accordingly.

5.1.1.2.6 In any event, LANDLORD shall apply the same method of determining the share of Real Property Taxes payable by all Tenants at the Project in the same manner.

5.1.1.3 "TENANT's Tax Share" shall mean TENANT's Proportionate Share of Real Property Taxes.

5.1.2 At any time during the Term, LANDLORD shall render to TENANT a statement or statements ("LANDLORD's Statement") showing the amount of TENANT's Tax Share, together with the calculation of same and a copy of the information available from the taxing authorities in support of the information contained in such LANDLORD's Statement. LANDLORD's failure to render a LANDLORD's Statement during or with respect to any period shall not prejudice LANDLORD's right to render a LANDLORD's Statement during or with respect to any subsequent period, and shall not eliminate or reduce TENANT's obligation to pay TENANT's Tax Share.

5.1.3 TENANT shall pay the TENANT's Tax Share to LANDLORD within fifteen (15) days following receipt by TENANT of

LANDLORD's Statement.

5.1.4 LANDLORD's determination of TENANT's Tax Share pursuant to a LANDLORD's statement shall be binding on TENANT unless TENANT objects in writing to such statement within ninety (90) days after receipt thereof by TENANT.

5.1.5

5.1.5.1 If, as a result of any application or proceeding brought by or on behalf of LANDLORD, LANDLORD shall receive a refund of Taxes for any tax year in respect of which TENANT shall have paid TENANT's Tax Share, LANDLORD shall promptly notify TENANT thereof and shall either pay to TENANT, or permit TENANT to credit against subsequent payments of Rent under this Lease, TENANT's Proportionate Share of the refund, less TENANT's Proportionate Share of any reasonable attorney's or consultant's fees and expenses incurred by LANDLORD by reason of such application;

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5.1.5.2 In the event that (a) LANDLORD elects not to make timely application to contest or review by appropriate legal proceedings the amount of the assessment for Real Property Taxes during each year of the term of this Lease and to prosecute such application with due diligence in order to seek a reduction in such assessment, and (b) TENANT shall have notified LANDLORD that TENANT would like the opportunity to make such application for any given year, unless LANDLORD shall have notified TENANT of its election to make such application no later than seven (7) days prior to the last date for the filing of such application, TENANT shall have the right to file such application and LANDLORD shall cooperate with TENANT and shall execute any documents reasonably required in furtherance thereof. TENANT shall be entitled to receive TENANT's Proportionate Share of any refund resulting from such application, after deducting from such refund the fees and expenses incurred by TENANT in connection therewith. LANDLORD shall pay to TENANT such amount if the refund is initially received by LANDLORD.

5.2 Common Area Maintenance ("CAM") Charges

- 5.2.1 As and for its share of the LANDLORD's cost of repairing, maintaining, replacing and operating the Common Areas (as defined in Section 7.1 below), the TENANT shall pay to LANDLORD an amount ("CAM Charges") equal to Thirty-eight Thousand, Five Hundred Ninety (\$38,590.00) Dollars per annum, in equal monthly installments of Three Thousand, Two Hundred Fifteen and Eighty Three Hundredths (\$3,215.83) Dollars each, beginning as of the first day of January, 1993.
- 5.2.2 The amount of CAM Charges shall be increased as of January 1 of each year during the Term (including each extension term) beginning January 1, 1994 by an amount equal to Five (5%) percent of the amount of CAM Charges for the prior year.
- 5.2.3 The amount of CAM Charges as determined pursuant to this Section 5.2 shall be the sole responsibility of the TENANT with respect to LANDLORD's cost of operating, maintaining, repairing or replacing the Common Areas, notwithstanding the actual cost thereof incurred by LANDLORD.

6. INSURANCE AND INDEMNITY

6.1 Liability Insurance

During the Lease Term, TENANT shall maintain policies of comprehensive public liability insurance at TENANT's expense, insuring LANDLORD against liability arising out of the use or occupancy or maintenance of the Leased Premises. The initial amount of such liability insurance shall be at least \$1,000,000 per occurrence combined single limit with at least a \$2,000,000 annual aggregate. If TENANT has operations at more than one location, the TENANT's policy should be endorsed to provide that the aggregate apply to the Leased Premises separately from such other locations.

6.2 Indemnity by TENANT

Except as provided below, TENANT shall indemnify LANDLORD against and hold LANDLORD harmless from any and all costs, claims or liability (hereafter collectively referred to as "Damages") arising from: (a) TENANT's negligent or willful misuse of the Leased Premises, (b) the conduct of TENANT's business or anything else done or permitted by TENANT to be done in or about the Leased Premises; (c) any material breach or default in the performance of TENANT's obligations under this Lease; (d) any knowing misrepresentation or material breach of warranty by TENANT under this lease; or (e) other wrongful acts or omissions of TENANT causing injury to LANDLORD; provided, however,

that no such duty to indemnify or hold harmless shall arise to the extent that the Damages arise out of the negligent or willful misconduct of LANDLORD or LANDLORD's breach of this Lease. TENANT shall defend LANDLORD against any such Damages at TENANT's expense with counsel reasonably acceptable to LANDLORD. As a material part of the consideration to LANDLORD, TENANT hereby assumes all risk of damage to property or injury to persons in or about the Leased Premises arising from any cause, and TENANT hereby waives all claims in respect thereof against LANDLORD, except for any claim arising out of LANDLORD's negligence or wilful misconduct. This Indemnity and Hold Harmless clause must be included in the public liability and property damage insurance policies and should be so stated on the Certificate of Insurance.

6.3 Indemnity by LANDLORD

Except as provided below, LANDLORD shall indemnify TENANT against and hold TENANT harmless from any and all Damages arising from: (a) LANDLORD's negligent or willful misuse of the Leased Premises, (b) the conduct of LANDLORD's business or anything else done or permitted by LANDLORD to be done in or about the Leased Premises; (c) any material breach or default in the performance of LANDLORD's obligations under this Lease; (d) any knowing misrepresentation or material breach of warranty by LANDLORD under this lease; or (e) other wrongful acts or omissions of LANDLORD causing injury to TENANT; provided, however, that no such duty to indemnify or hold harmless shall

arise to the extent that the Damages arise out of the negligent or willful misconduct of TENANT or TENANT's breach of this Lease. LANDLORD shall defend TENANT against any such Damages at LANDLORD's expense with counsel reasonably acceptable to TENANT.

6.4 Hazard and Rental Income Insurance

During the term of the lease and any extension period, TENANT shall maintain a policy(ies) of insurance at TENANT's expense for the benefit of the LANDLORD, covering all leasehold improvements and betterments of the Leased Premises, to the extent that said improvements or betterments belong to the LANDLORD under this Lease, for full replacement value of not less than \$100,000.00 and loss of business income coverage of not less than at least one years rent, estimated pro-rata share of real property taxes and common area charges. Such policies shall be written under a "special perils" or broader form of insurance and shall name the LANDLORD as an

additional insured and loss payee as respects the above subjects of insurance. Such policy(ies) shall contain a provision obligating the insurer(s) to provide a 30 day written notice of non-renewal or material change of coverage and a provision stating that the LANDLORD has no obligation of any kind for the payments of premiums under the policy(ies). Deductibles, if any, under the policy(ies) shall apply to TENANT's portion of any losses.

6.5 Payment of Insurance Premiums

TENANT shall pay all premiums for the insurance policies covering the Leased Premises described above and evidence of payment of the insurance premiums for all of the aforementioned policies must be submitted to the LANDLORD within twenty (20) days after commencement date of the policies or the due date of premium, whichever is later. All insurance shall be maintained with companies, licensed to do business in New York on an admitted basis by the New York State Insurance Department, holding a "General Policyholder's Rating" of B+ or better, as set forth in the most current issue of "Best's Insurance Guide." TENANT shall be liable for the payment of any deductible amount under insurance policies.

6.6 Insurance Certificate

The LANDLORD shall be an additional assured under the policies required by this Section 6. The TENANT shall, within five (5) days of signing a Lease, supply the LANDLORD with Certificates of Insurance, reflecting the stated limits of insurance carried and excess, if any, naming the LANDLORD as an assured, and such Certificates shall have thirty (30) days written notice of cancellation to the LANDLORD without any obligation for premium payments by LANDLORD.

6.7 LANDLORD's Obligation to Maintain Property and Liability Insurance

At all times during the Term, LANDLORD shall, at its sole cost and expense, maintain policies of comprehensive public liability insurance having a coverage limit of not less than \$2,000,000 and property damage insurance for the full replacement value of the Project.

7. COMMON AREAS AND COMMON AREA CHARGES

7.1 Common Areas:

As used in this Lease, "Common Areas" means, with respect to the contiguous properties owned by LANDLORD at 100 Rusten Corporate Park ("the Project") in which the Leased Premises are located, those areas, equipment and facilities which are or become available for the common use of tenants of the Project and which are not leased or held for the exclusive use of TENANT or other tenants under existing agreements, including, but not limited to, building systems, parking areas, driveways, sidewalks, loading areas, access roads, corridors landscaping and planted areas. LANDLORD may from time to time change the size, location, nature and use of any of the Common Areas into leasable areas, constructing additional parking facilities (including parking structures) in the Common Areas, and increasing or decreasing Common Area land and/or facilities. TENANT acknowledges that such activities may result in occasional inconvenience to TENANT from time to time. Such activities and changes shall be expressly permitted if they do not materially affect TENANT's use, occupancy and enjoyment of the Leased Premises.

7.2 Use of Common Areas

TENANT shall have the nonexclusive right (in common with other tenants and all others to whom LANDLORD has granted or may grant such rights) to use the Common Areas for the purposes intended, subject to such reasonable rules and regulations as LANDLORD may establish from time to time on notice to TENANT; provided however, that such rules and regulations shall be applied to all tenants of LANDLORD in a non-discriminatory manner; and provided further, however, that, any rules and regulations shall not increase the rent or other charges due hereunder or in any way materially increase TENANT's duties or materially decrease TENANT's rights under this Lease. TENANT shall abide by such rules and regulations and shall use its reasonable best efforts to cause others who use the Common Areas with TENANT's expressed or implied permission to abide by LANDLORD's rules and regulations. At any time, LANDLORD may close any Common Areas to perform any acts in and to the Common Areas as, in LANDLORD's

reasonable judgement, may be desirable to improve the Project; provided that the same do not materially or adversely affect TENANT's use, occupancy or enjoyment of the Leased Premises. TENANT shall not, at any time, interfere with the rights of LANDLORD, other tenants, or any other person entitled to use the Common Areas.

7.3 Specific Provisions Re: Vehicle Parking

TENANT shall be entitled to use the vehicle parking spaces in the

Project without payment of any additional rent. TENANT's parking shall not be reserved (provided however, that the parking available to TENANT as of the date hereof shall not be materially reduced or restricted) and shall be limited to vehicles no larger than standard size automobiles or pickup utility vehicles. TENANT shall not cause large trucks or other large vehicles to be parked within the front of Project or on the adjacent streets. Temporary parking of large delivery vehicles in the Project shall be permitted by the rules and regulations established by LANDLORD. Vehicles shall be parked only in striped parking spaces and not in driveways, loading areas or other locations not specifically designed for parking.

7.4 Maintenance of Common Areas

LANDLORD shall maintain the Common Areas in good order, condition and repair, free of ice, snow, or other physical barriers or obstacles to TENANT'S free use of the Leased Premises, and shall operate the Project, as a first class industrial/commercial real property development. TENANT shall pay for any increase in the property insurance premiums for such buildings to the extent caused by TENANT's acts, omissions, use or occupancy of the Leased Premises. The LANDLORD will insure all common areas for liability and property damage two million dollars (\$2,000,000.00) per occurrence.

8. USE OF THE LEASED PREMISES

8.1 Manner of Use

TENANT shall not cause or permit the space to be used in any way which constitutes a violation of any law, ordinance, or governmental regulation or order; provided that the foregoing shall not apply to any violation of laws, rules, codes or other legal requirements applicable to TENANT's pharmaceutical operations within the Demised Premises.

TENANT covenants and agrees not to suffer, permit, introduce or maintain in, on or about any portion of the Leased Premises, any asbestos, polychlorinated biphenyls or any other hazardous or toxic materials, wastes and substances which are defined, determined or identified as such (including petroleum products

if they are defined, determined or identified as such) in any federal, state or local laws, rules or regulations (whether now existing or hereafter enacted or promulgated) or any judicial or administrative interpretation of any thereof, including any judicial or administrative orders or judgments applicable to the Leased

Premises (collectively, "Environmental Laws"), if and to the extent the same constitutes a violation of any Environmental Laws.

8.2 Signs, Auctions, Retail Sales, Etc.

No sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted, or affixed by any TENANT on any part of the outside or inside of the demised premises or building without the prior written consent of the LANDLORD, which shall not be unreasonably withheld, and, if required, any appropriate local governmental body. In the event of the violation of the foregoing by any TENANT, LANDLORD may remove same without any liability, and may charge the expense incurred by such removal to the TENANT or TENANTS violating these rules. Interior signs on doors shall be inscribed, painted or affixed at the expense of the TENANT, and shall be of a size, color and style acceptable to the LANDLORD, such acceptability to not be unreasonably withheld, and, if required, by Municipal Agencies and Departments. TENANT shall not conduct or permit, unless required by law or court order, any retail sales, auctions, or sheriff's sales at the Leased Premises. The LANDLORD will maintain a Building Directory and the TENANT will be given two (2) listings at no charge. If the TENANT will require additional listings, the TENANT will pay the LANDLORD the cost for each additional listing.

8.3 LANDLORD's Access

LANDLORD or its agents may enter the Leased Premises during business hours to show the Leased Premises to potential buyers, investors, or other parties, or for any other purpose LANDLORD deems necessary or, during the last nine (9) months of the Lease Term, to show the Leased Premises to potential tenants, . LANDLORD shall give TENANT prior written notice of such entry, except in the case of an emergency and shall use its best efforts to minimize disruption of TENANT's business. LANDLORD may place customary "For Sale" or "For Lease" signs on the Leased Premises no earlier than 9 months prior to the termination of this Lease. During the Lease Term, except as specifically authorized in writing by TENANT, LANDLORD shall not take photographs, make drawings of, or in any other way reproduce the interior of the Leased Premises. Any action taken by the LANDLORD under this Paragraph shall not disrupt the TENANT's business.

8.4 Quiet Possession

If TENANT pays the rent and complies with all other terms of this

Lease, TENANT may occupy and enjoy the Leased Premises for the full Term, subject to the provisions of this Lease.

9. CONDITION OF LEASED PREMISES, MAINTENANCE, TENANT REPAIRS AND ALTERATIONS

9.1 Existing Conditions

Except with respect to the roof, and as otherwise provided in Sections 9.2, 9.3 and 9.4 and 9.6.1 in this Lease, TENANT accepts the Leased Premises in its current condition. TENANT shall be responsible for watertightness of any installation of any equipment heretofore or hereafter installed by TENANT on the roof of any building. TENANT shall be responsible for any damage caused to the roof due solely to the installation or maintenance of any equipment by TENANT. Except as provided in this Paragraph 9.1, nothing herein contained shall be deemed or construed to relieve the LANDLORD of its liability to maintain the roof in good repair and condition.

9.2 Compliance with Laws

LANDLORD shall perform all alterations, structural or non-structural, which shall be required or appropriate in order that the current main, exterior entrances to the Leased Premises (one in each of the buildings) comply with the provisions of the Americans With Disabilities Act, to the extent applicable to the Leased Premises.

9.3 Obligation to Maintain Leased Premises

Subject to the other provisions of this Lease, TENANT shall have responsibility to repair, maintain or replace all portions of the Leased Premises; provided however, that, subject to the provisions of Section 9.6.1 below, LANDLORD shall have responsibility to repair, maintain or replace the sprinkler system (except to the extent the same shall be due to TENANT's improper installation of the same), and structural elements of the Building, including without limitation roof, exterior walls (excluding windows and exterior doors and overhead doors, which shall be the obligation of TENANT to maintain, repair or replace) and floor slabs. In the event that LANDLORD fails to perform any obligation on its part to be performed within ninety (90) days after notice from TENANT (or within such lesser period of time as may be reasonable in the event of any emergency), TENANT shall have the right to perform such obligation. In that event, LANDLORD shall reimburse TENANT for the reasonable cost thereof, with interest thereon at the Default Rate.

9.4 Additional Electrical Requirements of TENANT

The TENANT will notify the LANDLORD by July 15, 1993 of any additional electrical supply requirements of TENANT. The LANDLORD shall cause such additional electrical supply to be provided to TENANT within ninety (90) days after such notice into the meter room of buildings "A" and "B". During the term of the Lease the LANDLORD shall have no further obligation to provide any modification to the electrical power system. The TENANT will provide it's own distribution of the electrical power from the meter rooms to its Premises.

9.5 Exemption of LANDLORD from Liability

9.5.1

LANDLORD shall not be liable for any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of TENANT, TENANT's employees, invitees, customers or any other person in or about the Leased Premises, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions arising in or about the Leased Premises or upon other portions of the Project of which the Leased Premises is a part, or from other sources or places; or (d) any act or omission of any other tenant of the Project which the Leased Premises is a part. LANDLORD shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to TENANT. The provisions of this Section shall not, however, exempt LANDLORD from any damage, injury or other liability arising out of LANDLORD's negligence, willful misconduct, or breach of this Lease.

9.5.2

LANDLORD (and, in case LANDLORD shall be a joint venture, partnership, tenancy-in-common, association or other form of joint ownership and the members of any such joint venture, partnership, tenancy-in-common, association or other form of joint ownership) shall have absolutely no personal liability with respect to any provision of this Lease, or any obligation or liability arising therefrom or in connection herewith. TENANT shall look solely to the equity of the then owner of the Demised Premises in the Demised Premises (or, if the interest of LANDLORD and the Demised Premises is only a leasehold interest, TENANT shall look solely to such leasehold interest) for the satisfaction of any remedies of TENANT in the event

of a breach by LANDLORD of any of its obligations. Such exculpation of liability shall be absolute and without any exception whatsoever. Notwithstanding the foregoing, TENANT shall have the right to offset or deduct from amounts otherwise due and

owing to LANDLORD under this Lease, amounts due from LANDLORD to TENANT under this Lease.

9.6 TENANT's Obligations

9.6.1 Maintenance

Without limiting the LANDLORD's responsibility to maintain the building, TENANT shall keep the Leased Premises (including any systems and equipment constituting a part of the Leased Premises, but excluding any Common Area or building systems which are intended to service more than one tenant at the Project) in good order during the Lease Term. TENANT shall also maintain a preventive maintenance contract providing for the regular inspection and maintenance of the heating and air conditioning system by a licensed heating and air conditioning contractor. However, in the event that TENANT fails to do so, LANDLORD shall have the right, upon thirty (30) days prior written notice to TENANT, to undertake the responsibility for preventive maintenance of the heating and air conditioning system, at TENANT's reasonable expense. It is the intention of the LANDLORD and TENANT that, at all times during the Lease Term, TENANT shall maintain the Leased Premises in an attractive, first-class and fully operative condition. TENANT may not do any non-structural alterations to the exterior of the Leased Premises or the Common Areas. TENANT may not do or make any structural alterations to the interior of the leased areas (including the sprinkler system) without written consent of the LANDLORD; provided that such consent shall not be unreasonably withheld. LANDLORD hereby consents to TENANT making those improvements set forth on the schedule annexed hereto as Exhibit B, subject to compliance by TENANT with all applicable municipal laws, regulations and requirements.

In the event that TENANT undertakes any alterations to the sprinkler system in the Leased Premises, TENANT shall use such contractor as LANDLORD shall designate or approve; provided however, that if the estimated cost of such alterations exceeds \$7,500 (plus 5% per annum of such amount to the date TENANT seeks to make such alterations) TENANT shall use such contractor as LANDLORD shall approve, which approval shall not be unreasonably withheld or delayed.

Notwithstanding anything contained in Section 9.3 of the Lease,

TENANT shall be responsible for any defects in and the maintenance of any alterations to the sprinkler system which it has heretofore, or shall hereafter make, unless such alterations are made pursuant to TENANT's right to cure a default by LANDLORD under this Lease.

9.6.2 Liens or Encumbrances

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The TENANT shall use its reasonable best efforts to not cause any liens or encumbrances to be filed against the Leased Premises. If any liens or encumbrances are be filed, the TENANT will remove any liens or encumbrances of record, by bonding or otherwise, within thirty (30) days after written notice to TENANT. TENANT shall pay when due all proper claims for labor and material furnished at its request to the Leased Premises. TENANT shall give LANDLORD at least ten (10) days prior written notice of the commencement of any non-regular maintenance work by outside contractors on the Leased Premises or any work by its employees that involves any material change to the Leased Premises. Nothing contained in this paragraph shall be construed to allow LANDLORD to prevent any such lawful work from being performed provided that the work does not cause any damage to the Leased Premises. LANDLORD may elect to record and post notices of non-responsibility on the Leased Premises.

9.6.3 LANDLORD's Right to Perform Repairs

If TENANT fails to maintain and repair the Leased Premises as and to the extent required under this Lease, LANDLORD may, on ten (10) days prior written notice (except that no written notice shall be required in case of emergency provided that LANDLORD shall have unsuccessfully made a good faith effort to notify TENANT other than in writing) enter the Leased Premises and perform such repair and maintenance on behalf of TENANT. In such case, TENANT shall reimburse LANDLORD for all reasonable costs so incurred within ten (10) days after demand by LANDLORD.

10. DAMAGE OR DESTRUCTION

10.1 Notice by TENANT to LANDLORD of Damage to Leased Premises

TENANT shall notify LANDLORD in writing immediately upon the occurrence of any damage to the Leased Premises of greater than \$1,000.

10.2 Partial Damage to Leased Premises

10.2.1

If the Leased Premises or any part thereof shall be damaged by fire or other casualty, TENANT shall give immediate notice thereof to LANDLORD and this Lease shall continue in full force and effect except as hereinafter set forth.

10.2.2

If the Leased Premises are partially damaged or rendered partially unusable by fire or other casualty, the damages thereto shall be repaired by and at the expense of LANDLORD and the rent, until such repair shall be substantially completed, shall be abated from the day following the casualty according to the part of the premises which is unusable.

10.3 Total or Substantial Destruction

If the Leased Premises are totally damaged or rendered wholly unusable by fire or other casualty, then the rent shall be proportionately paid up to the time of the casualty and thenceforth shall cease until the date when the premises shall have been repaired and restored by LANDLORD. LANDLORD shall make the repairs and restorations under the conditions of 10.2.2 hereof, with all reasonable expedition subject to delays due to adjustment of insurance claims, labor troubles and causes beyond LANDLORD's control. After any such casualty, TENANT shall cooperate with LANDLORD's restoration by removing from the premises as promptly as reasonably possible, all of TENANT's salvageable inventory and movable equipment, furniture, and other property. Tenant's liability for rent shall resume (30) days after written notice from LANDLORD that the premises are substantially ready for TENANT's occupancy. For purposes of this section, the term "substantially ready" shall mean that LANDLORD shall have restored the Leased Premises to substantially the same condition as at January 1, 1993. TENANT shall have the right to enter upon the Leased Premises during the period that LANDLORD is restoring the Leased Premises for the purpose of performing work or installations as it may elect in order to prepare the Leased Premises for occupancy. Nothing herein is intended to affect the TENANT's obligation to maintain business interruption insurance pursuant to Section 6.4 above.

10.4 Waiver of Subrogation

Nothing contained hereinabove shall relieve TENANT from liability

that may exist as a result of damage from fire or other casualty. Notwithstanding the foregoing, each party shall look first to any insurance in its favor before making any claim against the other party for recovery for loss or damage resulting from fire or other casualty, and to the extent that such insurance is in force and collectible and to the extent permitted by law, Owner and TENANT each hereby releases and waives all right of recovery against the other or any one claiming through or under each of them by way of subrogation or otherwise. The foregoing release and waiver shall be in force only if both releasors' insurance policies contain a clause providing that such a release or waiver shall not invalidate the insurance; provided that Owner and TENANT each covenants to

obtain such waiver of subrogation clause. TENANT acknowledges that Owner will not carry insurance of TENANT's furniture and/or furnishings, on any fixtures or equipment, improvements, or appurtenances removable by TENANT and agrees that Owner will not be obligated to repair any damage thereto or replace the same.

10.5 Obligation For Rent Following Casualty

Notwithstanding the provisions of Sections 10.2.2 or 10.3, in the event of a casualty loss or damage to the Leased Premises, except due to the acts or omissions of LANDLORD, TENANT shall be liable to LANDLORD for the payment of rent, notwithstanding that the Leased Premises are not then tenantable, if and only to the extent of insurance proceeds actually paid to or on behalf of TENANT by TENANT's insurance company. Nothing herein contained is intended to reduce or otherwise affect TENANT's obligation to maintain loss of business income insurance coverage pursuant to Section 6.4 of this Lease.

10.6 Waiver of RPL Section 227

TENANT hereby waives the provisions of Section 227 of the Real Property Law and agrees that the provisions of this article shall govern and control in lieu thereof.

11. CONDEMNATION

If all or any portion of the Leased Premises is taken under the power of eminent domain or sold under the threat of that power (all of which are called "Condemnation"), this Lease shall terminate as to the part taken or sold on the date the condemning authority takes title or possession, whichever occurs first. If more than twenty percent (20%) of the floor

area of the building in which the Leased Premises is located, or which is located on the Leased Premises, is taken, either LANDLORD or TENANT may terminate this Lease as of the date the condemning authority takes title or possession, by delivering written notice to the other within thirty (30) days after receipt of written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority takes possession). If neither LANDLORD nor TENANT terminates this Lease, this Lease shall remain in effect as to the portion of the Leased Premises not taken, except that the Base Rent shall be reduced in proportion to the reduction in the floor area of the Leased Premises.

Any condemnation award or payment shall be distributed in the following order: (a) first, to any ground lessor, mortgages or beneficiary under a deed of trust encumbering the Leased Premises, the amount of its interest in the Leased Premises; (b) second, to TENANT, only the amount of any award specifically designated for loss of or damage to TENANT's trade fixtures, leasehold

improvements, business, or removable personal property, and, even if not so designated, for TENANT's moving expenses associated with the condemnation; and (c) third, to LANDLORD, the remainder of such award, whether as compensation for reduction in the value of the leasehold, the taking of the fee or otherwise. If this Lease is not terminated, LANDLORD shall repair any damage to the Leased Premises caused by the Condemnation, except that LANDLORD shall not be obligated to repair any damage for which TENANT has been reimbursed by the condemning authority. If the severance damages received by LANDLORD are not sufficient to pay for such repair, LANDLORD shall have the right to either terminate this Lease or make such repair at LANDLORD's expense.

12. ASSIGNMENT AND SUBLETTING

12.1 LANDLORD's Consent Required

No portion of the Leased Premises or of TENANT's interest in this Lease may be acquired by any other person or entity, whether by assignment, mortgage, sublease, transfer, operation of law, or act of TENANT, without LANDLORD's prior written consent, except as provided in Paragraph 12.2 below, which shall not be unreasonably withheld. Any attempted transfer without consent shall be void and shall constitute a non-curable breach of this Lease.

12.2 TENANT Affiliate

TENANT may assign this Lease or sublease the Leased Premises without

LANDLORD's consent, to any corporation which controls, is controlled by or is under common control with TENANT, or to any corporation resulting from the merger of or consolidation with TENANT ("TENANT's Affiliate"). In such case, any TENANT's Affiliate shall assume in writing all of TENANT's obligations under this Lease.

12.3 No Release of TENANT

No transfer permitted by this Article whether with or without LANDLORD's consent, shall release TENANT or change TENANT's primary liability to pay the rent and to perform all other obligations of TENANT under this Lease. LANDLORD's acceptance of rent from any other person is not a waiver of any provision of this Article. Consent to one transfer is not a consent to any subsequent transfer. If TENANT's transferee defaults under this Lease, LANDLORD may proceed directly against TENANT without pursuing remedies against the transferee. Such action shall not relieve TENANT's liability under this Lease.

12.4 LANDLORD's Election

TENANT's request for consent to any transfer described in Paragraph 12.1 above shall be accompanied by a written statement setting forth in summary fashion the details of the proposed transfer, including the name, business and (if available through the reasonable efforts of TENANT) financial condition of the prospective transferee, and financial details of the proposed transfer (e.g., the term of and rent and security deposit payable under any assignment or sublease). LANDLORD shall have the right (a) to withhold consent, if reasonable; or (b) to grant consent.

12.5 No Merger

No merger shall result from TENANT's sublease of the Leased Premises under this Article, TENANT's surrender of this Lease or the termination of this Lease in any other manner. In any such event, LANDLORD may terminate any or all subtenancies or succeed to the interest of TENANT as LANDLORD thereunder.

13. DEFAULTS; REMEDIES

13.1 Events of Default

If TENANT shall make default in fulfilling any of the covenants of this Lease including the covenant for the payment of Rent, and if such default shall not have been cured within: (a) fifteen (15) days after receipt by TENANT of written notice with respect to Rent, CAM Charges or Real Property Taxes or (b) thirty (30) days after receipt of written notice with respect to either (i) any other payments herein required to be made by Tenant or (ii) if such default involves the fulfillment of any of the other covenants of this Lease, then LANDLORD may give TENANT additional twenty (20) day written notice of intention to end the term of this Lease and at the expiration of said twenty (20) days (if said default continues to exist, or if TENANT shall not then be diligently engaged in good faith in prosecuting any work necessary to cure such default or in taking the steps necessary to remedy such default), the term of this Lease shall expire as fully and completely as if that day were the day herein definitely fixed for the expiration of the term, and TENANT will then quit and surrender the Leased Premises to LANDLORD, but TENANT shall remain liable as hereinafter provided.

13.2 Eviction Proceedings

If the last notice provided for in Section 13.1 hereof shall have been given, and the term shall have expired as aforesaid; or if any execution of attachment shall be issued against TENANT or any of TENANT's property whereupon the Leased Premises shall be taken or occupied by someone other than TENANT' then, and in any of such events, LANDLORD may

dispossess TENANT and the legal representative of TENANT or other occupant of the Leased Premises by summary proceedings and remove their effects and hold the Leased Premises as if this Lease had not been made.

13.3 Liquidated Damages

In case of any default or dispossess by summary proceedings, (i) the Rent shall become due thereupon and be paid up to the time of such events, together with such reasonable expenses as LANDLORD may incur for legal expenses, attorneys' fees, brokerage and/or putting the Leased Premises in good order, or for preparing the same for re-rental; (ii) LANDLORD shall use its reasonable efforts to relet the Leased Premises; either in the name of LANDLORD or otherwise, for a term or terms which may as LANDLORD's option be less than or exceed the period which would otherwise have constituted the balance of the term of this Lease; and/or (iii) TENANT or its legal representatives

shall also pay LANDLORD, as liquidated damages for the failure of TENANT to observe and perform said TENANT's covenants herein contained, any deficiency between the Rent hereby reserved and/or covenanted to be paid and the net amount, if any, of the rents collected on account of the lease or leases of the Leased Premises for each month of the period which would otherwise have constituted the balance of the term of this Lease. In computing such liquidated damages there shall be added to the said deficiency such reasonable expenses as LANDLORD may incur in connection with reletting, such as legal expenses, attorneys' fees, brokerage and for keeping the Leased Premises in good order or for preparing the same for reletting. Any such liquidated damages shall be paid in monthly installments by TENANT on the days specified in this Lease for the payment of Rent, and any suit brought to collect the amount of the deficiency for any month shall not prejudice in any way the rights of LANDLORD to collect the deficiency for any subsequent month by a similar proceeding. LANDLORD, at its option, may make such reasonable alterations and/or decorations in the Demised Premises as LANDLORD in its sole reasonable judgment considers advisable and necessary for the purpose of reletting the Demised Premises; and the making of such alterations and/or decorations shall not operate or be construed to release TENANT from liability hereunder as aforesaid. Provided that LANDLORD shall have used reasonable efforts to relet the Demised Premises, LANDLORD shall in no event be liable in any way whatsoever for failure to relet the Demised Premises, or in the event that the Demised Premises are relet for failure to collect the rent thereof under such reletting. In the event of a breach by TENANT of any of the covenants or provisions hereof, LANDLORD shall have the right of injunction and the right to invoke any remedy allowed at law or in equity as if summary proceedings and other remedies were not herein provided for. Mention in this Lease of any particular remedy, shall not

preclude LANDLORD from any other remedy in law or in equity. TENANT hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of TENANT being evicted or dispossessed for any cause, or in the event of LANDLORD obtaining possession of Demised Premises, by reason of the violation by TENANT of any of the covenants and conditions of this Lease, or otherwise.

14. PROTECTION OF LENDER

14.1 Subordination

Upon compliance with the provisions of Section 14.5 below, this Lease

shall be subordinated to any ground lease, deed of trust or mortgage encumbering the Leased Premises, any advances made on the security thereof, any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. However, TENANT's right to quiet possession of the Leased Premises during the Lease Term shall not be disturbed if TENANT pays the rent and performs all of TENANT's material obligations under this Lease and is not otherwise in material default.

14.2 Successor LANDLORD

If LANDLORD's interest in the Leased Premises is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee, or purchaser at a foreclosure sale, TENANT shall execute such reasonable documents as may be necessary to recognize such transferee or successor as the LANDLORD under this Lease. TENANT waives the protection of any statute or rule of law which gives or purports to give TENANT any right to terminate this lease or surrender possession of the Leased Premises upon the transfer of LANDLORD's interest. Any such successor landlord shall be deemed to assume each and every obligation of LANDLORD under this Lease.

14.3 Signing of Documents

TENANT shall sign and deliver any instrument or documents reasonably necessary to effect the provisions of Paragraphs 14.1 and 14.2 provided the same otherwise complies with the provisions of this Section 14. Such documents may contain such provisions as are customarily required by any ground lessor, beneficiary under a deed or trust or mortgagee. If TENANT fails to do so within thirty (30) days after receiving written notice and/or request by the landlord via Certified Mail, TENANT hereby makes, constitutes and irrevocably appoints LANDLORD, or any transferee or successor of LANDLORD, the attorney-in-fact for TENANT to execute and deliver any such instrument or document.

14.4 Estoppel Certificates

Within twenty (20) days after written request, either party shall execute, acknowledge and deliver to the other a written statement certifying to the best of their knowledge: (I) that this Lease has not been cancelled or terminated; (II) the last date of payment of the Base Rent and other charges and the time period covered by such payment; (III) that neither is in default under this Lease (or, if

either party is claimed to be in default, stating why); and (IV) such other matters as may be reasonably required. Any such statement by TENANT may be given by LANDLORD to any prospective purchaser or encumbrancer of the Leased Premises. Such purchaser or encumbrancer may rely conclusively upon such statement as true and correct. Nothing contained in any such certificate shall be deemed a waiver of any breach by LANDLORD or an admission that there are no breaches by LANDLORD if TENANT does not have actual knowledge of an existing breach that is not disclosed in the certificate.

If TENANT or LANDLORD does not deliver a statement requested by the other party within such twenty (20) day period, the other party, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts: (I) that the terms and provisions of this Lease have not been changed except as otherwise represented by that party; (II) that this Lease has not been cancelled or terminated except as otherwise represented by that party; (III) that not more than one month's base Rent or other charges have been paid in advance; and (IV) that that party is not in default under the Lease. In such event, the party failing to respond to the request of the other under the prior paragraph for a written statement shall be estopped from denying the truth of such facts.

14.5 Non-Disturbance Agreement. LANDLORD covenants and agrees to obtain

and to deliver to TENANT on or prior to execution of this Lease, a "non-disturbance" agreement in writing executed by the holders of any mortgage and any ground lessor affecting the Demised Premises which, in substance, shall provide that any mortgagee or ground lessor shall recognize the validity and continuance of this Lease in the event of a foreclosure of the LANDLORD's interest in and to the Demised Premises so long as TENANT shall not be in default hereunder, including applicable grace period (but subject to no other conditions or qualifications) or to exhibit to TENANT a true copy of any mortgage or mortgages or ground lease affecting the fee, which shall provide in a separate clause that the holder of said mortgage or mortgages or ground lease shall recognize the validity and continuance of this lease in the event of a foreclosure of the LANDLORD's interest in and to the Demised Premises so long as TENANT herein shall not be in default,

including applicable grace period (but subject to no other conditions or qualifications). If and only if such a "non-disturbance" agreement is delivered to TENANT, this Lease shall be subject and subordinate to the mortgages or ground leases which may affect the real property of which the Demised Premises forms a part. This clause shall be self-operative and no further instrument or

subordination shall be required.

14.6 Collateral Assignment of Lease

Attached to this Lease as Exhibit C is a Collateral Assignment of Lease which shall be separately executed by LANDLORD. In addition, LANDLORD shall use its reasonable best efforts to secure the approval of, and signature to, the Collateral Assignment of Lease by any present mortgage holder of the property of which the Leased Premises are a part.

15. CONDITION OF LEASED PREMISES UPON END OR TERMINATION OF LEASE

Upon the termination of the Lease, TENANT shall surrender the Leased Premises to LANDLORD, broom clean and in substantially the same condition as of December 31, 1992, except for casualty loss and ordinary wear and tear which TENANT was not otherwise obligated to remedy under any provision of this Lease and free of all toxic and hazardous materials; provided however, TENANT shall not be obligated to either: (a) repair any damage which LANDLORD is required to repair under Article 9 or (b) except upon at least six (6) months' prior written notice from LANDLORD, remove any alterations, additions or improvements made after December 31, 1992 (whether or not made with LANDLORD's consent) at TENANT's expense; provided that, as to any alterations, additions or improvements for which LANDLORD's consent shall have been obtained, the LANDLORD shall not require such removal unless so provided in such consent. All alterations, additions and improvements shall become LANDLORD's property and shall be surrendered to LANDLORD upon the termination of the Lease, except that TENANT shall remove any of TENANT's machinery, trade fixtures or equipment which can be removed without material damage to the Leased Premises. TENANT shall repair, at TENANT's expense, any damage to the Leased Premises caused by the removal of any such machinery, trade fixtures or equipment. In no event, however, shall TENANT remove any of the following materials or equipment without LANDLORD's prior written consent: any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes; blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment (except window or other portable heating or air conditioning units purchased); fencing or security gates; or other similar building operating equipment.

16. LEGAL COSTS

16.1 TENANT's Duties to LANDLORD Regarding Legal Proceedings

TENANT shall reimburse LANDLORD, upon demand, for any reasonable costs or expenses incurred by LANDLORD in connection with any material

breach or default of TENANT under this Lease, whether or not suit is commenced or judgement entered. Such costs shall include legal fees and costs incurred for the negotiation of a settlement, enforcement of rights or otherwise. Furthermore, if any action for material breach of or to enforce the provisions of this lease is commenced, the court in such action shall award to the party in whose favor a judgement is entered, a reasonable sum as attorney's fees and costs. Such attorneys' fees and costs shall be paid by the losing party in such action. TENANT shall also indemnify LANDLORD against and hold LANDLORD harmless from all costs, expenses, demands and liability incurred by LANDLORD if LANDLORD becomes or is made a party to any claim or action (a) instituted by TENANT, or by any third party against TENANT, or by or against any person holding any interest under or using the Leased Premises by License of or agreement with TENANT; (b) for foreclosure of any lien for labor or material furnished to or for TENANT or such other person; (c) otherwise arising out of or resulting from any wrongful act or transaction of TENANT or such other person; provided, however, that no such duty shall arise to the extent such claim or action arises out of the negligence or willful misconduct of LANDLORD. TENANT shall defend LANDLORD against any such claim or action at TENANT's expense with counsel reasonably acceptable to LANDLORD.

16.2 LANDLORD'S Duties to TENANT Regarding Legal Proceedings

LANDLORD shall reimburse TENANT upon demand, for any reasonable costs or expenses incurred by TENANT in connection with any material breach or default of LANDLORD under this Lease, whether or not suit is commenced or judgement entered. Such costs shall include legal fees and costs incurred for the negotiation of a settlement, enforcement of rights or otherwise. Furthermore, if any action for material breach of or to enforce the provisions of this lease is commenced, the court in such action shall award to the party in whose favor a judgement is entered, a reasonable sum as attorney's fees and costs. Such attorneys' fees and costs shall be paid by the losing party in such action. LANDLORD shall also indemnify TENANT against and hold TENANT harmless from all costs, expenses, demands and liability incurred by TENANT if TENANT becomes or is made a party to any claim or action (a) instituted by LANDLORD, or by any third party against LANDLORD, or by or against any person alleging to holding any interest under or using the Leased Premises by License of or agreement with LANDLORD (b) for foreclosure of any lien for labor or material furnished to or for LANDLORD or such person other than TENANT; (c) or otherwise arising out of or resulting from any wrongful act or transaction of LANDLORD or such other person; provided, however, that no such duty shall arise to the extent

such claim or action arises out of the negligence or willful

misconduct of TENANT. LANDLORD shall defend TENANT against any such claim or action at LANDLORD's expense with counsel reasonably acceptable to TENANT.

17. BROKERAGE

17.1 No Other Brokers

Each party warrants that this Lease was brought about by C.B. Commercial Real Estate Group, Inc. (the "Broker") as real estate broker and that no other real estate brokers or other person acting as such, other than the Broker, were consulted or dealt with by it in connection with or had any part in interesting it to enter into this Lease. Landlord shall pay the commissions of Broker in accordance with Landlord's separate written agreement therewith. Each party shall indemnify, defend and hold the other harmless from any and all liability or expense, including but not limited to reasonable attorney's fees, incurred by the other because of any claim for commissions, fees or other compensation made by any person, other than the Broker, due to the acts or omissions of such party and arising out of or in connection with the execution of this Lease or any conversations or negotiations with respect thereto.

17.2 TENANT's Right to Pay Broker

Notwithstanding any provision to the contrary contained in the Lease, in the event TENANT is notified by the Broker in writing, by certified mail, return receipt requested, that LANDLORD has failed to pay any installment of the commission due to the Broker, by reason of this Lease, within thirty (30) days after it is due, then at TENANT'S sole option, TENANT may pay rental payments thereafter due, as the same becomes due under this Lease, to the Broker until the entire balance due to Broker has been paid in full. Any payments by TENANT as provided herein shall be credited by LANDLORD against TENANT'S obligation for any rent under the terms and conditions set forth in the Lease. The provisions of this paragraph shall be binding upon the LANDLORD, its heirs, successors and assigns and shall apply to all commissions due, or which may become due, to Broker in connection with the Lease, including commissions which may be, or may become, due upon any renewal or extension of the Lease, or if the TENANT occupies additional space in the LANDLORD's premises. In the event that TENANT elects to pay the Broker as provided in this section, the Broker shall indemnify, and hold harmless the TENANT from any claims, costs or expenses (including attorneys' fees) asserted against or incurred by TENANT as a consequence thereof.

18. MISCELLANEOUS PROVISIONS

18.1 Non-Discrimination -----

TENANT promises, and it is a condition to the continuance of this Lease, that there will be no discrimination against, or segregation of, any person or group of persons on the basis of race, color, age, sex, caste, creed, religion, national origin, disability, sexual preference or ancestry in the leasing, subleasing, transferring, occupancy, tenure or use of the Leased Premises or any portion thereof.

18.2 Definition of LANDLORD -----

As used in this Lease, the term "LANDLORD means only the current owner or owners of the fee title to the Leased Premises or the leasehold estate under a ground lease of the Leased Premises at the time in question. Each LANDLORD is obligated to perform the obligations of LANDLORD under this Lease only during the time such LANDLORD owns such interest or title. Any LANDLORD who transfers its title or interest is relieved of all liability with respect to the obligations of LANDLORD under this Lease to be performed on or after the date of transfer, but not for any claims or actions that arose or accrued prior to such transfer even if not asserted until after the transfer. However, with the prior written consent of TENANT, each LANDLORD may and shall deliver to its transferee all funds previously paid by TENANT if such funds have not yet been applied under the terms of this Lease.

18.3 TENANT's Duty to Give Notice of LANDLORD's Breach of Lease -----

TENANT shall give written notice of any failure by LANDLORD to perform any of its obligations under this Lease to LANDLORD and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Leased Premises whose name and address have been furnished to TENANT in writing. LANDLORD shall not be in default under this Lease unless LANDLORD (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within thirty (30) days after receipt of TENANT's notice. However, if such non-performance reasonably requires more than thirty (30) days to cure, LANDLORD shall not be in default if such cure is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

18.4 Severability -----

A determination by a court of competent jurisdiction that any

provision of this Lease or anypart thereof is illegal or unenforceable shall not cancel or invalidate the remainder of such provision of this Lease, which shall remain in full force and effect.

18.5 Interpretation

The captions of the Articles or Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provisions relating to the conduct, acts or omissions of TENANT, the term "TENANT" shall include TENANT's agents, employees, contractors, invitees, or successors or others acting on behalf of TENANT with TENANT's expressed or implied permission. In any provisions relating to the conduct, acts or omissions of LANDLORD, the term "LANDLORD" shall include LANDLORD's agents, employees, contractors, invitees, successors or others acting on behalf of LANDLORD with LANDLORD's expressed or implied permission.

18.6 Incorporation of Prior Agreements: Modifications

This Lease is the only agreement between the parties pertaining to the lease of the Leased Premises and no other agreements are effective. All amendments to this Lease shall be in writing and signed by all parties. Any other attempted amendment shall be voided.

18.7 Notices

Any notice required or permitted to be given under this Agreement shall be sufficiently given if in writing and delivered by registered or certified mail (return receipt requested), facsimile (with confirmation of transmittal), overnight courier (with confirmation of delivery), or hand delivery to the appropriate party at the address set forth below, or a such other address as such party may from time to time specify for that purpose in a notice similarly given:

If to LANDLORD:

Rusten Corporate Park Associates
100 Red Schoolhouse Road
Chestnut Ridge, NY 10977
Attn: Stephen Iser

If to TENANT:

PAR PHARMACEUTICAL, INC.
One Ram Ridge Road
Spring Valley, NY 10977
Attn: President (with a copy to General Counsel)
Fax: 914-425-7922

Any such notice shall be effective (i) if sent by mail, three business days after mailing, (ii) if sent by facsimile, when

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transmitted, and (iii) if sent by courier or hand delivered, when received.

18.8 Waivers

All waivers must be in writing and signed by the waiving party. Neither a party's failure to enforce any provision of this Lease, nor LANDLORD's acceptance of rent, nor TENANT's continued occupancy of the Leased Premises or payment of Rent or other charges shall be a waiver and shall not prevent that party from enforcing any provision of this Lease in the future. No statement on a payment check from TENANT or in a letter accompanying a payment check shall be binding on LANDLORD. LANDLORD may, with or without notice to TENANT, negotiate such check without being bound to the conditions of such statement.

18.9 No Recordation

TENANT shall not record this Lease without prior written consent from LANDLORD, which consent shall not be unreasonably withheld. However, LANDLORD and TENANT shall execute a "Short Form" memorandum of this Lease in the form annexed hereto, which memorandum may be recorded by either party without further notice

18.10 Binding Effect; Choice of Law

This Lease binds any party who legally acquires any rights or interest in this Lease from LANDLORD or TENANT. However, neither party shall have any obligation to the other's successor unless the rights or interests of either successor are acquired in accordance with the terms of this Lease. The laws of the state of New York, without giving effect to their choice of laws provisions, shall govern this Lease.

18.11 Corporate Authority; Partnership Authority

If either party to this Lease is a corporation, partnership or other form of business entity, each person signing this Lease on behalf of that party represents that he/she has full authority to do so and that this Lease binds the corporation, partnership, or other form of business entity.

18.12 Force Majeure

Neither party shall be considered to be in material default in respect of any obligation hereunder, other than the obligation of a party to make payment of amounts due to the other party under or pursuant to this Agreement, if failure of performance shall be due to Force Majeure as defined below.

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18.12.1 If either party is affected by a Force Majeure event, such party shall, within ten (10) days of its occurrence, give notice to the other party stating the nature of the event, its anticipated duration and any action being taken to avoid or minimize its effect. The suspension of performance shall be of no greater scope or duration than is required and the non-performing party shall use its reasonable best efforts to remedy its inability to perform.

18.12.2 "Force Majeure" shall mean an unforeseeable or unavoidable cause beyond the control and without the fault or negligence of a party including, but not limited to, explosion, flood, war (whether declared or otherwise), accident, labor strike, or other labor disturbance, sabotage, acts of God, the unforeseen unavailability of raw materials essential to the production of a Product, newly enacted legislation, or newly issued orders or decrees of any court or of any governmental body.

18.13 Confidentiality

Except as required by law, process, or other court order, the parties agree that each will keep confidential and not to disclose to any person not a party to this Lease any trade secret, confidential commercial information, or any other information known by one party to be regarded by the other party as proprietary without the prior written consent of the party whose information is to be disclosed. The foregoing sentence shall not restrict disclosure by LANDLORD of such information reasonably required of it by any lender or mortgager having an interest in the Leased Premises or by TENANT to any lending

institution named in any Assignment of Lease or similar document.

18.14 Execution of Lease

This Lease may be executed in counterparts, and, when all counterpart documents are executed, the counterparts shall constitute a single binding instrument. The delivery of this Lease by LANDLORD to TENANT shall not be deemed to be an offer and shall not be binding upon either party until executed and delivered by both parties.

18.15 Fire Protection

The TENANT agrees within five (5) days after taking possession to furnish and maintain any fire extinguishing equipment or similar apparatus as required by any government or quasi-governmental agencies.

18.16 Blinds and Door Sidelights

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The LANDLORD, at TENANT's expense, shall install vertical blinds on windows and horizontal blinds on exterior doors and door sidelights. The TENANT will be responsible to maintain the blinds.

18.17 Glass Replacement

TENANT is responsible for glass replacement in windows, doors and sidelights, and to have this clause inserted in their insurance policies.

18.18 Waiver of Trial by Jury

It is mutually agreed by and between LANDLORD and TENANT that the respective parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other (except for personal injury or property damage) on any matters whatsoever arising out of or in any way connection with this Lease, the relationship of LANDLORD and TENANT, TENANT's use of or occupancy of the Demised Premises, and any emergency statutory or any other statutory remedy.

18.19 Compliance with Laws. (a) Except as otherwise provided in

this Lease, TENANT shall comply with all requirements of all laws,

orders, ordinances and regulations of the federal, state, county and municipal authorities, and with any direction, pursuant to law, of any public officer or officers, which shall impose any duty upon LANDLORD or TENANT with respect to the Demised Premises, or the use and occupation thereof, not involving structural changes, except as herein otherwise provided, and not otherwise involving work which LANDLORD is obligated hereunder to perform. TENANT shall not bring or permit to be brought or kept in or on the Demised Premises, any inflammable, combustible or explosive fluid, material, chemical or substance, except standard cleaning fluid, or except tear gas and other protective equipment, or do or permit to be done, any act or thing upon the Demised Premises which shall or might subject LANDLORD to any liability or responsibility for injury to any person or persons or for any injury or damage to any property by person or persons or for any injury or damage to any property by reason of any business or operation being carried upon the Demised Premises; and shall comply with all rules, orders, regulations or requirements of the New York Board of Fire Underwriters and New York Fire Insurance Exchange, or any other similar body, not involving structural changes, except as herein otherwise provided, and shall not do or permit anything to be done in or upon the Demised Premises, or bring or keep anything therein which shall increase the rate of fire insurance on the Building or on the property located therein.

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If, by reason of the failure of TENANT to comply with the provisions of this Section 18.19, or if because of the nature of TENANT's occupancy, the fire insurance rate shall at any time be higher than it otherwise would be, then TENANT shall reimburse LANDLORD, as additional rent hereunder, for that part of all insurance premiums thereafter paid by LANDLORD which shall have been charged because of such violation by TENANT, and shall make such reimbursement upon the first day of the month following such outlay by LANDLORD. In any action or proceeding wherein LANDLORD and TENANT are parties, a schedule or "make up" of rates for the Building or the Demised Premises issued by the New York Fire Insurance Exchange, or other similar body making fire insurance rates for said premises, shall be conclusive evidence of the facts therein stated and of the several items and charges in the fire insurance rate then applicable to said premises. Notwithstanding the foregoing, the TENANT shall have no liability to LANDLORD for any matters arising out of the lawful and proper conduct of business by TENANT for the uses permitted under Section 2 of this Lease.

(b) If any law, rule, order, regulation or requirement of any Federal, State, County, or Municipal authority, or of the New York Board of Fire Underwriters, New York Fire Insurance Exchange, or any other body having similar functions and exercising jurisdiction over the Demised Premises, shall require TENANT to perform any work or meet

any condition which TENANT may deem unfair, unreasonable, improper or otherwise burdensome, TENANT may, at its expense, contest the validity thereof, and, if non-compliance therewith shall not subject LANDLORD to prosecution for a criminal offense, such non-compliance by TENANT during such contest shall not be deemed a breach of the covenants herein, provided TENANT shall indemnify and hold harmless LANDLORD against the cost and expenses thereof, and in addition thereto, all liability for any damages, interest, penalties and expenses (including, but not limited to, reasonable attorneys' fees of LANDLORD) resulting from or incurred in connection with such contest, provided, however, that the conduct of any such proceedings shall be under the sole control and direction of TENANT.

RAMAPO CORPORATE PARK ASSOCIATES
(LANDLORD)

PAR PHARMACEUTICAL, INC
(TENANT)

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

CB COMMERCIAL REAL ESTATE GROUP, INC.
(Broker)
(Solely as to Section 17.2)

By: _____

Name: _____

Title: _____

Date: _____

February 26, 1993

RUSTEN
CORPORATE
PARK

Exhibit A

Building C

DIAGRAM OF LEASED PREMISES

leased premises consist of approximately 77,180 square feet of floor area, being such portions of Buildings "A" and "B" at that location as follows: Building "A" - Units, 1, 2, 3, 4, 5, 6, 7B, 7D, 8, 10 and 11 and Building "B" - Units 2, 3, 4, 5, 6, ---
7, and 8, (excluding maintenance shop)

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Exhibit B

IMPROVED TEMPERATURE CONTROL FOR THE WAREHOUSE

In order to more closely comply with GMP guidelines, we may need to install additional Heating, Ventilating and Air Conditioning equipment for the warehouse space in both 100A and 100B. This new equipment would most likely consist of roof mounted equipment with interior mounted duct work.

Installation of such equipment may require additional roof support structures and power distribution modifications.

CONSTRUCT CAGED IN QUARANTINE STORAGE AREA

To construct a quarantine storage area adjacent to the existing Label Storage room in building 100A. The area will be restricted using open mesh type partitions which are being relocated from Quad.

BUILDING 100A STABILITY STORAGE EXPANSION IN TEMPERATURE CONTROL

To expand the existing Stability Storage area to an area approximately two times the existing size. The expanded area will be divided into two rooms. One room will be used for records storage and the other room will be used for stability sample retention.

Construction will consist of sheetrock over metal framing for walls and a 2' x 4' lay in ceiling system. The sample retention room will have a dedicated Heating, Ventilating, and Air Conditioning System.

REGULATORY EXPANSION, BIOSTUDY, ANDA, AND OFFICES

The existing ANDA and Biostudy rooms need to be expanded two times their present size. The Regulatory department also needs four additional offices and a conference room. The anticipated time frame to complete this work is 12 to 18 months from now.

R & D REQUIREMENTS

It is anticipated that two additional R & D rooms will have to be constructed. One room will contain wet granulation and equipment and the other a Fluid Bed Drier. Both operations will also require mechanical support equipment ie: dust collection, air handlers, etc.

[Tenant shall supply Landlord with plans showing details and location of the improvements.]

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Exhibit C

Prepared by: Josephine R. Griffin

COLLATERAL ASSIGNMENT OF LEASE

THIS ASSIGNMENT, made as of the date last signed by a party to this Assignment, is made by PAR PHARMACEUTICAL, INC., a New Jersey corporation, located at One Ram Ridge Road, Village of Chestnut Ridge, Spring Valley, New York 10977 (hereinafter referred to as "Assignor") to MIDLANTIC NATIONAL BANK, having its principal place of business at 100 Walnut Avenue, Clark, New Jersey 07066 (hereinafter referred to as "Assignee").

WHEREAS, Assignor and Assignee have contemporaneously herewith entered into a commercial lending relationship, pursuant to which Assignee has advanced or shall in the future advance to Assignor, certain sums of money in accordance with the terms and conditions of the Revolving Credit Agreement dated _____ and related documents, (hereinafter referred to as "Loan Agreements"); and

WHEREAS, as additional collateral for the repayment of the said obligations of Assignor to Assignee, Assignee has required a collateral assignment of a certain lease entered into between RAMAPO CORPORATE PARK ASSOCIATES (hereinafter referred to as "Landlord"), dated _____, a true copy of which is attached hereto and made a part hereof*; and

WHEREAS, Assignor has agreed to assign its interest and rights pursuant to said lease to Assignee pursuant to the terms and conditions hereinafter set forth,

NOW THEREFORE, for and in consideration of the mutual covenants and agreements herein contained and \$1.00 and other good and valuable consideration, it is agreed as follows:

*A legal description of the property is attached and made part hereto in lieu of a copy of the lease.

1. Assignor hereby sells, assigns, transfers and sets over all of its rights in and to the said lease, including renewals thereof, provided however, so long as there exists no default by Assignor in the payment of the principal sum, interest and indebtedness owed by Assignor to Assignee under the Loan Agreements or the performance of any obligation, covenant or agreement therein contained or in said lease contained on the part of the Assignor to be performed, the Assignor shall have the right to retain, use and enjoy the premises and the rights accruing to Assignor under the terms of the said lease.

2. Upon or at any time after default in the payment of the principal sum, interest and indebtedness of Assignor to Assignee as set forth in said Loan Agreements or in the performance of any obligation, covenant or agreement contained therein or in the said lease on the part of the Assignor to be performed, the Assignee, without waiving any default, may at its option, without notice or without regard to the

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adequacy of the security for the principal sum, interest and indebtedness securing the Loan Agreements, either in person or by agent, with or without bringing any action or proceeding or by receiver appointed by a court, take possession of the premises described in said lease and to have, hold, manage and maintain possession of the premises in the same manner and under the same terms and conditions as if Assignee was the lessee thereof. The exercise by the Assignee of the option granted to it hereunder shall not be considered a waiver of any default by the Assignor under said Loan Agreements or under said lease.

3. The Assignee shall not be liable for any loss sustained by Assignor resulting from Assignee's failure after default to maintain the lease and Assignee shall not be obligated to perform or discharge nor does the Assignee undertake to perform or discharge any obligation, duty or liability under said lease and the Assignor shall, and does hereby agree, to indemnify the Assignee for, and to hold the Assignee harmless from, any and all liability, loss or damage which may or might be incurred under said lease or under or by reason of this Assignment and from any and all claims and demands whatsoever which may be asserted against the Assignee by reason

of any alleged obligations or undertakings on its part to be performed or discharge any of the terms, covenants or agreements contained in said lease. Should the Assignee incur any such liability under said lease or under or by reason of this assignment or in defense of any such claims or demands, the amount thereof, including costs, expenses and reasonable attorney's fees shall be reimbursed by the Assignor immediately upon demand and upon the failure of the Assignor to do so, the Assignee may, add the said sums to the amount due under the Loan Agreements.

4. Upon payment in full of the principal sum, interest and indebtedness of the Loan Agreements, this Assignment shall become and be null and void and of no effect.

5. The Assignee may take or release other security for the payment of the principal sum, interest and indebtedness of the Loan Agreements, may release any party primarily or secondarily liable therefor, and may apply any other security held by it to the satisfaction of such principal sum, interest or indebtedness without prejudice to any of its rights under this Assignment.

6. Nothing contained in this Assignment and no act done or omitted by the Assignee pursuant to the powers and rights granted to it hereunder shall be deemed to be a waiver by the Assignee of its rights and remedies under the Loan Agreements and this Assignment is made and accepted without prejudice to any of the rights and remedies possessed by the Assignee under the said Loan Agreements.

7. The Landlord and its mortgagee are joining in this agreement for the purpose of acknowledging their consent to this Assignment. Assignee shall, upon its exercise of its right hereunder, have the right to sublet the premises and assign the lease to a tenant reasonably acceptable to Landlord and its mortgagee.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals or caused these presents to be signed by their proper corporate officers and their proper corporate seal to be hereto affixed the day and year first written above.

Attest: PAR PHARMACEUTICAL INC.

By: _____
Richard J. Nadler
Secretary

By: _____
Michael A. Swit
Vice President and General Counsel

AGREED TO BY LANDLORD:

RAMAPO CORPORATE PARK ASSOCIATES

By: _____
Steven Iser
General Partner

Date: _____

AGREED TO BY LANDLORD'S MORTGAGEE:

[Insert name of mortgage holder]

By: _____

Print Name: _____

Title: _____

Date: _____

STATE OF NEW JERSEY:

ss:

COUNTY OF

BE IT REMEMBERED, that on this _____ DAY OF _____, 1993, before

me the subscriber, an officer authorized pursuant to N.J.S.A. 46:16-6, personally appeared Richard J. Nadler, who, being by me duly sworn on his oath, deposes and makes proof to my satisfaction, that he is the Secretary of PAR PHARMACEUTICAL, INC., the corporation named in the within instrument; that Michael A. Swit is the Vice President and General Counsel of said corporation, that the execution, as well as the making of this instrument, has been duly authorized by a proper resolution of the Board of Directors of the said corporation; that deponent well knows the corporate seal of said corporation; and that the seal affixed to said instrument is the proper corporate seal and was thereto affixed and said instrument signed and delivered by said Vice President and General Counsel as and for the voluntary act and deed of said corporation, in presence of deponent, who thereupon subscribed his name thereto as attesting witness.

Notary

RECORD & RETURN TO:

MIDLANTIC NATIONAL BANK
100 Walnut Avenue
Clark, N. J. 07066

Attn: J.R. Griffin

VOID AFTER 5:00 P.M., NEW YORK CITY TIME, ON THE EARLIER OF (A) May 1, 1998, (B) THE EARLY EXPIRATION DATE (AS HEREINAFTER DEFINED) OR (C) THE FINAL REDEMPTION DATE (AS HEREINAFTER DEFINED).

NEITHER THIS WARRANT NOR THE WARRANT SHARES (AS HEREINAFTER DEFINED) HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS. NEITHER THIS WARRANT NOR THE WARRANT SHARES MAY BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF EFFECTIVE REGISTRATION STATEMENTS UNDER FEDERAL AND STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO PHARMACEUTICAL RESOURCES, INC. THAT THE TRANSFER IS EXEMPT FROM REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS. THIS LEGEND SHALL BE ENDORSED UPON ANY WARRANT ISSUED IN EXCHANGE FOR THIS WARRANT. THE WARRANT SHARES ARE ALSO SUBJECT TO THE LIMITATIONS ON TRANSFER PURSUANT TO A STOCK PURCHASE AGREEMENT DATED MARCH 25, 1995, BETWEEN PHARMACEUTICAL RESOURCES, INC. AND THE HOLDER HEREOF (A COPY OF WHICH IS ON FILE AT THE OFFICES OF THE COMPANY).

PHARMACEUTICAL RESOURCES, INC.

Warrant to Purchase Common Stock

September 21, 1995

FOR VALUE RECEIVED, PHARMACEUTICAL RESOURCES, INC., a New Jersey corporation (the "Company"), hereby certifies that CLAL PHARMACEUTICAL INDUSTRIES LTD., a corporation formed under the laws of the State of Israel (the "Holder"), together with its permitted assigns, is entitled, subject to the provisions of this Warrant, to purchase from the Company up to One Million Sixty-Eight Thousand Eight Hundred Twenty-Five (1,068,825) shares of common stock, par value \$.01 per share, of the Company ("Common Shares") at a price (the "Exercise Price") of Eleven Dollars (\$11.00) per share during the period commencing on the date hereof and expiring at 5:00 P.M., New York City time, on May 1, 1996 (the "First Period") or Twelve Dollars (\$12.00) per share during the period commencing on May 2, 1996 and expiring at 5:00 P.M., New York City time, on May 1, 1998 (the "Second Period"). This Warrant is being executed and delivered by the Company in connection with a Stock Purchase Agreement dated

March 25, 1995, between the Company and the Holder (the "Stock Purchase Agreement").

SECTION 1. Exercise of Warrant. Subject to the provisions hereof, this

Warrant may be exercised in whole or in part at any time, or from time to time, during the period commencing on the date hereof and expiring at 5:00 p.m., New York City time, on the first to occur of (a) May 1, 1998, (b) the Early Expiration Date or (c) the Final Redemption Date, by presentation and surrender of this Warrant to the Company at its principal office, with the Warrant Exercise Form attached hereto duly executed and accompanied by payment (either in cash or by United States certified or official bank check payable to the order of the Company) of the Exercise Price for the number of shares specified in such Form. Upon receipt thereof, the Company shall, as soon as practicable but in any case within five business days, cause to be delivered to the Holder one or more certificates representing the aggregate number of fully paid and nonassessable shares of Common Stock issuable upon exercise as specified in the Form. If this Warrant should be exercised or redeemed in part only, the Company shall, upon surrender of this Warrant for cancellation, execute and deliver a new Warrant evidencing the rights of the Holder thereof to purchase the balance of the shares purchasable hereunder. All such Warrants shall be dated the date of this Warrant. The shares issuable upon exercise of this Warrant, as adjusted from time to time, are hereinafter sometimes referred to as "Warrant Shares". The Warrant Shares and the Exercise Price may be adjusted from time to time as hereinafter set forth.

SECTION 2. Reservation of Shares. The Company will reserve for

issuance and delivery upon exercise of this Warrant all authorized but unissued Common Shares or other shares of capital stock of the Company (and other securities and property) from time to time receivable upon exercise of this Warrant.

SECTION 3. Fractional Shares. The Company shall not be required

to issue certificates representing fractions of shares, and it shall not be required to issue scrip or pay cash in lieu of fractional interests, it being the intent of the Company and the Holder that all fractional interests shall be eliminated by rounding up or down to the closest whole number.

SECTION 4. Restrictions on Transfer; Registration.

4.1 Limited Transferability. This Warrant may not be sold,

transferred, pledged or otherwise disposed of (collectively, "Transferred") by the Holder, except to any successor firm or corporation of the Holder and shall be so transferable only upon the books of the Company. The Company may treat the registered

holder of this Warrant as it appears on the Company's books at any time as the Holder for all purposes.

4.2 Compliance with Stock Purchase Agreement. No Warrant Shares

may be transferred except in compliance with Section 11.1 of the Stock Purchase Agreement.

4.3 Legend. Each certificate for the Warrant Shares shall be

endorsed with the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF EFFECTIVE REGISTRATION STATEMENTS UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT THE TRANSFER IS EXEMPT FROM REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS. THE SECURITIES REPRESENTED HEREBY ARE ALSO SUBJECT TO LIMITATIONS ON TRANSFER PURSUANT TO A STOCK PURCHASE AGREEMENT DATED MARCH 25, 1995, BETWEEN THE COMPANY AND THE HOLDER HEREOF (A COPY OF WHICH IS ON FILE AT THE OFFICES OF THE COMPANY)."

4.4 Registration. The Warrant Shares shall have the benefit of

a Registration Rights Agreement, dated the date of this Warrant, between the Company and the Holder.

4.5 Listing. The Company shall not be obligated to deliver any

Warrant Shares unless and until such Warrant Shares shall have been listed on each securities exchange or other self-regulatory body on which the Common Shares may then be listed or until there shall have been qualification under or compliance with applicable Federal or state laws. The Company shall use reasonable efforts to obtain such listing, qualification and compliance.

SECTION 5. Rights of the Holder. The Holder shall not, by

virtue hereof, be entitled to any rights of a shareholder of the Company, either at law or in equity, and the rights of the Holder are limited to those expressed in this Warrant.

SECTION 6. Anti-Dilution Provisions.

6.1. Adjustments for Stock Dividends; Combinations, Etc. In case

the Company shall do any of the following (each, an "Event"):

(a) declare a dividend or other distribution on its Common Shares payable in Common Shares of the Company;

(b) effect a subdivision of its outstanding Common Shares into a greater number of Common Shares (by

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reclassification, stock split or otherwise than by payment of a dividend in Common Shares);

(c) effect a combination of its outstanding Common Shares into a lesser number of Common Shares (by reclassification, reverse split or otherwise);

(d) issue by reclassification, exchange or substitution of its Common Shares any shares of capital stock of the Company; or

(e) effect any other transaction having a similar effect,

then the Exercise Price in effect at the time of the record date for such Event shall be adjusted to a price determined by multiplying such Exercise Price by a fraction, the numerator of which shall be the number of Common Shares outstanding immediately prior to such Event and the denominator of which shall be the number of Common Shares outstanding immediately after such Event. Each such adjustment of the Exercise Price shall be calculated to the nearest cent. No such adjustment shall be made in an amount less than One Cent (\$.01), but any such amount shall be carried forward and shall be given effect in connection with the next subsequent adjustment. Such adjustment shall be made successively whenever any Event shall occur.

6.2 Adjustment in the Number of Warrant Shares. Whenever the

Exercise Price shall be adjusted pursuant to Section 6.1 hereof, the number of Warrant Shares which the Holder may purchase upon exercise of the Warrant shall be adjusted, to the nearest full share, by multiplying such number of Warrant Shares immediately prior to such adjustment by a fraction, the numerator of which shall be the Exercise Price immediately prior to such adjustment and the denominator of which shall be the Exercise Price immediately thereafter.

6.3 Adjustment for Consolidation or Merger. In case of any

consolidation or merger to which the Company shall be a party, other than a consolidation or merger in which the Company shall be the surviving or continuing corporation, or in case of any sale or conveyance to another entity of all or substantially all of the property of the Company, or in the case of any statutory exchange of securities with another entity (including any exchange effected in connection with a merger of any other

corporation with the Company), the Holder shall have the right thereafter to convert this Warrant into the kind and amount of securities, cash or other property which it would have owned or have been entitled to receive immediately after such consolidation, merger, statutory exchange, sale or conveyance had this Warrant been exercised immediately prior to the effective date of such transaction and, if necessary, appropriate adjustment shall be made in the application of the

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provisions set forth in this Section 6 with respect to the rights and interests thereafter of the Holder to the end that the provisions set forth in this Section 6 shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable upon the exercise of this Warrant. Notice of any such consolidation, merger, statutory exchange, sale or conveyance, and of the provisions proposed to be adjusted, shall be mailed to the Holder not less than thirty days prior to such event.

SECTION 7. Redemption.

7.1 Optional Redemption. The Company may, at any time after

December 1, 1995, and from time to time, elect to redeem all or any portion of this Warrant at a redemption price of One Cent (\$.01) per share (the "Redemption Price") in the event that the average of the closing sale prices per share of the Common Shares on The New York Stock Exchange for any forty-five consecutive trading days shall equal or exceed the Target Price (as hereinafter defined). For purposes hereof, the "Target Price" shall be Seventeen Dollars (\$17.00) per share until May 1, 1996 and thereafter shall be Eighteen Dollars (\$18.00) per share. The Target Price shall be subject to adjustment in the manner set forth in Section 6.1 if any of the events set forth therein shall occur. Following any redemption pursuant to this Section 7.1, a further forty-five consecutive day trading period in which the closing sale prices per share of the Common Shares on the New York Stock Exchange shall equal or exceed the Target Price shall apply to any further right to redemption by the Company.

7.2 Redemption After Sale of Shares. The Company may elect to

redeem all or a portion of this Warrant at the Redemption Price at any time after the Holder shall hold less than 8% of the issued and outstanding Common Shares.

7.3 Redemption Notice. If the Company shall elect to redeem

this Warrant or any portion thereof pursuant to Sections 7.1 or 7.2 hereof, notice of redemption shall be given to the Holder not less than thirty days

prior to the date fixed by the Company for redemption (the "Redemption Date"). Such notice shall specify the portion of the Warrant to be redeemed, the reason for the redemption, the Redemption Date and the Redemption Price. Such notice shall also state that payment of such Redemption Price will be made at the principal office of the Company, upon presentation and surrender of this Warrant within thirty days following the Redemption Date and that the right to exercise this Warrant (to the extent redeemed) shall terminate at 5:00 P.M., New York City time, on the Redemption Date. "Final Redemption Date" shall mean the Redemption Date fixed by the Company for redemption of the remaining portion of this Warrant.

SECTION 8. Early Expiration Date. Notwithstanding anything to

the contrary contained herein, this Warrant shall expire on May 1, 1997 and shall cease to be exercisable, in whole or in part, after such date, if the Company's net income after tax, as set forth on the Company's year-end audited financial statements and as adjusted pursuant to this Section 8, for its fiscal year ended September 28, 1996, shall exceed \$5,000,000 (the "Early Expiration Date"). The Company's net income after tax, for purposes of this Section 8, shall be recomputed to (a) exclude the amount of any extraordinary items of income or loss determined in accordance with generally accepted accounting principles in the United States, and (b) subtract the amount, if any, by which \$6,500,000 exceeds the amount of the Company's research and development expenses, as shown on its year-end audited financial statements for its 1996 fiscal year (exclusive of any amounts included in such research and development expenses attributable to the Company's investment in the joint venture formed pursuant to that certain Joint Venture Agreement, dated as of the date hereof between the Company and the Holder).

SECTION 9. Increase in Exercise Price. [Intentionally Omitted.]

SECTION 10. Reduction in Warrant Shares. If the Holder shall,

at any time and from time to time after the date hereof, purchase or acquire, in open market transactions, any number of Securities (as hereinafter defined) in accordance with Section 11.2(b) of the Stock Purchase Agreement, the number of Warrant Shares issuable upon exercise of this Warrant shall, as of the date of such acquisition, be reduced in the manner specified in said Section 11.2(b) of the Stock Purchase Agreement. For the purposes hereof, "Securities" shall mean and include Common Shares, and any rights, options, warrants or other securities of the Company exercisable or exchangeable for, or convertible into Common Shares.

SECTION 11. Fully Paid Shares; Taxes. The Company agrees that

the Common Shares represented by each and every certificate for Warrant Shares delivered on the exercise of this Warrant in accordance with the terms hereof shall, at the time of such delivery, be validly issued, fully paid and nonassessable, free and clear of all liens, pledges, options, claims or other encumbrances. The Company further covenants and agrees that it will pay, when due and payable, any and all Federal and state stamp, original issue or similar taxes (but not including any income taxes) which may be payable in respect of the issue of any Warrant Shares or certificates therefor.

SECTION 12. Lost, Stolen or Destroyed Warrants. In the event

that the Holder shall notify the Company that this Warrant has been lost, stolen or destroyed and either (a) provides a letter, in form satisfactory to the Company, to the effect that it shall indemnify the Company from any loss incurred by the Company

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in connection therewith, and/or (b) provides an indemnity bond in such amount as shall be reasonably required by the Company, the Company having the option of electing either (a) or (b) or both, the Company may, in its sole discretion, accept such letter and/or indemnity bond in lieu of the surrender of this Warrant as required by Section 1 hereof.

SECTION 13. Notices. All notices hereunder shall be in writing

and shall be given: (a) if to the Company, at One Ram Ridge Road, Spring Valley, New York 10977 (attention: Kenneth I. Sawyer), fax number: (914) 425-5097, or such other address or fax number as the Company has designated in writing to the Holder, or (b) if to the Holder, at Clal House, 5 Druyanov Street, Tel Aviv 63143, Israel (attention: Zeev Zahavi), fax number: (011-972-3) 293633, with a copy to Proskauer Rose Goetz & Mendelsohn LLP, 1585 Broadway, New York, New York 10036 (attention: Jeffrey A. Horwitz, Esq.), fax number: (212) 969-2900, or such other address or fax number as the Holder shall have designated in writing to the Company. Any notice shall be deemed to have been given if personally delivered or sent by express commercial courier or delivery service or by telegram, telefax, telex or facsimile transmission. Any notice given in any other manner shall be deemed given when actually received.

SECTION 14. Amendments; Waiver. This Warrant may not be amended

or terminated, and no provision hereof may be waived, except pursuant to a written instrument executed by the Company and the Holder.

SECTION 15. Headings. The headings of the Sections of this

Warrant have been inserted for convenience of reference only and shall not be deemed to be a part of this Warrant.

SECTION 16. Applicable Law. This Warrant is issued under, and

shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed wholly within.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed on its behalf, in its corporate name, by its duly authorized officer, on September 21, 1995.

PHARMACEUTICAL RESOURCES, INC.

By _____
Kenneth I. Sawyer
President

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Attest:

Robert I. Edinger
Secretary

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PHARMACEUTICAL RESOURCES, INC.

WARRANT EXERCISE FORM

The undersigned hereby irrevocably elects to exercise the within Warrant dated _____, 1995, and expiring on _____, 1998, to the extent of purchasing _____ shares of common stock of Pharmaceutical Resources, Inc. The undersigned hereby makes a payment of \$ _____ in payment therefor.

Name of Holder

Signature of Holder
or Authorized Representative

Name and Title of Authorized
Representative

Address of Holder

Date

COMPUTATION OF PER SHARE DATA
(Unaudited)

Fiscal Year Ended In	1996	1995	1994
<S>	<C>	<C>	<C>
Income (loss) from continuing operations	\$ (11,092,000)	\$ 612,000	\$ 4,233,000
Income from discontinued operations	2,800,000	-	466,000
Cumulative effect of change in accounting principle	-	-	14,128,000
Net income (loss)	\$ (8,292,000)	\$ 612,000	\$18,827,000
Primary:			
Weighted average number of common shares outstanding	18,340,248	16,669,827	14,320,969
Shares issuable upon conversion of Series A Convertible Preferred Stock	-	-	1,058,400
Shares issuable upon exercise of dilutive stock options and warrants - net of shares assumed to be repurchased (at the average market price for the period) from exercise proceeds	127,000	473,554	1,115,529
Shares used for computation	18,467,248	17,143,381	16,494,898
Income (loss) per share of common stock (primary):			
Continuing operations	\$ (.60)	\$.04	\$.26
Discontinued operations	.15	-	.03
Change in accounting principle	-	-	.85
Net income (loss)	\$ (.45)	\$.04	\$ 1.14
Assuming full dilution:			
Weighted average number of common shares outstanding	18,340,248	16,669,827	14,320,969
Shares issuable upon conversion of Series A Convertible Preferred Stock	-	-	1,058,400
Shares issuable upon exercise of dilutive stock options and warrants - net of shares assumed to be repurchased (at the higher of period-end market price or the average market price for the period) from exercise proceeds	127,000	473,554	1,115,529
Shares used for computation	18,467,248	17,143,381	16,494,898
Income (loss) per share of common stock (assuming full dilution):(a)			
Continuing operations	\$ (.60)	\$.04	\$.26
Discontinued operations	.15	-	.03
Change in accounting principle	-	-	.85
Net income (loss)	\$ (.45)	\$.04	\$ 1.14

</TABLE>

(a) Not presented because dilution is less than 3% from primary amounts.

Subsidiaries of Registrant

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Name ----	State or Other Jurisdiction of Incorporation/Organization -----
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Par Pharmaceutical, Inc.	New Jersey
PRX Distributors, Ltd.	Delaware
ParCare, Ltd.	New York
PRI-Research, Inc.	Delaware
Nutriceutical Resources, Inc.	New York
Quad Pharmaceuticals, Inc.	Indiana
Par Pharma Group, Ltd.	Delaware

</TABLE>

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements No. 33-35242 and No. 33-74052 on Forms S-3 and Registration Statements No. 2-99035, No. 33-15640, No. 33-51914, No. 33-45785, No. 33-29992, No. 33-79954, No. 33-79956, and No. 333-02885 on Forms S-8.

/s/ ARTHUR ANDERSEN LLP

New York, New York
December 27, 1996

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation of our report dated November 30, 1994 on the consolidated financial statements and Schedule II of Pharmaceutical Resources, Inc. as at and for the year ended October 1, 1994, into the Company's previously filed Registration Statements No. 33-35242 and No. 33-74052 on Forms S-3 and Registration Statements No. 2-99035, No. 33-15640, No. 33-51914, No. 33-45785, No. 33-29992, No. 33-79954, No. 333-02885 and No. 33-79956 on Forms S-8.

/s/ Richard A. Eisner and Company, LLP

New York, New York
December 23, 1996

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS INCLUDED IN THE ANNUAL REPORT ON FORM 10-K FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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