FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SCHEIN PHARMACEUTICAL INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 For the
fiscal year ended December 26, 1998
Commission file number 1-14019

SCHEIN PHARMACEUTICAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	11-2726505
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Campus Drive, Florham Park, NJ	07932
(Address of principal executive offices)	(Zip Code)

973-593-5500
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: Title of each class	Name of each exchange on which registered:
Common Stock, Par Value $0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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 12 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. [ ]

The aggregate market value of the voting stock of the Registrant held by nonaffiliates was approximately $58,700,000 as of March 15, 1999 (assuming solely for purposes of this calculation that all Directors and Officers of the Registrant are "affiliates").

Number of shares of Common Stock, par value $.01, outstanding as of March 15, 1999, was 32,571,434.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement (Proxy Statement) for the 1999 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

SCHEIN PHARMACEUTICAL, INC.
FORM 10-K 1998

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PART I

This Annual Report on Form 10-K contains forward-looking statements regarding the future events or the future financial performance of the Company that involve certain risks and uncertainties. Actual events or the actual future results of the Company may differ materially from the results discussed in the forward-looking statements due to various factors, including, but not limited to, those discussed in "Other Factors Affecting Future Performance" below at pages 16 to 19.

ITEM 1. BUSINESS

General

Schein Pharmaceutical, Inc. (herein referred to as Schein or the Company), develops, manufactures and markets a broad line of generic products and has a significant branded business. The Schein product line includes both solid dosage and sterile dosage generic products, and the Company is also developing a line of specialty branded pharmaceuticals. The Company believes that its primary branded product INFeD(R) (INFeD) is the leading injectable iron product in the United States (U.S.) in terms of revenue. The Company intends to introduce its next generation injectable iron product, Ferrlecit(R) (Ferrlecit), in mid-1999. The Company has a substantial pipeline of products under development, and enhances its internal product development, manufacturing and marketing capabilities through strategic collaborations. The Company was founded in 1985, and was re-incorporated as a Delaware corporation in 1993. Schein operates

manufacturing facilities in Arizona, Connecticut, New Jersey, New York and Puerto Rico.

The Company's generic product line includes approximately 73 chemical entities formulated in approximately 183 different dosages under approximately 120 Abbreviated New Drug Applications (ANDAs) approved by the U.S. Food and Drug Administration (FDA). The Company markets its generic products through a 90-person direct sales and marketing force. Through its customized marketing programs, the Company markets its products to approximately 60,000 customers, representing all major customer channels, including pharmaceutical wholesalers, chain and independent drug retailers, hospitals, managed care organizations, other group purchasing organizations and physicians.

Since introducing INFeD in 1992, the Company has been developing a portfolio of branded products, primarily in select therapeutic markets, such as iron management for the nephrology, oncology and gastroenterology markets. INFeD is used in the treatment of certain types of anemia, particularly in dialysis patients. The Company markets its branded products through a 40-person dedicated sales and marketing force, as well as through a co-marketing collaboration for INFeD with Bayer Corporation (Bayer) in the nephrology market. Following its approval by the FDA in February 1999, the Company added Ferrlecit, its next-generation iron product, to its branded product portfolio. Ferrlecit is an injectable iron compound that is indicated for the treatment of iron deficiency in chronic hemodialysis patients receiving supplemental erythropoietin (EPO) therapy.

The Company supplements its internal product development, manufacturing and marketing capabilities through strategic alliances. During 1994, Schein entered into a strategic alliance with Bayer, through which Bayer purchased a minority interest (then 28.3%) in Schein. Bayer currently participates with Schein in several collaborations. In 1995, the Company acquired Marsam Pharmaceuticals, Inc. (Marsam), expanding the Company's ability to develop and manufacture sterile penicillins and oral and sterile cephalosporins. In addition, the Company has entered into strategic collaborations involving product development arrangements with companies such as Makoff R&D Laboratories, Inc. (R&DL), Elan Corporation Plc (Elan) and Ethical Holdings Plc (Ethical); raw material supply arrangements with companies such as Johnson Matthey Inc. (Johnson Matthey), Cheminor Drugs Ltd. (Cheminor) and Abbott Laboratories (Abbott); and sales and marketing arrangements with Bayer and other companies.

FDA Consent Agreement

The development, manufacture, marketing and sale of pharmaceutical products is subject, among other things, to extensive Federal, state and local regulation. The Company must obtain approval from the FDA before marketing most drugs and must demonstrate continuing compliance with current Good Manufacturing Practices (cGMP) regulations.

On September 10, 1998, the U.S., on behalf of the FDA, based on actions it filed in Federal court in the Southern District of New York on September 9, 1998 and the District of Arizona on September 10, 1998 initiated seizures of drugs and drug related products manufactured by Steris Laboratories, Inc. (Steris), a subsidiary of the Company. The action alleged certain instances in which the Steris facility, located in Phoenix, Arizona, was not operating in conformity with cGMP regulations. The actions resulted in the seizure of all drugs and drug related products in the Company's possession manufactured at the Steris facility and halted the manufacture and distribution of Steris manufactured products.

On October 16, 1998, Steris and certain of its officers, without admitting any allegations of the complaints and disclaiming any liability in connection therewith, entered into a consent agreement filed in the District of Arizona (to which the New York action had been transferred) (the FDA Consent Agreement). Under the terms of the FDA Consent Agreement, Steris is required, among other things, to demonstrate through independent certification that Steris' processes, quality assurance and quality control programs, and management controls comply with cGMP regulations. The FDA Consent Agreement also provides for independent certification of Steris' management controls, quality assurance and quality control programs, and employee cGMP training. It further requires that Steris develop a timeline and Corrective Action Plan for implementing these actions and for expert certification with respect to matters covered in previous FDA inspections of the facility. Steris has submitted to the FDA the Corrective

Action Plan provided for under the FDA Consent Agreement and has begun implementation of that plan. The Company recorded a one-time restructuring charge of $161.2 million pretax, or $135.0 million, net of tax benefit, relating to the effects of the FDA Consent Agreement.

The Company resumed shipments of INFeD, its branded injectable iron product, from existing inventory on October 30, 1998. Newly manufactured lots of INFeD must undergo certification by independent experts and review by the FDA prior to commercial distribution. (See "Government Regulation-Regulatory Matters-FDA Consent Agreement", "Other Factors Affecting Future Performance-Dependence on Certain Existing Products", and "Management's Discussion and Analysis of Financial Condition and Results of Operations").

Industry Overview

In the U.S., pharmaceutical products are marketed as either branded or generic drugs. Branded products are marketed under brand names and through programs designed to attract physician and consumer loyalty. Branded drugs generally are covered by patents or other non-patent marketing exclusivities at the time of their market introduction, thereby resulting in periods of exclusivity. Following the expiration of these patents or marketing exclusivities, marketing of branded drugs often continues, particularly in cases where there is significant physician or consumer loyalty.

Generic pharmaceuticals (also known as "multi-source" or "off-patent" pharmaceuticals) are the chemical and therapeutic equivalents of branded drugs. Under the Drug Price Competition and Patent Term Restoration Act of 1984 (Waxman-Hatch Act), generic drugs generally may be sold in the U.S. following (i) FDA approval of an ANDA that includes evidence that the generic drug is bioequivalent to its branded counterpart and (ii) the expiration, invalidation or circumvention of any patents on the corresponding branded drug and the expiration of any other market exclusivity periods applicable to the branded drug.

Since the adoption of the Waxman-Hatch Act, generic pharmaceuticals have become an increasingly important segment of the U.S. pharmaceutical market, particularly when measured in terms of the increasing rate at which generic drugs have been substituted for branded drugs. In 1998, generic drugs reached 44% of the total drug prescriptions dispensed in the U.S. In terms of dollar sales, however, generic drugs have accounted for a much lower percentage of the total U.S. pharmaceutical market. Sales of generic drugs in 1998 accounted for approximately $8 billion out of a total U.S. prescription pharmaceutical market of approximately $94 billion.

The lower percentage of total dollar sales attributable to generic pharmaceuticals compared to the growth in the number of generic pharmaceutical prescriptions dispensed reflects the pricing dynamics for generic pharmaceuticals. As the number of commercially available generic competitors of a branded drug increases, their selling prices and gross margins decline substantially. Generic drugs are generally sold at a 20% to 80% discount from their branded counterparts. Intense price competition in the generic drug industry requires companies to introduce new generic drug products regularly in order to maintain and increase revenues.

Growth of the generic drug industry has been driven primarily by the dollar volume of branded drugs that have lost patent protection and the rising rate at which generic drugs have been substituted for branded drugs. Industry sources estimate that, during the next four years, branded drugs with 1997 U.S. sales of more than $14.0 billion will lose patent protection. The rising rate of generic substitution has resulted in large part from increasing pressure within the U.S. health care industry to contain costs. Due to the lower cost of generic drugs compared to their branded counterparts, third party payors, such as insurance companies, company health plans, health maintenance organizations, managed care organizations, pharmacy benefit managers, group purchasing organizations, government-based programs and others, have adopted policies that encourage or mandate generic substitution. In addition, physicians, pharmacists and consumers are becoming increasingly comfortable with the quality and therapeutic equivalence of generic drugs.

A significant portion of pharmaceuticals are distributed in the U.S. through wholesale drug distributors and major retail drug store chains. During the past several years, there has been a consolidation of these distribution channels,

resulting in a smaller number of wholesale distributors and the emergence of fewer, larger regional and nationwide retail drug store chains. In addition to pressuring generic drug manufacturers to lower their prices and/or provide volume discounts, these customers have also been reducing the number of sources from which they purchase pharmaceutical products.

Participants in the generic drug market include independent generic drug manufacturers, such as the Company, generic drug subsidiaries of large branded pharmaceutical companies, and joint ventures and collaborations between branded pharmaceutical companies and generic drug manufacturers. The participation of branded pharmaceutical companies in the U.S. generic industry accelerated during the first half of the 1990s as pricing pressure and generic substitution grew. The extent to which the branded pharmaceutical companies will continue to participate in the generic drug industry segment cannot be predicted by the Company.

Products

The Company manufactures and markets a broad line of pharmaceutical products including both solid dosage and sterile dosage generic products and branded products. The Company manufactures and markets approximately 75 chemical entities in approximately 185 dosage forms and strengths under approximately 120 approved ANDAs. The Company also supplements its manufactured line with products from alliance partners and other generic manufacturers.

The following table sets forth the percentages of the Company's net revenues attributable to its generic and branded businesses:

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	Years Ended December				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Generic business:					
Manufactured solid dosage and sterile dosage	70%	66%	66%	65%	65%
Purchased products	11	13	15	18	19
Total generic	81	79	81	83	84
Branded business:					
INFeD	19	21	19	17	16
Total	100%	100%	100%	100%	100%

</TABLE>

During the period from 1994 to 1998, the Company's percentage of net revenues from generic products declined from 84% to 81% while net revenues from brand products increased from 16% to 19% in the same period. The decline in generic product percentage reflects (i) INFeD sales rising faster than the Company's total net revenues, (ii) price erosion due to competitive pressures, (iii) discontinued products whereby the Company made a strategic decision to eliminate lower margin products (primarily purchased products), and (iv) a decline in net revenues of Steris manufactured products due to the FDA actions at Steris, offset by the introduction of newer products, primarily methylphenidate and ketoprofen ER, and other solid dosage volume increases. Brand net revenues as a percentage of the Company's total net revenues declined in 1998 due to the FDA action at Steris, the facility at which INFeD is manufactured.

Generic Products

The Company's generic business consists of the manufacturing and marketing of sterile and solid dosage products and the marketing of certain additional purchased products. The Company's manufactured solid dosage and sterile dosage

product portfolio is comprised of approximately 73 products. Net revenues of the Company's generic manufactured products and generic products the Company purchases from other manufacturers accounted for 81% of the Company's total net revenues in 1998.

Key products that accounted for a significant portion of net revenues in 1998 were methylphenidate, which accounted for 9.8% of net revenues and ketoprofen ER, which accounted for 5.2% of net revenues. These two products were launched in the fourth quarter of 1997. Each of these launches represent generic products which required specialized development or manufacturing expertise. Methylphenidate, a controlled substance that is difficult to produce, is the generic equivalent of Ritalin(R) and is used in the treatment of attention deficit disorder. Although the branded product has been off patent for a number of years, there are currently four generic producers of methylphenidate, including Schein. Ketoprofen ER, a once-a-day non-steroidal anti-inflammatory drug developed using Elan's extended release technology, was introduced late in the fourth quarter of 1997 as the first generic equivalent to Oruvail(R), a branded product that has been off patent for a number of years.

Pursuant to a custom manufacturing agreement dated as of July 1, 1995, as amended, between Johnson Matthey and the Company, the Company has exclusive purchase and supply rights for bulk active methylphenidate hydrochloride produced by Johnson Matthey. The agreement terminates on December 31, 2005, with automatic renewals for additional successive three-year terms.

Pursuant to a product development, license and supply agreement dated as of August 16, 1994, as amended, between Elan and the Company, the Company has the right to package, market, sell and distribute ketoprofen ER in the U.S. under Elan's ANDA. The Company paid approximately $2.5 million in development and license fees pursuant to the agreement. Currently, the term of the agreement is 18 years or, if longer, for the life of Elan's patents. In 1998, the Company entered into an agreement with Elan covering several other products in various stages of development. Under the agreement, the Company is obligated to pay $15.0 million in license fees and may be obligated to pay approximately $3.5 million in additional fees as and when certain milestones are achieved. Certain of these fees may be increased by up to $2.0 million or decreased by up to $0.5 million depending on whether certain other milestones are achieved.

The Company supplements its manufactured product line with purchased products from other generic pharmaceutical manufacturers. Generally, the Company purchases products through purchase orders without formal arrangements or material long-term commitments. The gross margins received by the Company on these products are generally lower than the gross margins received by the Company on products that it manufactures. In addition, the Company believes its customers are increasingly seeking to purchase products directly from manufacturers. The percentage of the Company's total net revenues of generic products manufactured by others has declined from approximately 19% in 1994 to 11% in 1998.

Branded Products

In 1992, the Company introduced INFeD, its first branded product. Following its approval by the FDA in February 1999, the Company is preparing for the launch of Ferrlecit, its next-generation iron product, in mid-1999.

In 1998, INFeD accounted for approximately 19% of the Company's net revenues. INFeD is most commonly used in the U.S. to treat iron deficiency anemia in patients with end-stage renal disease (ESRD) who are receiving therapy with EPO. In addition to the nephrology market, the high incidence of iron deficiency anemia related to other medical conditions presents further opportunities for the Company to expand its existing INFeD sales and marketing capabilities. The Company is working to expand its branded pharmaceutical business through internal development and collaborative arrangements with other companies, with a particular view to applying its expertise in iron management into the nephrology, oncology and gastroenterology markets.

Iron Management Market. In recent years, there has been increasing focus on improving the quality of life of patients undergoing chronic disease therapy through, among other means, iron management. Hemoglobin, the oxygen carrying component of red blood cells, requires iron to function efficiently. In some cases, iron management requires the treatment of iron deficiency and, in other cases, the treatment of iron overload disorders. The Company is currently

marketing and developing prescription products for the treatment of anemia in the dialysis and oncology markets, and seeks to market INFeD for the hematology and gastroenterology markets.

Nephrology Market. The nephrology market is currently the largest market for injectable iron and iron replacement products. Orally administered iron has historically been, and continues to be, the first form of treatment used by doctors to treat anemia in dialysis patients. Research has shown, however, that orally administered iron inadequately treats iron deficiency in dialysis patients and that injectable iron is more rapidly and directly absorbed in the body. The National Kidney Foundation's Dialysis Outcome Quality Improvement guidelines encourage more consistent use of injectable iron to supplement the use of oral iron in dialysis patients. Approximately 60% to 65% of dialysis patients are given injectable iron at least once a year. EPO therapy is currently used to treat approximately 92% of all dialysis patients. EPO allows patients to generate their own red blood cells, thus greatly reducing the need for blood transfusions. One of the effects of EPO treatment, however, is rapid mobilization of iron reserves and depletion of iron stores. The Company believes that certain studies indicate that INFeD can be used together with EPO to overcome this iron depletion effect. Accordingly, the use of EPO therapy has created a need for iron management techniques.

Oncology Markets. In the oncology market, which includes patients with cancer and cancer-related illnesses, anemia is a significant side effect of the disease and the drugs used in treatment of the disease. Fatigue associated with anemia is not widely recognized or treated as part of cancer treatment regimens. Although there is a small base of injectable iron users in this area, the Company believes there is potential for market expansion. The Company is conducting clinical research to support the use of INFeD in these markets.

Gastroenterology Market. In the gastroenterology market, of the over one million patients with inflammatory bowel disease consisting of crohns disease and ulcerative colitis, 30% to 70% experience anemia, mostly due to iron deficiency from bleeding and malabsorbtion.

INFeD. INFeD (iron dextran injection, USP 50 mg/mL) is a liquid complex of ferric hydroxide and dextran that is used in the treatment of patients with documented iron deficiency in whom oral administration is unsatisfactory or impossible. INFeD's product label includes the following warning: "Warning: The parenteral use of complexes of iron and carbohydrates has resulted in anaphylactic-type reactions. Deaths associated with such administration have been reported. Therefore, INFeD (iron dextran injection, USP 50 mg/mL) should be used only in those patients in whom the indications have been clearly established and laboratory investigations confirm an iron-deficient state not amenable to oral iron therapy."

Prior to the approval of Ferrlecit, iron dextran was the only injectable iron formulation in the U.S. market. The Company introduced its injectable iron product, INFeD, in May 1992. Net revenues from INFeD in 1998 were $99.5 million, or 19%, of the Company's total net revenues. Growth in sales of INFeD has been driven by the expanding use of EPO and the growing recognition of patient outcomes and quality of life issues associated with iron deficiency anemia in dialysis

patients. For patients being treated with EPO, injectable iron therapy has become adjunctive therapy rather than supportive therapy, as studies have shown that anemic patients may become resistant to EPO and that injectable iron can help to maintain EPO responsiveness and optimize its effectiveness. The Company believes that the dialysis market should continue to expand with the expected increase in the ESRD population, as well as the expanding use of hemodialysis in the treatment of ESRD patients.

Pursuant to a supply agreement dated May 1, 1992, as amended, and a new supply agreement dated February 25, 1999, each between Abbott and the Company, Abbott supplies iron dextran bulk solution to the Company on an exclusive basis through December 31, 2001, subject to extension (Exclusive Term), and on a non-exclusive basis for 24 months thereafter. The Company is obligated to purchase specified minimum amounts of bulk solution during the Exclusive Term. Abbott retains the right to manufacture, market or distribute a finished iron dextran drug product, provided that during the Exclusive Term the product is not manufactured with bulk solution or technology relating to bulk solution obtained from Abbott or a

licensee or sub-licensee of Abbott.

Ferrlecit. Ferrlecit (sodium ferric gluconate complex in sucrose injection), the Company's next generation injectable iron product, was approved by the FDA for distribution in the U.S. in February 1999. Ferrlecit is administered parenterally to treat hemodialysis patients with iron deficiency anemia. There is no patent covering Ferrlecit; however, the FDA granted it a five year exclusivity period as a New Chemical Entity.

Ferrlecit was developed by the Nattermann Company of Cologne (now Rhone-Poulenc Rorer GmbH) (RPR)) and is used in selected European markets. Ferrlecit is manufactured by Rhone-Poulenc Rorer Ltd. and will be supplied to the Company by R&DL. R&DL, a specialty renal pharmaceutical company, acquired the rights to Ferrlecit from RPR under a distribution agreement dated June 24, 1993 and a trademark agreement dated August 26, 1993. In 1996, pursuant to a sublicense, co-marketing and supply agreement with R&DL, the Company acquired from R&DL the exclusive right to market and distribute Ferrlecit in the U.S. and several other countries for a period of ten years after market authorization has been granted by the FDA. The Company's marketing and distribution rights are subject to termination in the event of default of its payment obligations to R&DL for product purchases.

Other Products

Nifedipine OD. In the United Kingdom, Dominican Republic and Peru the Company is currently marketing a branded version of Nifedipine OD, a once-a-day product used in the treatment of hypertension. Pursuant to a license obtained from Ethical, this product is being produced by an Irish contract manufacturer.

Backlog

As of February 27, 1999, the uncompleted portions of the Company's backlog of orders for INFeD was approximately $25 million, largely due to the limited availability of product as a result of the FDA action at Steris. There was no backlog of INFeD as of February 1998 or February 1997. There was no significant backlog of orders of other products in the aggregate as of February 27, 1999, February 1998 or February 1997.

Product Development

The Company seeks to expand its product portfolio through continuing investment in research and development. The Company and its alliance partners have 19 ANDAs pending before the FDA as of March 10, 1999 (two of which were filed by the Company's Steris facility and are not expected to be approved until the FDA has confirmed that Steris has satisfactorily implemented its Corrective Action Plan under the October 1998 FDA Consent Agreement) and over 30 products under development internally and with third parties. Recently, the Company has selectively reduced the number of products under development to insure a more focused approach to development. The Company's internal product development activities are conducted by 110 research and development professionals and supported by others with expertise in manufacturing, technology, legal, regulatory and intellectual property issues.

In its branded products business, the Company intends to develop products for the management of iron-related disorders and select other markets, as well as to promote the use of INFeD beyond the nephrology market to other therapeutic areas, such as oncology and gastroenterology.

The Company's generic product development efforts focus on: (i) major branded drugs coming off patent; (ii) drugs for which patent protection has lapsed and for which there are few or no generic producers; (iii) drugs whose patents may be susceptible to challenge; (iv) proprietary and branded products in select therapeutic areas; and (v) generic products that require specialized development, formulation, drug delivery or manufacturing technology. In furtherance of its strategy to be among the first to market generic versions of brand drugs, the Company uses its scientific, pharmacologic, manufacturing and legal expertise to identify brand products covered by patents that are

susceptible to challenge or circumvention. When the Company decides to pursue development of a generic version of a brand product so identified, it seeks a source for the drug's active pharmaceutical ingredient, develops a formulation for the drug, conducts bioequivalence studies on its formulation (where required) and prepares an ANDA filing. The ANDA filing must include a certification from the Company that the patent on the brand product is invalid or not infringed, and the patent holder must be provided with notice of the filing and basis for the certification. If the patent holder commences litigation within 45 days of the notice, the FDA may not approve the ANDA for a period of 30 months, unless the case is resolved earlier in court or by settlement. A successful patent challenge may result in a court determination that the patent on the brand product is invalid, not infringed or unenforceable. Alternatively, a settlement with the patent holder may include a license to the Company to sell the generic version of the brand product prior to the expiration of the patent covering the product.

Since 1985, the Company has had a series of non-exclusive agreements (collectively, the Consulting Agreement) with a consultant. Under the Consulting Agreement, the consultant and the Company have identified certain patents on branded pharmaceutical products that might be susceptible to a challenge, and the consultant has acted as litigation counsel or advising counsel to the Company in those instances where the Company decided to proceed with a patent challenge. For projects in which the consultant has rendered an opinion setting forth the basis for a possible patent challenge, the Company pays the consultant half the adjusted gross profit from the Company's sale of generic versions of the patented product until the date on which the patent would normally have expired or half the proceeds of any settlement. The Consulting Agreement does not have a specific term and continues until the current projects under the Consulting Agreement are completed and all payments due to the consultant are made. The consultant may terminate the Consulting Agreement for certain specified reasons at any time. Without regard to who terminates the Consulting Agreement or the reasons therefor, the consultant will be entitled to payment in conjunction with any sales or settlements with respect to any patented product for which the consultant has previously rendered an opinion.

Strategic Collaborations

The Company actively pursues strategic collaborations with other companies through which it gains access to dosage forms, proprietary drug delivery technology, specialized formulation capabilities and active pharmaceutical ingredients. The Company relies on its collaborative partners for any number of functions, including product formulation, approval and supply. The Company has product development arrangements with companies such as R&DL, Elan and Ethical and collaborative arrangements for direct access to raw materials with, among others, Johnson Matthey, Cheminor and Abbott.

Under the arrangements with Elan and Ethical, the Company funds development costs for designated products and the strategic partner develops the products. Following regulatory approval, the strategic partner supplies, and the Company markets the products and pays the strategic partner a royalty or profit share from sales. The Company is currently marketing ketoprofen ER, a product covered by the strategic collaboration with Elan. Several other products are in various stages of development under the Company's arrangements with Elan and Ethical.

Under a 1998 agreement with Elan, the Company is obligated to pay $15.0 million in license fees. Additionally, the Company may be obligated to pay approximately $3.5 million in additional fees as and when certain milestones are achieved. Certain of these fees may be increased by up to $2.0 million or decreased by up to $0.5 million depending on whether certain other milestones are achieved.

In 1994, the Company entered into a worldwide technology licensing and development agreement with Ethical for the development of a portfolio of oral controlled release and transdermal products. Under the terms of the agreement, the Company is obligated to pay product licensing fees and development costs dependent on achievement of interim milestones. The Company paid an aggregate of $13.7 million under the agreement through December 1998. The remaining commitment under the agreement as of December 1998 was $12.2 million, subject to the completion of milestones.

In February 1998, the Company entered into a strategic alliance agreement with

Cheminor and Dr. Reddy's Laboratories Limited and its subsidiaries (Reddy). Pursuant to the agreement, Cheminor will make available to the Company its present and future dosage form generic products on an exclusive basis for sale in the U.S. and certain other countries, and the Company will make available to Cheminor and Reddy its present and future products on an exclusive basis for sale in India and certain other countries. Cheminor and Reddy will make available to the Company bulk active pharmaceutical ingredients. As part of the arrangement, the Company purchased 2.0 million publicly traded shares of Cheminor (12.79% of Cheminor) for $10.0 million. Cheminor has the right to make fair market value purchases of the Company's common stock; the purchase price may be payable from profits otherwise due Cheminor from the alliance. Each party will also be entitled to representation on the other company's board of directors consistent with its equity interest.

Manufacturing

The Company's aggregate manufacturing capacity is among the largest of any generic pharmaceutical company in the U.S. The diversity and capacity of these facilities are important elements of the Company's strategy to expand the range of its existing product line and to provide several significant benefits, including (i) the ability to satisfy the growing preference among many of the Company's customers for buying pharmaceuticals directly from manufacturers and from fewer sources, (ii) added flexibility in raw materials sourcing and manufacturing cost control, and (iii) economies of scale with respect to manufacturing infrastructure functions common to solid dosage manufacturing and/or sterile dosage manufacturing, such as water distillation, air purification, drug formulation systems, filling and packaging lines, and quality control and regulatory compliance.

The Company has made a substantial investment in plant and equipment and believes that it is unique in its capacity to produce a broad line of both sterile dosage products and solid dosage products. The Company manufactures a variety of product forms and types, including immediate-release and extended-release solid dosage products and sterile anti-infectives, injectables, penicillins, and cephalosporins. In 1998, the Company produced approximately four billion tablets and capsules and 32 million vials and ampules and has the capacity to increase production to six billion tablets and capsules and 55 million vials and ampules annually. This range of manufacturing capabilities allows the Company to participate in segments of the generic industry where competition is limited. Further, the Company's high-volume production enables it to obtain favorable access to raw materials, which typically represent a substantial portion of the cost of producing drug products. The Company believes that it is one of only two U.S. generic manufacturers with dedicated sterile filling facilities for cephalosporin and penicillin antibiotics, which target the high volume institutional injectable market.

The Company is required to maintain numerous quality control procedures in its manufacturing process and to comply with cGMP standards. The Company employs sanitary handling procedures, customized systems for monitoring and regulating environmental conditions and back-up systems for many of the critical steps in its production process. The Company also performs sample testing of raw materials and packaging supplies used in manufacturing its products and conducts on-site audits of raw material suppliers. The Company has approximately 410 employees dedicated to quality control and quality assurance. Because developing and obtaining approval of new generic products requires a large investment and several years of lead time, the Company believes that companies like itself that have modern, versatile manufacturing facilities will have a competitive advantage in responding to market opportunities. In September 1998, the FDA initiated seizures of drugs and drug related products manufactured by Steris and in the Company's possession, alleging, among other things, certain instances in which the Steris facility was not operating in conformity with cGMP regulations. In October 1998, Steris entered into the FDA Consent Agreement relating to such action (see "Government Regulation - Regulatory Matters - FDA Consent Agreement").

The Company does not manufacture the active pharmaceutical ingredients used in the preparation of its products. Instead, the Company purchases these active pharmaceutical ingredients from international and domestic sources. The FDA requires pharmaceutical manufacturers to identify in their drug applications the supplier(s) of all the raw materials for its products. If raw materials for a

particular product become unavailable from an approved supplier specified in a drug application, any delay in the required FDA approval of a substitute supplier could interrupt manufacture of the product, which could materially and adversely affect the Company's profit margins and market share for the product. To the extent practicable, the Company attempts to identify more than one supplier for each of its more economically significant drug applications. The Company has a program of identifying alternative suppliers where practicable and, in many cases, has filed supplemental applications with the FDA for approval of alternative suppliers. However, many raw materials are available only from a single source and, in many of the Company's drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist. For example, currently, the Company has only one source for the active ingredient used in the manufacture of INFeD and certain other economically significant drugs.

The Company obtains a significant portion of its raw materials from international suppliers. Arrangements with international raw material suppliers are subject to, among other things, FDA regulations, customs and other government clearances, various import duties and regulation by the country of origin.

Sales and Marketing

Customers

A significant portion of pharmaceuticals are distributed in the U.S. through wholesale drug distributors and major retail drug store chains. Sales to Bergen Brunswig Corporation, Cardinal Health, Inc. and McKesson Drug Company (all wholesale drug distributors) accounted for 22%, 14% and 14%, respectively, of the Company's total net revenues for 1998. While pharmaceutical products are typically distributed via wholesalers, pharmaceutical companies often directly enter into contracts with retail chains, managed care and institutional customers covering the actual acquisition price. Under these arrangements, wholesalers often service substantially all of a customer's product needs, allowing it to maintain minimal inventories and to receive overnight deliveries of several manufacturers' products from a single source. Currently, approximately 60% of the Company's net revenues are sold through wholesalers, with approximately 88% of these net revenues subject to direct contracts between the Company and its customers. In general, it is the Company's strategy to enter into purchase contracts with retail, managed care and institutional customers. During the past several years, there has been a consolidation of these distribution channels, resulting in a smaller number of wholesale distributors and the emergence of fewer, larger regional and nationwide retail drug store chains. In addition to pressuring generic drug manufacturers to lower their prices and/or provide volume discounts, these customers have also been reducing the number of sources from which they purchase pharmaceutical products. The vast majority of the Company's products are sold under the "Schein Pharmaceutical" and "Marsam Pharmaceuticals" labels. In addition, the Company sells a limited number of products to distributors under private labels.

Generic Sales and Marketing

The Company's generic sales and marketing organization comprises 90 people serving the retail, institutional, alternative site, managed care and other generic drug purchasing markets, including a 20-person inside customer support team and 15 marketing personnel supporting the 55-person sales organization. The Company's sales and marketing force permits effective coverage of all significant purchasers of generic products. The sales and marketing force promotes newly approved products, encourages substitution of the Company's generic products for branded products and supports the customer with value added services in inventory management and patient education.

The Company has developed market share initiatives with selected leading chain and wholesale customers and has implemented customized marketing programs to meet specific customer needs.

Branded Sales and Marketing

In 1998, the Company expanded its branded sales and marketing organization from 20 to 40 people in anticipation of the launch of Ferrlecit.

In 1994, the Company entered into a co-promotion arrangement with Bayer covering the Company's INFeD product. Under this agreement, which expires on June 30, 1999, certain of Bayer's specialty sales representatives detail INFeD to the nephrology market in the U.S. and Puerto Rico.

Competition

In the generic pharmaceutical business, the Company competes with a number of companies, including independent generic manufacturers and branded pharmaceutical companies. Many companies, including large pharmaceutical firms with financial and marketing resources and development capabilities substantially greater than those of the Company, are engaged in developing, marketing and selling products that compete with those offered by the Company. The selling prices of the Company's products may decline as competition increases. Further, other products now in use or under development by others may be more effective than the Company's current or future products. The pharmaceutical industry is characterized by intense competition and rapid product development and technological change. The Company's pharmaceuticals could be rendered obsolete or made uneconomical by the development of new pharmaceuticals to treat the indications addressed by the Company's products, technological advances affecting the cost of production, or marketing or pricing actions by one or more of the Company's competitors. Competitors may also be able to complete the regulatory process for certain products before the Company and, therefore, may begin to market their products in advance of the Company's products. The Company believes that competition among prescription pharmaceuticals and generics will be based on, among other things, price, product efficacy, safety, service, reliability and availability.

From time to time, the Company may compete for the in-license or acquisition of certain branded products with other pharmaceutical companies pursuing a similar strategy. The Company's branded products compete with generic pharmaceuticals which claim to offer equivalent therapeutic benefits at a lower cost. In some cases, third-party payors encourage the use of lower cost generic products by paying or reimbursing a user or supplier of a branded prescription product a lower purchase price than would be paid or reimbursed for a generic product, making branded products less attractive, from a cost perspective, to buyers. The pricing activities of the Company's generic competitors and the payment and reimbursement policies of third-party payors could have a material adverse effect on the Company's business, results of operations or financial condition.

Additionally, under the Food and Drug Modernization Act of 1997, brand products may be eligible for additional six or twelve month periods of exclusivity when studies are undertaken to generate indications for pediatric populations. The brand product segment of the pharmaceutical industry has initiated legislative efforts to limit the impact of the Waxman-Hatch Act, both on the Federal and state levels. From time to time, legislation has been introduced designed to extend the patent protection on certain brand pharmaceuticals and efforts have been made by the brand pharmaceutical industry to introduce legislation to limit generic firms' ability to begin research and development activities prior to patent expiration. In addition, the brand product pharmaceutical companies have also initiated legislative efforts in various states to limit the substitution of generic versions of certain types of branded pharmaceuticals. The Company cannot predict whether any such legislation will be enacted. The Company's business, results of operations or financial condition could be materially adversely affected by any one or more of such developments.

Government Regulation

The development, manufacture, marketing and sale of pharmaceutical products is subject to extensive Federal, state and local regulation in the U.S. and similar regulation in other countries. Certain pharmaceutical products are subject to rigorous pre-clinical testing and clinical trials and to other approval requirements by the FDA in the U.S. under the Federal Food, Drug and Cosmetic Act (the FDCA) and the Public Health Services Act and by comparable agencies in most foreign countries. The Company, like its competitors, must obtain approval from the FDA before marketing most

drugs, and must demonstrate continuing compliance with cGMP regulations. Generally, for generic products an ANDA is submitted to the FDA, and for new drugs, a New Drug Application (NDA) is submitted.

The FDCA, the Public Health Services Act, the Controlled Substances Act and other Federal statutes and regulations govern or influence all aspects of the Company's business. Under certain circumstances following product approval and market introduction, the FDA can request product recalls, seize inventories and merchandise in commerce, move to enjoin further manufacture and product distribution, suspend distribution or withdraw FDA approval of the product, and debar a company from submitting new applications. The FDA also can take administrative action against a company to suspend substantive review of pending applications and withhold approvals if it concludes that the data and applications from that company may not be reliable or that there are significant unresolved cGMP issues pertinent to the manufacture of drugs at a particular facility of that company. FDA approval is required before any dosage form of any new unapproved drug, including a generic equivalent of a previously approved drug, can be marketed. All applications for FDA approval must contain information relating to product formulation, stability, manufacturing processes packaging, labeling and quality control. In addition, laws or regulations of foreign governments may affect the availability or price of raw materials needed for the development or manufacture of generic drugs.

The FDA also can take administrative action against a company to suspend substantive review of pending applications and withhold approvals, if it concludes that the data and applications from that company may not be reliable or that there are significant unresolved cGMP issues pertinent to the manufacture of drugs at a particular facility of that company. Any such actions are likely to have a material adverse effect on a company's business.

ANDA Process

The Waxman-Hatch Act established abbreviated application procedures for obtaining FDA approval for those drugs which are off-patent and whose non-patent exclusivity under the Waxman-Hatch Act has expired and which are shown to be bioequivalent to previously approved brand name drugs. Approval to manufacture these drugs is obtained by filing an ANDA. An ANDA is a comprehensive submission which must contain data and information pertaining to the formulation, specifications and stability of the generic drug as well as analytical methods and manufacturing process validation data and quality control procedures. As a substitute for clinical studies, the FDA requires data indicating that the ANDA drug formulation is bioequivalent to a previously approved NDA drug. In order to obtain an ANDA approval of a strength or dosage form which differs from the referenced brand name drug, an applicant must file and have granted an ANDA Suitability Petition. A product is not eligible for ANDA approval if it is not bioequivalent to the referenced brand name drug or if it is intended for a different use. However, such a product might be approved under an NDA with supportive data from clinical trials.

The advantage of the ANDA approval process is that an ANDA applicant generally can rely upon bioequivalence data in lieu of conducting pre-clinical testing and clinical trials to demonstrate that a product is safe and effective for its intended use(s). The Company files ANDAs to obtain approval to manufacture and market its generic products. No assurance can be given that ANDAs or other abbreviated applications will be suitable or available for the Company's products or that the Company's proposed products will receive FDA approval on a timely basis, if at all. While the FDCA provides for a 180-day review period, the Company believes the average length of time between initial submission of an ANDA and receipt of FDA approval is approximately one to two years.

While the Waxman-Hatch Act established the ANDA, it has also fostered pharmaceutical innovation through such incentives as market exclusivity and patent restoration. The Waxman-Hatch Act provides two distinct market exclusivity provisions which either preclude the submission or delay the approval of a competitive drug application. A five-year marketing exclusivity period is provided for new chemical compounds and a three-year marketing exclusivity period is provided for applications containing new clinical investigations essential to the approval of the application. The non-patent market exclusivity provisions apply equally to patented and non-patented drug products. Any entitlement to patent marketing exclusivity under the Waxman-Hatch Act is based upon the term of the original patent plus any patent extension granted under the Waxman-Hatch Act as compensation for the reduction of the effective life of a patent as a result of time spent by the FDA in reviewing the innovator's NDA. The patent and non-patent marketing exclusivity provisions do not prevent the filing or the approval of an NDA. Additionally, the Waxman-Hatch Act provides 180-day market exclusivity against effective approval of another

ANDA for the first ANDA applicant who submits a certificate

challenging a listed patent as being invalid or not infringed. Under the Food and Drug Modernization Act of 1997, brand products may be eligible for additional six or twelve month periods of exclusivity when studies are undertaken to generate indications for pediatric populations

NDA Process

An NDA is a filing submitted to the FDA to obtain approval for a drug not eligible for an ANDA and must contain complete pre-clinical and clinical safety and efficacy data or a right of reference to such data. Before dosing a new drug in healthy human subjects or patients may begin, stringent government requirements for pre-clinical data must be satisfied. The pre-clinical data, typically obtained from studies in animal species, as well as from laboratory studies, are submitted in an Investigational New Drug (IND) application, or its equivalent in countries outside the U.S., where clinical trials are to be conducted. The pre-clinical data must provide an adequate basis for evaluating both the safety and the scientific rationale for the initiation of clinical trials. Clinical trials are typically conducted in three sequential phases, although the phases may overlap. In Phase I, which frequently begins with the initial introduction of the compound into healthy human subjects prior to introduction into patients, the product is tested for safety, adverse effects, dosage, tolerance, absorption, metabolism, excretion and other elements of clinical pharmacology. Phase II typically involves studies in a small sample of the intended patient population to assess the efficacy of the compound for a specific indication, to determine dose tolerance and the optional dose range as well as to gather additional information relating to safety and potential adverse effects. Phase III trials are undertaken to further evaluate clinical safety and efficacy in an expanded patient population at typically dispersed study sites, in order to determine the overall risk-benefit ratio of the compound and to provide an adequate basis for product labeling. Each trial is conducted in accordance with certain standards under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND.

Data from pre-clinical testing and clinical trials may be submitted to the FDA as an NDA for marketing approval and to foreign health authorities as a marketing authorization application. The process of completing clinical trials for a new drug is likely to take several years and requires the expenditure of substantial resources. Preparing an NDA or marketing authorization application involves considerable data collection, verification, analysis and expense, and there can be no assurance that approval from the FDA or any other health authority will be granted on a timely basis, if at all. The approval process is affected by a number of factors, primarily the risks and benefits demonstrated in clinical trials as well as the severity of the disease and the availability of alternative treatments. The FDA or other health authorities may deny an NDA or marketing authorization application if the regulatory criteria are not satisfied, or such authorities may require additional testing or information.

Even after initial FDA or other health authority approval has been obtained, further studies, including Phase IV post-marketing studies, may be required to provide, for example, additional data on safety, and will be required to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the FDA or other regulatory authorities require post-marketing reporting to monitor serious and unanticipated adverse effects of the drug. Results of post-marketing programs may limit or expand the further marketing of the products. Further, if there are any modifications to the drug, including changes in indication, manufacturing process or labeling or a change in manufacturing facility, an application seeking approval for such changes must be submitted to the FDA or other regulatory authority. Additionally, the FDA regulates post-approval promotional labeling and advertising activities to assure that such activities are being conducted in conformity with statutory and regulatory requirements. Failure to adhere to such requirements can result in regulatory actions which could have a material adverse effect on the Company's business, results of operations or financial condition.

Regulatory Matters

Over the last several years, the FDA has inspected the Company's facilities and in certain instances has reported inspection observations that included significant cGMP and application reporting deficiencies. As a result of these inspection observations, for varying periods of time, each of the Company's facilities (other than its Humacao, Puerto Rico oral solid manufacturing facility) has been ineligible (the Steris facility is currently ineligible) to receive new product

approvals. As a result of the September 1998 FDA seizure of Steris manufactured products, the Company's Phoenix, Arizona facility is operating under the FDA Consent Agreement. Significant delays in the review or approval of applications for new products, or in meeting the requirements of the FDA Consent Agreement, could have a material adverse effect on the Company's business, results of operations or financial condition.

FDA Consent Agreement

On September 10, 1998, the U.S., on behalf of the FDA, based on actions it filed in Federal court in the Southern District of New York on September 9, 1998 and in the District of Arizona on September 10, 1998 initiated seizures of drugs and drug related products manufactured by Steris. The actions alleged certain instances in which the Steris facility was not operating in conformity with cGMP regulations. The actions resulted in the seizure of all drugs and drug related products in the Company's possession manufactured at the Steris facility and halted the manufacture and distribution of Steris manufactured products.

On October 16, 1998, Steris and certain of its officers, without admitting any allegations of the complaints and disclaiming any liability in connection therewith, entered into the FDA Consent Agreement. Under the terms of the FDA Consent Agreement, Steris is required, among other things, to demonstrate through independent certification that its processes, quality assurance and quality control programs and management controls comply with cGMP regulations. The FDA Consent Agreement also provides for independent certification of Steris' management controls, quality assurance and quality control programs, and employee cGMP training. It further requires that Steris develop a timeline and Corrective Action Plan for implementing these actions and for expert certification with respect to matters covered in previous FDA inspections of the facility. Steris has submitted to the FDA the Corrective Action Plan provided for under the FDA Consent Agreement and has begun implementation of that plan. Steris posted a bond in the amount of $6 million to secure certain obligations under the FDA Consent Agreement.

As a result of the FDA Consent Agreement, Steris has divided its product line into three categories: products that it will seek to manufacture under expedited certification procedures, products that it will seek to manufacture once it satisfies all conditions under the FDA Consent Agreement, and products it currently has decided not to manufacture. Expedited certification procedures apply for certain products that are particularly important to the medical community because they are primarily or exclusively available from the Company or that are particularly significant to the Company. (See "Other Factors Affecting Future Performance" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - the FDA Consent Agreement" and "-Restructuring Charge").

Product Liability Insurance

The testing, manufacturing and distribution of the Company's products involve a risk of product liability claims. Pursuant to the Company's various insurance policies, the Company is self-insured up to the first $500,000 of claims for each occurrence and $2,500,000 in the aggregate per policy year. Although no assurance can be given, the Company believes that its product liability insurance is adequate. Product liability insurance, however, could cease to be available or could cease to be available on acceptable terms, either as a function of the market for product liability insurance for pharmaceutical companies or the Company's own claims experience.

Employees

At December 1998, the Company had approximately 1,625 employees, of which 620

were engaged in manufacturing, 410 were engaged in quality control and quality assurance, 240 were engaged in administration, finance and human resources, 110 were engaged in research and product development, 130 were engaged in sales and marketing, 70 were engaged in distribution and 45 were engaged in regulatory affairs. No employee is represented by a union, and the Company has never experienced a work stoppage. Management believes its relationship with its employees is good.

OTHER FACTORS AFFECTING FUTURE PERFORMANCE

Dependence Upon New Products and Effect of Product Lifecycles

The Company's results of operations depend, to a significant extent, upon its ability to develop and commercialize new pharmaceutical products in response to the competitive dynamics within the pharmaceutical industry. Generally, following the expiration of patents and any other market exclusivity periods for branded drugs, the first pharmaceutical manufacturers to successfully market generic equivalents of such drugs achieve higher revenues and gross profits from the sale of such generic drugs than do later market entrants. As competing generic equivalents reach the market, selling price, unit sales volume and profit margin of the earliest generic versions often decline significantly. For these reasons, the Company's ability to achieve overall growth in revenues and profitability depends on its being among the first companies to introduce new generic products. While the Company believes the pipeline of generic drugs and branded drugs it currently has under development will allow it to compete effectively, no assurance can be given that any of the drugs in its pipeline will be successfully developed or approved by the FDA, will be among the first to the market or will achieve significant revenues and profitability.

Dependence on Certain Existing Products

The Company derives and is expected to continue to derive a significant portion of its revenues and gross profit from a limited number of products. Net revenues from INFeD in 1998 were $99.5 million, or 19%, of the Company's total net revenues, with gross profit from INFeD as a percentage of total gross profit being significantly greater. INFeD is manufactured at the Company's Steris facility, which is operating under the FDA Consent Agreement. The Company resumed shipments of INFeD from existing inventory on October 30, 1998. Newly manufactured lots of INFeD must undergo certification by independent experts and review by the FDA prior to commercial distribution. The Company's future results of operations depend upon its ability to resume the manufacturing of INFeD and the implementation of the Corrective Action Plan at Steris. Any material decline in revenues or gross profit from these products could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on Successful Patent Litigation

A significant portion of the Company's revenues and gross profit has been derived from generic versions of branded drug products covered by patents the Company has challenged under the Waxman-Hatch Act. In several successful proceedings, the Company had been advised and represented by an independent patent attorney (the Consultant), whose involvement has been substantial. The Company does not expect the Consultant to be involved in any patent challenges it may undertake in the future. Through its internal efforts, and with the assistance of strategic collaborators and advisors, the Company has identified a number of additional patents that may be susceptible to challenge. There can be no assurance the Company will successfully complete the development of any additional products involving patent challenges, succeed in any pending or future patent challenges or, if successful, receive significant revenues and gross profit from the products covered by successfully challenged patents.

Competition

The pharmaceutical industry is intensely competitive. The Company competes with numerous companies in the pharmaceutical industry generally and the generic segment of the industry specifically. These competitors include generic drug manufacturers and large pharmaceutical companies that continue to manufacture the branded and/or generic versions of drugs after the expiration of their patents relating to these drugs. Many of the Company's competitors have greater financial and other resources than the Company and, therefore, are able to spend more than the Company on research, product development and marketing. In addition, following the expiration of patents on branded drugs, manufacturers of these products have employed various strategies intended to maximize their share of the markets for these products, as well as, in some cases, generic

equivalents of these products, and are expected to continue to do so in the future. There can be no assurance that developments by others will not render any product the Company produces or may produce obsolete or otherwise non-competitive.

Dependence on Regulatory Approval and Compliance

The development, manufacture, marketing, sale and distribution of pharmaceutical products is subject to extensive Federal, state and local regulation in the U.S. and similar regulation in other countries. The Company, like its competitors, must obtain approval from the FDA before marketing most drugs, and must demonstrate continuing compliance with cGMP regulations. Generally, for generic products an ANDA is submitted to the FDA, and for new drugs, a NDA is submitted. Under certain circumstances following product approval and market introduction, the FDA can request product recalls, seize inventories and merchandise in commerce, move to enjoin further manufacture and product distribution, suspend distribution or withdraw FDA approval of the product, and debar a company from submitting new applications. The FDA also can take administrative action against a company to suspend substantive review of pending applications and withhold approvals, if it concludes that the data and applications from that company may not be reliable or that there are significant unresolved cGMP issues pertinent to the manufacture of drugs at a particular facility of that company. Any such actions are likely to have a material adverse effect on a company's business. The Company has ANDAs currently pending before the FDA and intends to file additional ANDAs in the future. Delays in the review of these applications or the inability of the Company to obtain approval of certain of these applications or to market the product following approval could have a material adverse effect on the Company's business, results of operations or financial condition.

Regulatory Matters

Over the last several years, the FDA has inspected the Company's facilities and in certain instances has reported inspectional observations that included significant cGMP and application reporting deficiencies. As a result of these inspectional observations, for varying periods of time, each of the Company's facilities (other than its Humacao, Puerto Rico oral solid manufacturing facility) has been ineligible (the Steris facility is currently ineligible) to receive new product approvals.

On September 10, 1998, the U.S., on behalf of the FDA, based on actions it filed in Federal court in the Southern District of New York on September 9, 1998 and in the District of Arizona on September 10, 1998 initiated seizures of drugs and drug related products manufactured by Steris. The actions alleged certain instances in which the Steris facility was not operating in conformity with cGMP regulations. The actions resulted in the seizure of all drugs and drug related products in the Company's possession manufactured at the Steris facility and halted the manufacture and distribution of Steris manufactured products.

On October 16, 1998, Steris and certain of its officers, without admitting any allegations of the complaints and disclaiming any liability in connection therewith, entered into the FDA Consent Agreement. Under the terms of the FDA Consent Agreement, Steris is required, among other things, to demonstrate through independent certification that Steris' processes, quality assurance and quality control programs, and management controls comply with cGMP regulations. The FDA Consent Agreement also provides for independent certification of Steris' management controls, quality assurance and quality control programs, and employee cGMP training. It further requires that Steris develop a timeline and Corrective Action Plan for implementing these actions and for expert certification with respect to matters covered in previous FDA inspections of the facility. Steris has submitted to the FDA the Corrective Action Plan provided for under the FDA Consent Agreement and has begun implementation of that plan.

The FDA Consent Agreement, in addition to requiring certification by independent consultants and activities established in a Corrective Action Plan, provides the FDA with enhanced scrutiny and authority over Steris operations. Failure to meet requirements for timely filing of certifications and performance of corrective actions, or to adhere strictly to cGMP regulations, may lead to any of a variety of sanctions, including cessation of manufacturing and distribution, product recalls, withholding of ANDA and other approvals necessary to business operations, and fines for actions in violation, or contempt, of the FDA Consent Agreement. Any of these sanctions could have a material adverse effect on the Company's business, results of operations or financial condition.

There can be no assurance that the FDA will determine that the Company has adequately corrected the alleged deficiencies at its operating sites, that subsequent inspections will not result in additional significant observations, that approval of any of the pending or subsequently submitted ANDAs by the Company will be forthcoming or that the FDA

will not seek to impose additional regulatory sanctions against the Company or any of its subsidiaries. The range of possible sanctions includes FDA issuance of adverse publicity, product recalls or seizures, injunctions, and civil or criminal prosecution. Any such sanctions, if imposed, could have a material adverse effect on the Company's business, results of operations or financial condition.

Consolidation of Distribution Network; Customer Concentration

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

For the year ended December 1998, sales to the Company's ten largest customers represented approximately 71% of the Company's total net revenues. For the year ended December 1998, three customers accounted for 22%, 14% and 14%, respectively, of the Company's total net revenues. The same three customers accounted for 19%, 18% and 10%, respectively, of the Company's total net revenues in 1997. The loss of any of these customers could materially and adversely affect the Company's business, results of operations or financial condition.

Dependence on Strategic Collaborations

The Company actively pursues strategic collaborations with other companies through which it gains access to dosage forms, proprietary drug delivery technology, specialized formulation capabilities and active pharmaceutical ingredients. The Company relies on its collaborative partners for any number of functions, including product formulation, approval and supply. There can be no assurance these products will be successfully developed or that the Company's partners will perform their obligations under these collaborative arrangements. Further, there can be no assurance that the Company will be able to enter into future collaborative arrangements on favorable terms, or at all. Even if the Company enters into such collaborative arrangements, there can be no assurance that any such arrangement will be successful.

Supply of Raw Materials

The principal components of the Company's products are active and inactive pharmaceutical ingredients. The Company does not manufacture the active pharmaceutical ingredients used in the preparation of its products. Instead, the Company purchases these active pharmaceutical ingredients from both domestic and international sources. The FDA requires pharmaceutical manufacturers to identify in their drug applications the supplier(s) of all the raw materials for its products. If raw materials for a particular product become unavailable from an approved supplier specified in a drug application, any delay in the required FDA approval of a substitute supplier could interrupt manufacture of the product. The qualification of a new supplier could materially and adversely affect the Company's profit margins and market share for the product, as well as delay the Company's development and marketing efforts. To the extent practicable, the Company attempts to identify more than one supplier in each drug application. The Company has a program of identifying alternative suppliers where practicable and, in many cases, has filed supplemental applications with the FDA for approval. However, many raw materials are available only from a single source and, in many of the Company's drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist. For example, currently, the Company has only one source for the active ingredient used in the manufacture of INFeD. Any interruption of supply could have a material adverse effect on the Company's ability to manufacture its products. In addition, the Company obtains a significant portion of its raw

materials from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, FDA regulation, various import duties and other government clearances. Acts of governments outside the U.S. may affect the price or availability of raw materials needed for the development or manufacture of generic drugs. In addition, recent changes in patent laws in jurisdictions outside the U.S. may make it increasingly difficult to obtain raw materials for research and development prior to the expiration of the applicable U.S. patents. There can be no assurance that the Company will establish or, if established, maintain good

relationships with its suppliers or that such suppliers will continue to supply ingredients in conformity with legal or regulatory requirements.

Risk of Product Liability Claims; No Assurance of Adequate Insurance

The testing, manufacture and distribution of pharmaceutical products involve a risk of product liability claims and the adverse publicity that may accompany such claims. The Company is a defendant in a number of product liability cases, the outcome of which the Company believes should not have a material adverse affect on the Company's business, results of operations or financial condition. Although the Company maintains what it believes to be an adequate amount of product liability insurance coverage, there can be no assurance that the Company's existing product liability insurance will cover all current and future claims or that the Company will be able to maintain existing coverage or obtain, if it determines to do so, insurance providing additional coverage at reasonable rates. No assurance can be given that one or more of the claims arising under any pending or future product liability cases, whether or not covered by insurance, will not have a material adverse effect on the Company's business, results of operations or financial condition.

Fluctuating Results of Operations

During the past three years, the Company's results of operations have fluctuated materially on both an annual and a quarterly basis. These fluctuations have resulted from several factors, including, among others, the timing of introductions of new products by the Company and its competitors, timing of receipt of patent settlement revenues, dependence by the Company on a limited number of products, the impact of the FDA Consent Agreement and the associated restructuring charge recorded by the Company. The Company believes that it will continue to experience fluctuations in net revenues, gross profit and net income as a result of, among other things, the timing of regulatory approvals and market introduction of new products by the Company and its competitors, downward pressure on pricing for generic products available from multiple approved sources, and the Company's compliance with the FDA Consent Agreement.

ITEM 2. PROPERTIES

The following table presents the facilities owned or leased by the Company and indicates the location and type of each of these facilities.

<TABLE>
<CAPTION>

Facility	Location	Own or Lease	Square Feet	Lease Expiration
<S>	<C>	<C>	<C>	<C>
Manufacturing Facilities				
Solid dosage	Carmel, NY(1)(2)	Own	112,000	--
Solid dosage	Humacao, PR	Own	75,000	--
Solid dosage	Danbury, CT(2)	Lease	88,000	2005
Sterile dosage	Phoenix, AZ	Own	175,000	--
Sterile and solid dosage	Cherry Hill, NJ(2)(3)	Own	209,500	--
Distribution Centers				
Eastern distribution	Brewster, NY(1)	Lease	98,500	2007
Western distribution	Phoenix, AZ(4)	Lease	76,000	2000

Corporate Offices	Florham Park, NJ(1)	Lease	53,000	2005

(1) The Company maintains administrative offices at this facility.
(2) The Company maintains research laboratories at this facility.
(3) In 1998, the Company exercised its option to purchase 109,800 square feet of this facility which the Company had been leasing prior thereto.
(4) In December 1998, the Company closed this facility.

ITEM 3. LEGAL PROCEEDINGS

In September and October 1998, following the commencement of a seizure action by the FDA against Steris on September 10, 1998, a number of substantially similar complaints were filed in Federal court in the District of New Jersey against the Company, its Chairman and Chief Executive Officer, its Chief Financial Officer and, in certain actions, one or more of the following: the Company's Senior Vice President of Technical Operations, General Counsel and three underwriters of the Company's April 9, 1998 initial public offering (the Offering). Plaintiffs purported to sue on behalf of a class of persons who purchased shares of the Company's common stock pursuant or traceable to the Offering and allege that defendants violated the Securities Act of 1933 by making misrepresentations and omissions of material facts in connection with the Offering and in the registration statement and prospectus issued pursuant to the Offering. In November and December 1998, groups of plaintiffs seeking appointment as lead plaintiff for a class filed complaints or amended complaints that added claims under the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of purchasers of the Company's common stock between April 9, 1998 and September 28, 1998 to the claims described above. Plaintiffs allege, among other things, that defendants failed to disclose or misrepresented facts concerning the status of the Company's internal controls and ability to comply with government regulations relating to its manufacturing activities, including the status of the Company's corrective actions at the Steris facility and the effect of the FDA enforcement action on the Company's operations. Plaintiffs on behalf of the purported class seek damages, recision and/or recisionary damages.

On December 21, 1998, the court entered an order consolidating the actions, appointing lead plaintiffs and approving selection of lead and liaison counsel. Defendants have not yet responded to the complaints, pending the filing by lead plaintiffs of a consolidated amended complaint in the actions. The Company intends to defend itself vigorously against these actions.

In one of the Company's patent challenge litigations filed in the U.S. District Court for the Southern District of New York, the trial judge ruled against the Company and upheld the validity of the patent at issue. On October 1, 1998, the Court awarded attorneys fees to the patent holder and its licensee. The Company has been informed that the fees sought will be approximately $3 million, subject to final determination by the Court. The Company intends to appeal this decision.

In addition, the Company is a defendant in several product liability cases. These cases are typical for a company in the pharmaceutical industry. The Company also is involved in other proceedings and claims of various types. Management presently believes that the disposition of all such known product liability and other proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the Company's financial position, operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the quarter ended December 26, 1998, no matters were submitted to a vote of the security holders of the Company.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of the Company's executive officers are listed below:

Martin Sperber (age 67) has been Chairman, Chief Executive Officer, President and director of the Company since 1989. From 1985 until 1989, Mr. Sperber was President and Chief Operating Officer of the Company. Mr. Sperber has been employed in various positions in the Schein organization for over 40 years. Mr. Sperber is a member of the Board of the Generic Pharmaceutical Industry

Association, a member of the Board of the American Foundation for Pharmaceutical Education, a member of the American Pharmaceutical Association and a member of the Council of Overseers of the Long Island University Arnold and Marie Schwartz College of Pharmacy. Mr. Sperber received his B.S. degree in Pharmacy from Columbia University.

Dariush Ashrafi (age 52) has been Executive Vice President and Chief Financial Officer since October 1995, and director since September 1997 and from May 1995 until September 1995 was Senior Vice President and CFO. From 1990 to 1995, Mr. Ashrafi was Senior Vice President, Chief Financial Officer and director of The Warnaco Group, Inc., an apparel company. Prior to joining Warnaco, he spent 18 years with Ernst & Young and became a partner in 1983. Mr. Ashrafi received his B.S. degrees in Aeronautical and Astronautical Engineering and in Management Science from the Massachusetts Institute of Technology and his M.S. in Finance from the Massachusetts Institute of Technology Sloan School.

Javier Cayado (age 53) has been Senior Vice President of Technical Operations of the Company since February 1998. From 1993 to 1998, Mr. Cayado was successively Vice President, Senior Vice President and General Manager of Danbury Pharmacal, a wholly owned subsidiary of the Company. Prior to joining Schein in 1993, Mr. Cayado had a 14-year career with Pfizer Pharmaceutical culminating with his assignment as General Manager of Pfizer's bulk chemical and pharmaceutical products plants in Puerto Rico. He received his B.S. in Chemical Engineering from the University of Connecticut.

Paul Feuerman (age 39) has been General Counsel since 1991. He has been a Vice President of the Company since January 1992, Senior Vice President since February 1997, and a director since September 1997. Mr. Feuerman previously was associated with the law firm of Proskauer Rose LLP. He received his B.A. from Trinity College and his J.D. from Columbia Law School.

Paul Kleutghen (age 46) has been Senior Vice President of Strategic Development of the Company since February 1998. From 1993 to 1998, he was Vice President of Business Development. Between 1989 and 1993, he was Vice President of Materials and Operations. Prior to joining Schein, Mr. Kleutghen was with Pfizer Pharmaceutical culminating with his assignment as Director of Product Planning for the U.S. pharmaceutical division. Mr. Kleutghen earned an undergraduate degree in Engineering and Computer Science from the University of Leuven in Belgium and an MBA in Finance from the University of Chicago.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock, par value $0.01 per share (the Common Stock), has traded on the New York Stock Exchange since April 9, 1998, the date of its initial public offering, under the trading symbol "SHP".

The high and low sale prices for the Common Stock as reported by the New York Stock Exchange for the periods since the Company's initial public offering are summarized below.

<TABLE>
<CAPTION>

		Fourth Quarter	Third Quarter	Second Quarter
<S>		<C>	<C>	<C>
Market price per share:	High	$16-3/4	$31-3/4	$32-7/16
	Low	$ 6	$11-11/16	$20-1/2

</TABLE>

As of February 26, 1999, there were approximately 129 holders of record of the Company's Common Stock, which does not include those who held in street or nominee name. Since its initial public offering, the Company has not paid a cash dividend on its Common Stock and does not anticipate paying dividends in the foreseeable future.

The Company's Revolving Credit and Term Loan agreement and its Senior Floating Rate Notes contain restrictions on the payment of dividends. Amounts available

for dividends as permitted by the Revolving Credit and Term Loan agreement were not material at December 26, 1998.

There were no sales of unregistered securities by the Company during the fiscal year ended December 26, 1998.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data with respect to the Company's financial position and its results of operations as of and for each of the five years ended December 1998 set forth below have been derived from the audited consolidated financial statements of the Company. The selected consolidated financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of the Company and related notes thereto.

<TABLE>
<CAPTION>

	1998	1997	1996	1995(1)	1994
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Net revenues	$523,229	$490,170	$476,295	$391,846	$385,428
Cost of sales	349,140	329,761	320,675	250,507	237,380
Gross profit	174,089	160,409	155,620	141,339	148,048
Costs and expenses:					
Selling, general and administrative	87,162	81,809	87,329	75,274	71,783
Research and development	29,245	29,387	27,030	28,324	19,170
Amortization of goodwill and other intangibles	8,754	10,196	10,195	3,399	--
Non-recurring charges (1)	161,200	--	--	30,000	33,594
Operating income (loss)	(112,272)	39,017	31,066	4,342	23,501
Interest expense, net	20,626	26,578	23,285	10,005	1,493
Other expenses (income), net (2)	(2,246)	(9,318)	1,193	(1,245)	212
Income (loss) before provision (benefit) for income taxes and extraordinary item	(130,652)	21,757	6,588	(4,418)	21,796
Income (loss) before extraordinary item	(116,366)	11,102	1,397	(14,900)	6,631
Net income (loss)	(118,026)	11,102	1,397	(14,900)	6,631
Earnings (loss) per share, basic and diluted (3):					
Income (loss) before extraordinary item	$ (3.72)	$ 0.39	$ 0.05	$ (0.52)	$ 0.23
Net income (loss)	(3.77)	0.39	0.05	(0.52)	0.23

</TABLE>

<TABLE>
<CAPTION>

	1998	1997	1996	1995(1)	1994
	(In thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:					
Working capital	$ 8,287	$ 73,249	$ 99,111	$ 92,021	$ 98,610
Total assets	452,996	534,126	544,312	522,410	269,729
Short-term debt, including current portion of long-term debt	103,975	56,440	41,090	40,078	3,465
Long-term debt, less current portion	124,482	198,705	245,390	240,480	42,462
Total debt	228,457	255,145	286,480	280,558	45,927
Stockholders' equity	78,485	139,715	129,980	125,692	140,164

</TABLE>

(1) Non-recurring charges include: (i) the 1998 accounting charge the Company recorded as a result of the actions taken by the FDA and the FDA Consent Agreement reached (see Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 17 to the consolidated financial statements), (ii) the 1995 acquired in-process research and development of $30.0 million in connection with the purchase of Marsam (the Company's results of operations include Marsam from September 1995,

the date of purchase), and (iii) costs recognized by the Company in 1994 in connection with a corporate reorganization. From 1992 to 1994, the

Company engaged in a series of corporate reorganization transactions, including the separation of the Company from Henry Schein, Inc., which is engaged in the direct marketing of health care products and services to office-based health care practitioners. In connection with these transactions, Bayer purchased from the Company's stockholders 28.3% of the then currently outstanding shares of the Company, and agreed with the Company to pursue future strategic alliances. The charge for special compensation incurred in connection with the reorganization aggregated $33.6 million for 1994.

(2) Other expenses (income), net, includes equity in earnings (loss) of unconsolidated international ventures of $(1.9) million, $(3.4) million, $(3.4) million and $(0.4) million in 1998, 1997, 1996 and 1995, respectively, and gains on sales of marketable securities of $4.4 million and $12.7 million in 1998 and 1997, respectively.

(3) See Note 1 to the consolidated financial statements of the Company for information concerning the computation of earnings (loss) per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the selected consolidated financial data and the Company's consolidated financial statements and notes thereto. Except for historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Such risks and uncertainties are discussed below in "Future Trends".

Overview

The Company manufactures and markets two classes of pharmaceutical products, generic products and branded products. Revenues from branded products are derived from sales of INFeD(R), the leading injectable iron product in the United States (U.S.). Generic revenues include sales of generic products and patent settlements resulting from the Company's patent challenge activities.

The following table sets forth the net revenues of the Company's generic and branded businesses for each of the periods shown:

<TABLE>
<CAPTION>

	Years Ended December		
	1998	1997	1996
	(In millions)		
<S>	<C>	<C>	<C>
Generic business:			
Generic products	$393.7	$360.8	$374.8
Patent settlement revenues	30.0	25.0	13.5
Total generic revenues	423.7	385.8	388.3
Branded business:			
INFeD	99.5	104.4	88.0
Total net revenues	$523.2	$490.2	$476.3

</TABLE>

On September 10, 1998 the Food and Drug Administration (FDA) initiated a seizure action against all products in the Company's possession which had been manufactured by the Company's Steris Laboratories, Inc. (Steris) subsidiary. Subsequently, on October 16, 1998 Steris entered into a consent agreement with the FDA. As a result of these actions, the Company recorded a one-time restructuring charge of $161.2 million pretax, or $135.0 million, net of tax

benefit, relating to the effects of the consent agreement with the FDA, (see "Consent Agreement and Restructuring Charge").

The Company's results of operations depend on its ability to develop and commercialize new pharmaceutical products. Generally, following the expiration of patents and any other market exclusivity periods for branded drugs, the first pharmaceutical manufacturers to successfully market generic equivalents of such drugs achieve higher revenues and gross profit than do later market entrants. As competing generic equivalents reach the market, selling price, unit sales volume and profit margin of the earliest generic versions often decline significantly. For these reasons, the Company's ability to achieve overall growth in revenues and profitability depends on its being among the first companies to introduce new generic products. During the past five years, the Company has introduced a number of generic products to the market at patent expiration dates and, in a number of cases, prior to patent expiration of the branded product by successful challenges to the patent under the Drug Price Competition and Patent Term Restoration Act of 1984 (The Waxman - Hatch Act).

The branded business was launched in 1992 with the introduction of INFeD, the leading injectable iron product in the U.S. The Company added to its branded product portfolio with the approval of Ferrlecit(R) in February 1999, its next-generation iron product. The approval was received by the Company's alliance partner, Makoff R & D Laboratories, Inc. The Company has exclusive marketing rights to Ferrlecit in the U.S. and certain other countries. In order to create a more predictable and diverse revenue stream, the Company has been making on-going investments in its branded business. As compared with generic products, branded products offer stronger competitive protection and typically sell at higher prices and achieve more stable margins.

The Company's dependence on a limited number of products, the lifecycles of such products, and the timing of receipt of patent settlement revenues have resulted in significant fluctuations in the Company's earnings. Continued growth in the Company's revenues will depend on continued market demand for its products and the successful introduction and marketing of new products.

The development, manufacture, marketing and sale of pharmaceutical products is subject to extensive Federal, state and local regulation. The Company, like other industry participants, must obtain approval from the FDA before marketing most drugs, and must demonstrate continuing compliance with current Good Manufacturing Practices (cGMP) regulations in its production activities. Over the last several years, the FDA has inspected various Company manufacturing facilities. As a result of these inspections, the FDA has required that the Company modify certain of its manufacturing and other practices and, at times, withheld approval of certain applications for new products, pending satisfactory resolution of issues identified during the inspections. Following the September 1998 FDA seizure of Steris - manufactured products, the Company's Phoenix, Arizona facility is operating under a consent agreement. Significant delays in the review or approval of applications for new products could have a material adverse effect on the Company's future prospects.

Consent Agreement and Restructuring Charge

Food and Drug Administration Consent Agreement

On September 10, 1998, the United States, on behalf of the FDA, based on actions it filed in federal court in the Southern District of New York on September 9 and in the District of Arizona on September 10, initiated seizures of drugs and drug related products manufactured by Steris. The actions alleged certain instances in which the Steris facility was not operating in conformity with cGMP regulations. The actions resulted in the seizure of all drugs and drug related products in the Company's possession manufactured at the Steris facility and halted the manufacture and distribution of Steris products.

On or about October 16, 1998, Steris and certain of its officers, without admitting any allegations of the complaints and disclaiming any liability in connection therewith, entered into a consent agreement with the FDA filed in the District of Arizona (to which the New York action had been transferred). Under the terms of the consent agreement, Steris is required, among other things, to demonstrate through independent certification that its processes, quality assurance and quality control programs, and management controls comply with cGMP regulations. The consent agreement also provides for independent certification of Steris' management controls, quality assurance and quality control programs, and employee cGMP training. It further requires that Steris develop a timeline and Corrective Action Plan for implementing these actions and for expert certification with respect to matters covered in previous FDA inspections of the

facility.

Steris has submitted to the FDA the Corrective Action Plan provided for under the consent agreement and has begun implementation of that plan. Steris posted a bond in the amount of $6 million to secure certain obligations under the consent agreement.

As a result of the consent agreement, Steris has divided its product line into three categories: products that it will seek to manufacture under expedited certification procedures under the consent agreement, products that it will seek to manufacture once it satisfies all conditions under the consent agreement, and products it currently has decided not to manufacture. Expedited certification procedures apply for certain products that are particularly important to the medical community because they are primarily or exclusively available from the Company or that are particularly significant to the Company.

The Steris facility accounted for approximately 40% of the Company's net sales and 50% of gross profits for the first six months of 1998. The Company resumed shipments of INFeD, its branded injectable iron product, from existing inventory on October 30, 1998. Newly manufactured lots of INFeD must undergo certification by independent experts and review by the FDA prior to commercial distribution. The Steris products the Company has decided not to manufacture in the near term contributed approximately $65 million in revenue in the 12-month period ended June 1998.

During the 30 days following the signing of the consent agreement, Steris continued and expanded the records review and product-testing program it initiated earlier in 1998, which includes oversight by independent expert consultants. Based on the findings of this program to date and other commitments under the consent agreement, Steris has initiated a number of recalls.

Restructuring Charge

As a result of the actions taken by the FDA and the consent agreement, the Company recorded a restructuring charge of $135.0 million, net of tax benefit, in 1998. The details of this restructuring charge are as follows:

<TABLE>
<CAPTION>
(In millions)

<S>	<C>
Costs of restructuring:	
Regulatory and compliance related costs.....	$ 12.7
Temporary manufacturing shutdown costs.....	5.3
Severance and related costs.....	5.4
Recalls and related expenses.....	2.0
Other costs and expenses.....	3.0
	28.4
Asset impairments:	
Inventory write-off.....	30.5
Fixed asset impairment.....	6.8
Goodwill impairment.....	95.5
	132.8
Total charges and impairments.....	161.2
Income tax benefit.....	(26.2)
	$ 135.0

</TABLE>

Costs of restructuring consist largely of costs incurred at the Steris facility and, to a lesser extent, costs of closing one of the Company's distribution centers and other steps taken by the Company to reduce its ongoing operating costs, including workforce reductions. Regulatory and compliance related costs consist primarily of costs related to products the Company will recondition and validation testing of products in the market as required by the consent agreement. Temporary manufacturing shutdown costs are the idle plant costs of the Steris facility. Severance costs relate to

reductions in workforce costs at the Steris facility, the closed distribution center, and in the institutional sales and marketing organization. Workforce reductions in 1998 totaled approximately 370 individuals. Recalls and related expenses and other costs and expenses are those costs that the Company estimates will be incurred related to the consent agreement. As of December 26, 1998, $21.2 million had been charged against the restructuring reserve of $28.4 million established in 1998.

The inventory write-off was determined based upon the terms of the consent agreement that required the Company to destroy certain finished goods and work-in-process inventories. Additionally, valuation adjustments were recorded for raw materials and supplies associated with products that the Company no longer expects to market. Fixed asset impairments were recorded for plant and equipment at the Steris facility that is not expected to be utilized in production.

The goodwill impairment was recorded in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In 1995, the Company acquired Marsam Pharmaceuticals, Inc. (Marsam), which, like Steris, is a manufacturer and marketer of generic injectable products for the institutional market. The Company subsequently combined the two organizations' sales and marketing forces with a goal of leveraging the combined product lines. Additionally, other functions were combined including manufacturing and research and development activities. As a result of the FDA consent agreement and the decision not to manufacture a significant number of Steris products, the Company's opportunities in and approach to the institutional market place were re-evaluated. As part of this re-evaluation, management reviewed the carrying value of the goodwill. Based upon an evaluation of projected non-discounted operating cash flows, management determined there was an impairment to goodwill. Fair value was then determined based upon discounted operating cash flows (using a discount rate of 9%). Based on this analysis, the goodwill amount was written off since it was deemed to have no remaining value.

Results of Operations

The following table sets forth certain selected statement of operations data as a percentage of net revenues for the periods indicated:

<TABLE>
<CAPTION>

	Years Ended December		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net revenues	100.0%	100.0%	100.0%
Cost of sales	66.7	67.3	67.3
Gross profit	33.3	32.7	32.7
Costs and expenses:			
Selling, general and administrative	16.7	16.6	18.3
Research and development	5.6	6.0	5.7
Amortization of goodwill and other intangibles	1.7	2.1	2.1
Restructuring charge	30.8	--	--
Operating income (loss)	(21.5)	8.0	6.6
Interest expense, net	3.9	5.4	4.9
Other expenses (income), net	(0.4)	(1.9)	0.3
Income (loss) before provision (benefit) for income taxes and extraordinary item	(25.0)	4.5	1.4
Provision (benefit) for income taxes	(2.7)	2.2	1.1
Income (loss) before extraordinary item	(22.3)	2.3	0.3
Extraordinary item	(0.3)	--	--
Net income (loss)	(22.6)%	2.3%	0.3%

</TABLE>

1998 Compared to 1997

Overall revenues of generic and branded products were impacted by the FDA seizure action and the subsequent consent agreement relating to the Steris facility. Net revenues from branded and generic products manufactured at this facility decreased $67.2 million from $231.4 million in 1997 to $164.2 million in 1998.

Net revenues increased $33.0 million, or 6.7%, from $490.2 million in 1997 to $523.2 million in 1998, primarily due to an increase in revenues from generic solid dose products partially offset by a decrease in revenues from generic sterile dose products and INFeD, largely due to the interruptions in manufacturing and shipping following the FDA action in September. Revenues from the generic business increased by $37.9 million or 9.8% to $423.7 million in 1998 from $385.8 million in 1997. This increase was of the result of launching new products and other net unit growth, resulting in incremental revenues of $54.5 million partially offset by price erosion of $16.6 million or approximately 5%. The volume increase included $64.9 million of sales from two new product introductions in the fourth quarter of 1997 (methylphenidate and ketoprofen ER), net unit growth from all other products of $28.4 million, other new product revenues of $18.5 million, patent settlement revenue increase of $5.0 million (the final payment in connection with a patent settlement), offset by lower revenues from Steris manufactured products of $62.3 million.

Net revenues from the branded business decreased $4.9 million or 4.7% largely due to reduced sales of INFeD following the FDA action in September 1998. The decrease reflects lower volume of $8.6 million partially offset by a price increase of $3.7 million.

Gross profit increased $13.7 million, or 8.5%, from $160.4 million in 1997 to $174.1 million in 1998. The gross margin increased 0.6% in 1998 to 33.3% versus 32.7% in 1997. The increase in gross profit was principally the result of a more profitable mix of products sold, an increase in patent settlement revenue, and a lower percent of price erosion partially offset by lower volume of Steris manufactured products. New generic products with market exclusivity or limited competition contributed to the more profitable mix of products sold. The gross profit of $15 million from patent settlement revenues is net of a related $15 million payment to an independent consultant that is included in cost of sales. In that regard, for projects in which the independent consultant has rendered an opinion setting forth the basis for a possible patent challenge, the Company pays the independent consultant half of the adjusted gross profits (as defined) from the Company's sale of generic versions of the patented product until the date on which the patent would normally have expired or half the proceeds of any settlement.

Selling, general and administrative expenses increased $5.4 million, or 6.5%, from $81.8 million in 1997 to $87.2 million in 1998. Selling, general and administrative expenses were approximately 16.7% of net revenues in 1998 and in 1997. The increase in selling, general and administrative expenses was due primarily to higher branded products marketing and selling expenses of $2.7 million, including pre-launch activities on Ferrlecit and higher legal expenses of $1.6 million.

Research and development expenses of approximately $29.0 million were essentially at the same level in 1998 as in 1997.

Amortization of goodwill and other intangibles decreased from $10.2 million in 1997 to $8.8 million in 1998 due to the write-off of goodwill included in the third quarter restructuring charge.

A restructuring charge totaling $161.2 million ($135.0 million, net of tax benefit) was recorded in 1998. This charge relates to decisions by the Company to reduce its workforce, and consolidate distribution operations, and also includes the related non-cash write-off of goodwill, inventory, and impaired fixed assets (see "Consent Agreement and Restructuring Charge").

As a result of the factors discussed above, operating income decreased $151.3 million, from $39.0 million in 1997 to an operating loss of $112.3 million in 1998. Operating income, excluding the restructuring charge, increased $9.9 million, or 25.4% from $39.0 million in 1997, to $48.9 million in 1998.

Interest expense decreased $6.0 million, or 22.4%, from $26.6 million in 1997 to

$20.6 million in 1998. The decline in interest expense was principally due to lower debt levels as the proceeds from the initial public offering were used to

retire senior floating rate notes, lower interest rates as higher cost subordinated debt was exchanged for lower cost senior floating rate notes in December 1997, and lower interest rate spreads under the Company's credit agreement.

Other income, net, was $2.2 million in 1998 and $9.3 million in 1997. The change in other income, net, was primarily due to gains on the sale of marketable securities declining from $12.7 million in 1997 to $4.4 million in 1998.

The Company's effective tax benefit rate is lower than the statutory rate due to the effect of non-deductible expenses that generate no corresponding tax benefit. These non-deductible expenses are largely amortization of goodwill and the goodwill write-off of $95.5 million included in the 1998 restructuring charge.

The extraordinary item of $1.7 million in 1998 relates to the write-off of deferred financing fees and related costs in connection with the early retirement of $50 million of the Company's senior floating rate notes with proceeds of the Company's initial public offering.

1997 Compared to 1996

Net revenues increased $13.9 million, or 2.9%, from $476.3 million in 1996 to $490.2 million in 1997. In the branded business, sales increased $16.4 million, partially offset by a $2.5 million decline in the generic business. The increase in branded product sales reflected primarily an increase in units sold. The decline in generic business resulted from $49.5 million of price erosion, $20.6 million of discontinued products (resulting from the strategic decision in the second half of 1996 to discontinue certain lower-margin manufactured and lower margin outsourced products), partially offset by an increase of $26.6 million in sales of new products, a unit increase of $29.5 million in sales of all other products and an increase of $11.5 million in patent settlement revenues. Two new generic products launched in the fourth quarter of 1997, methylphenidate and ketoprofen ER, had combined revenues of $17.8 million in 1997.

Gross profit increased $4.8 million, or 3.1%, from $155.6 million in 1996 to $160.4 million in 1997. The gross margin percentage was the same at 32.7% in 1996 and 1997. The increase in gross profit was principally the result of the introduction of new products, increased revenues of INFeD and an increase in settlement revenues offset by generic price erosion. Gross profit from settlement revenues increased $5.7 million from $6.8 million in 1996 to $12.5 million in 1997. Gross profit reflects, among other things, settlement revenues reduced by payments to an independent consultant that are included in cost of sales.

Selling, general and administrative expenses decreased $5.5 million, or 6.3%, from $87.3 million in 1996 to $81.8 million in 1997. Selling, general and administrative expenses as a percent of net revenues decreased from 18.3% in 1996 to 16.6% in 1997. The decrease in selling, general and administrative expenses was due primarily to reducing the generic field sales force resulting from a consolidation of the customer base and overall cost control efforts.

Research and development expenses increased $2.4 million, or 8.7%, from $27.0 million in 1996 to $29.4 million as a result of increased research and development activities generally.

Amortization of goodwill and other intangibles was unchanged from the comparable period in 1996.

Primarily, as a result of increased gross profit and reductions in selling, general and administrative expenses discussed above, operating income increased $7.9 million, or 25.6%, from $31.1 million in 1996 to $39.0 million in 1997.

Interest expense, net, increased $3.3 million, or 14.1%, from $23.3 million in 1996 to $26.6 million in 1997 principally due to higher amortization of deferred financing expenses of $2.6 million and increased interest costs of $0.7 million resulting from refinancing of senior debt with higher cost subordinated debt in December 1996. The higher cost subordinated debt was exchanged for lower cost senior floating rate debt in December 1997.

Other expenses (income), net, changed by $10.5 million from an expense of $1.2 million in 1996 to income of $9.3 million in 1997 and was primarily due to gains

on the sale of marketable securities of $12.7 million.

The Company's effective tax rate is higher than the statutory rate due to the effect of significant non-deductible expenses. The effective tax rate decreased from 78.8% in 1996 to 49.0% in 1997, primarily as a result of higher income offsetting fixed non-deductible expenses.

Liquidity and Capital Resources

On April 9, 1998, the Company consummated an initial public equity offering which generated net proceeds of $52.5 million. The majority of the proceeds of the offering were used to retire $50 million of the Company's senior floating rate notes.

As a result of the actions taken by the FDA and the consent agreement reached, the Company recorded a restructuring charge in 1998 of $161.2 million pre-tax. Of this amount, approximately $132.8 million consisted of non-cash write-offs. The remaining $28.4 million consisted of charges which have resulted or will result in cash outlays by the Company. It is expected that principally all cash outlays related to the restructuring charge will be completed by the end of 1999. The Company expects to realize tax benefits as a result of the restructuring charge through the utilization of net operating loss carrybacks and carryforwards. The Company expects to receive approximately $15.9 million in tax refunds in 1999 and additionally will utilize various carryforwards in 1999. Accordingly, the net cash impact of the charge is not expected to be significant.

Net cash provided by operating activities of $7.9 million during 1998 was attributable to net loss of $118.0 million as adjusted for the effects of non-cash items of $149.1 million and changes in operating assets and liabilities totaling $23.2 million. Significant changes in operating assets and liabilities were comprised of: i) a decrease in accounts receivable of $6.1 million primarily due to lower fourth quarter sales in 1998 than in 1997, ii) an increase in inventories primarily attributable to an increase in raw materials purchased in anticipation of expected shortages in 1999, and iii) a decrease in income taxes of $18.9 million reflecting the effects of the income tax benefit related to the restructuring, partially offset by higher accrued expenses of $10.0 million, in part also due to the restructuring.

Net cash used in investing activities was $39.3 million. The net cash used in investing activities consisted primarily of capital expenditures of $22.4 million, including a $5.1 million purchase of land and a building previously leased, the acquisition of product rights and licenses of $16.1 million and international investments of $6.5 million, partially offset by proceeds from the sale of marketable securities of $6.6 million. Product rights and licenses and international investments consisted principally of a $10.0 million payment for an investment in Cheminor Drugs Limited under a strategic alliance agreement, a $7.0 million payment in connection with a product development and supply agreement with Elan Corporation Plc and a $5.0 million milestone payment under a trademark and distribution agreement for Ferrlecit.

Net cash of $31.0 million provided by financing activities for the year of 1998 was generated primarily from net proceeds from the Company's initial public offering of $52.5 million and proceeds from the stock purchase plan and the exercise of stock options of $5.4 million, offset by net repayments of debt of $26.7 million.

The Company amended its revolving credit and term loan agreement with its bank group in November 1998 as a result of the restructuring charge the Company recorded following the actions taken by the FDA in September 1998. This amendment provides for an increase in permissible investments and certain indebtedness. Additionally, it modified the minimum net worth requirement and adjusted certain required ratios (as defined therein) including leverage, fixed charge coverage and interest expense coverage. The amendment increased the interest rate spread the Company pays by 100 basis points under the revolving credit and term loan agreement. Future interest expense will depend upon the Company's performance against leverage and interest expense ratios.

The Company believes that cash generated from its operations and the availability of $25 million under its revolving credit agreement as of December 1998 are sufficient to finance its level of operations and currently anticipated capital expenditures through the next 12 months. In the event the Company is unable to manufacture and distribute INFeD in 1999 or decides to make any significant acquisitions, it may be required to raise additional funds, through

the issuance of

additional debt or equity securities. There can be no assurance that such funds would be available on terms acceptable to the Company.

Future Trends

Forward-looking statements (statements which are not historical facts) in this report are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements, including statements about product filings and approvals, raw material supply, net revenues, price erosion, gross profit, research and development expenses, selling, general and administrative expenses, recall related and litigation expenses, restructuring charge and other expenses, interest expense, Year 2000 matters, and the implementation of the terms and conditions of the consent agreement affecting Steris involve risks and uncertainties, including the risks and uncertainties detailed below. Actual results may differ significantly from those in any forward-looking statements.

The development, manufacture, marketing and sale of pharmaceutical products are subject to extensive Federal, state and local regulation in the U.S. and similar regulations in other countries. The Company, like its competitors, must obtain approval from the FDA before manufacturing and marketing most drugs and must demonstrate continuing compliance with cGMP regulations.

The Company's future results of operations depend upon its ability to resume the manufacturing of INFeD and the implementation of the Corrective Action Plan at Steris, to obtain FDA approval of new products, to validate its manufacturing processes, to comply otherwise with FDA cGMP standards and other governmental regulations to which the Company is subject, to procure a continuous supply of raw materials and to receive continued customer acceptance of its products. Additionally, there is often a time lag, sometimes significant, between the receipt of product approval and the actual marketing of the approved product due to the validation process. Over the past several years, the FDA has inspected the Company's manufacturing facilities and, in certain instances, has made inspectional manufacturing observations that include significant cGMP and application reporting deficiencies. As a result of these inspectional observations, for varying periods of time, each of the Company's facilities (other than its Humacao, Puerto Rico facility) has been ineligible (the Steris facility is currently ineligible) to receive new product approvals. Raw materials are generally available from several sources although this may not always be the case. For certain more significant products the Company strives to qualify more than one source, however, it currently has only one source for the active ingredient used in the manufacture of INFeD. Since the FDA product approval process requires specification of raw material suppliers, if raw materials from specified suppliers become unavailable, the Company would be required to file a supplement to its product filing to use a new supplier's materials. This could cause a delay of several months in the manufacture of the drug involved and the consequent loss of potential revenue and market share.

In the past years, there has been an increasing number of attempts to use Federal legislation and the regulatory process to extend the patent life of various drugs beyond the term permitted under current statutes. Although the generic drug industry thus far has been partially successful in defeating these attempts, the Company and industry could be adversely impacted if future legislation is enacted which delays the introduction of generic products that are expected to come off patent in the coming years.

The Company's future results of operations also may be affected by a variety of additional factors consistent with the nature of its business, including, but not limited to, changes in the intensity of competition affecting the Company's products and customers. Products with limited competition are generally sold at higher prices, resulting in relatively high gross margins. As competition increases, selling prices and gross margins can decline dramatically and impair overall profitability. Additionally, brand-name competitors are bundling the sale of their generic and branded products as well as introducing generic versions of their own branded products prior to, or at the time of expiration, of the patents for such drugs, which results in lower market share for the Company. The Company also has witnessed a consolidation of its customers such as chain drug stores and wholesalers. The Company will need to provide a continuous stream of new products and maintain its strong customer relations to offset these competitive pressures.

The Company's gross margins will be negatively impacted by the underutilization of its Steris manufacturing facility until such time as the volume of manufactured products increases significantly. Continuing compliance with the FDA cGMP

standards and applicable environmental regulations will also affect the Company's future results of operations. Significant investments which increase the Company's overhead need to be made from time to time to maintain the required infrastructure to comply with the FDA cGMP standards. The Company, through its restructuring of operations begun in the third quarter of 1998 and continuing to the present, has consolidated its distribution facilities in an attempt to streamline its operations and has taken additional steps to reduce its overhead.

Shareholder litigation and various other legal matters remain unresolved in whole or in part. Refer to Note 12 of the consolidated financial statements for further discussion. Although the Company has established reserves it believes appropriate for these matters, the final outcome may exceed the estimates used in establishing those reserves and may have a material adverse effect on the Company's consolidated financial condition, liquidity and results of operations. Additionally, the Company has insurance coverage that in selected circumstances may be applicable.

Year 2000 Compliance

The Company is devoting significant resources throughout its business operations to minimize the risk of potential disruption from Year 2000 non-compliances. This situation is a result of computer programs having been written using two digits (rather than four) to define the applicable year. Systems that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations and system failures. The situation also extends to many automated devices; that is, operating and control systems that rely on embedded systems. In addition, the Company is at risk from Year 2000 failures on the part of its major supply-chain partners, including vendors, customers, financial institutions and government agencies, as well as potential failures in public and private infrastructure services, including electricity, water, gas, transportation and communications.

In 1997, a Year 2000 Compliance Initiative was established within the Company to address the following areas that are impacted by Year 2000 issues.

- Business Transaction Systems
- Plant Floor/Laboratory Applications & Devices
- Computer Network
- Supply-Chain Partner Compliance Readiness

The Business Transaction Systems include applications that process and handle the Company's day-to-day business transactions. These include applications for customer order/billing, finished goods inventory and distribution, manufacturing and laboratory support, EDI, contract processing, forecasting and vendor managed inventory. The Plant Floor/Laboratory Applications and Devices include applications and devices installed at the Company's manufacturing, laboratory, distribution and office facilities that are date capable and/or contain embedded systems. The Computer Network includes PC hardware devices, software, applications and files installed on the Company's network devices and stand-alone PCs.

To continue business activities with the Company's trading partners (i.e., customers, suppliers, payers, financial institutions, etc.) all entities that comprise the Company's supply-chain must be Year 2000 compliant. Certain failures due to non-compliance may result in significant disruptions to business activities with possible adverse financial consequences to the Company. The Company has contacted its suppliers, customers and other parties to determine their "state of readiness" for Year 2000 compliance. The Company is developing contingency plans to address potential disruptions in the Company's supply-chain activities.

The Company's Year 2000 efforts are being coordinated through a task force chaired by its Vice President of Information Systems, as well as task forces in each of the Company's facilities. The Vice President of Information Systems reports periodically to the Board of Directors with respect to the Company's Year 2000 efforts.

The Company's approach to and the anticipated timing of each phase are described below:

Phase I - Inventory. The first phase included an inventory of all of the Company's hardware, software, applications and automated devices that are date capable and/or contain embedded systems, and the identification of supply-chain partners whose Year 2000 failures might significantly impact the Company. The inventory process for the Business Transaction Systems, Plant Floor/Laboratory Applications & Devices and Computer Network has been completed; also, an initial survey of the Company's suppliers, customers and financial institutions was completed to determine their "state of readiness" for Year 2000 compliance. A second survey is in the process of being conducted to update the status of the Company's supply-chain partners for Year 2000 compliance.

Phase 2 - Assessment. During the assessment phase, a detailed assessment of each system included in the inventory was conducted to determine its Year 2000 compliance status and, as appropriate, to suggest a remediation strategy (i.e., repair, replace, re-engineer, or retire). The assessment process for the Business Transaction Systems, Plant Floor/Laboratory Applications & Devices and the Computer Network has been completed.

Phase 3 - Triage. The purpose of triage is to examine the Company's core business operations and prioritize Year 2000 activities in preparation for the resolution phase. During the triage phase, a priority is assigned to each non-compliant system based on business impact, cost and expected time to repair. Triage has been completed for the Business Transaction Systems and the Plant Floor/Laboratory Applications & Devices; Triage for the Computer Network is expected to be completed by April 1999.

Phase 4 - Resolution. During resolution, specific Year 2000 problems are resolved and unit tested including efforts to repair, replace, re-engineer or retire non-compliant systems. Of the sixteen (16) Business Transaction Systems assessed, twelve (12) were identified as Year 2000 non-compliant which required remediation. To date, nine (9) of the non-compliant systems have been remediated to be Year 2000 compliant; the remediation of the remaining three (3) non-compliant systems is scheduled for completion during second quarter of 1999. Resolution of the Plant Floor/Laboratory Applications & Devices is expected by the end of the second quarter of 1999, and for the Computer Network by the end of the third quarter of 1999.

Phase 5 - Integration Testing. Integration testing includes the testing of an entire partition to ensure that the individual systems perform together in a Year 2000 ready manner. A partition is a logical combination of systems, automated devices and/or components defined by a set of functional and/or business criteria. Integration testing has been completed for nine (9) of the twelve (12) non-compliant Business Transaction Systems; integration testing for the Plant Floor/Laboratory Applications & Devices and the Computer Network is expected to be completed by the end of the third quarter of 1999.

Phase 6 - Deployment. During deployment, corrected and tested systems are released into the operational environment. This includes final verification after deployment and the development of rollback and contingency plans. With nine (9) Business Transaction Systems deployed and four (4) Business Transaction Systems that did not require remediation the Company has thirteen (13) Business Transaction Systems that are Year 2000 compliant. Deployment of the Plant Floor/Laboratory Applications & Devices and the Computer Network is expected to be completed by the end of the fourth quarter of 1999.

All costs associated with Year 2000 compliance are being expensed as incurred and are not expected to have a material adverse effect on the Company's business, financial condition and results of operations. Nevertheless, there is uncertainty concerning the potential costs and effects associated with Year 2000 compliance. Thus, if the Company is unsuccessful in identifying or remediating all Year 2000 problems in its critical operations, or if it is affected by the inability of suppliers or major customers to continue operations due to such a problem, its results of operations or financial condition could be materially adversely impacted.

Based upon its efforts to date, the Company believes that all critical and important systems will remain up and running after January 1, 2000. Accordingly, the Company does not currently anticipate that internal systems failures will result in any material adverse effect to its operations or financial condition. During 1999, the Company will also continue and expand its efforts to ensure that major supply-chain partners and public and private providers of infrastructure services, such as utilities, communications services and

transportation, will also be prepared for the year 2000, and to develop contingency plans to address any failures on their part to become Year 2000 compliant. At this time, the Company

believes that the most likely "worst-case" scenario involves potential disruptions in areas in which the Company's operations must rely on such third parties whose systems may not work properly after January 1, 2000. While such failures could affect important operations of the Company, either directly or indirectly, in a significant manner, the Company cannot at present estimate either the likelihood or the potential cost of such failures.

The nature and focus of the Company's efforts to address the Year 2000 problem may be revised periodically as interim goals are achieved or new issues are identified. In addition, it is important to note that the description of the Company's efforts necessarily involves estimates and projections with respect to activities required in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of the current nature of these instruments. The carrying amounts reported for revolving credit and long-term debt approximate fair value because the interest rates on these instruments are subject to changes with market interest rates.

In order to manage interest rate exposure, the Company has entered into interest rate swap agreements to exchange variable rate debt into fixed rate debt without the exchange of the underlying principal amounts. Net payments or receipts under the agreements are recorded as adjustments to interest expense.

As of December 26, 1998, the Company had $150 million notional amount outstanding in interest rate swaps. These swaps are used to convert floating rate debt to fixed rate debt to reduce the Company's exposure to interest rate fluctuations. The net result was to substitute a weighted average fixed interest rate of 5.45% for the variable LIBOR rate of 5.59% on the Company's debt. The swaps expire in September 1999 and February 2001.

While the Company is exposed to credit loss in the event of nonperformance by the counterparties of these contracts, the Company does not anticipate nonperformance by the counterparties. The Company does not require collateral or other security to support these financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements, and notes thereto, are presented as set forth below:

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<S>	<C>
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Consolidated Balance Sheets as of December 26, 1998 and December 27, 1997	37
Consolidated Statements of Operations for the years ended December 26, 1998, December 27, 1997 and December 28, 1996	38
Consolidated Statements of Stockholders' Equity for the years ended December 26, 1998, December 27, 1997 and December 28, 1996	39
Consolidated Statements of Cash Flows for the years ended December 26, 1998, December 27, 1997 and December 28, 1996	40
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 26, 1998, December 27, 1997 and December 28, 1996	41
Notes to Consolidated Financial Statements	42-60

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Schein Pharmaceutical, Inc.

We have audited the accompanying consolidated balance sheets of Schein Pharmaceutical, Inc. and subsidiaries as of December 27, 1997 and December 26, 1998, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss) and cash flows for each of the three years in the period ended December 26, 1998. These consolidated financial statements are the responsibility of the management of Schein Pharmaceutical, Inc. and subsidiaries. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Schein Pharmaceutical, Inc. and subsidiaries as of December 27, 1997 and December 26, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 26, 1998 in conformity with generally accepted accounting principles.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

New York, New York
February 10, 1999

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	$ 377	$ 804
Accounts receivable, less allowance for possible losses of $2,486 and $2,260	82,498	88,781
Inventories	106,351	119,142
Income taxes receivable	15,900	--
Deferred income taxes	8,838	10,204
Other current assets	6,046	3,831
Total current assets	220,010	222,762
Property, plant and equipment, net	112,224	110,432

Product rights, licenses and regulatory approvals, net	107,769	86,564
Goodwill, net	--	98,366
Other assets	12,993	16,002
	$ 452,996	$ 534,126
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 99,122	$ 81,478
Income taxes payable	8,626	11,595
Revolving credit and current maturities of long-term debt	103,975	56,440
Total current liabilities	211,723	149,513
Long-term debt, less current maturities	124,482	198,705
Deferred income taxes	29,719	37,080
Other non-current liabilities	8,587	9,113
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 100,000 authorized shares; issued and outstanding 32,499 and 28,693 shares	325	287
Additional paid-in capital	97,176	38,494
Retained earnings (accumulated deficit)	(18,543)	99,483
Accumulated other comprehensive income (loss)	(473)	1,502
Other	--	(51)
Total stockholders' equity	78,485	139,715
	$ 452,996	$ 534,126

</TABLE>

See accompanying notes to consolidated financial statements.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except earnings (loss) per share)

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
<S>	<C>	<C>	<C>
Net revenues	$ 523,229	$ 490,170	$ 476,295
Cost of sales	349,140	329,761	320,675
Gross profit	174,089	160,409	155,620
Costs and expenses:			
Selling, general and administrative	87,162	81,809	87,329
Research and development	29,245	29,387	27,030
Amortization of goodwill and other intangibles	8,754	10,196	10,195
Restructuring charge	161,200	--	--
Operating income (loss)	(112,272)	39,017	31,066
Interest expense, net	20,626	26,578	23,285
Other expenses (income), net	(2,246)	(9,318)	1,193
Income (loss) before provision (benefit) for income taxes and extraordinary item	(130,652)	21,757	6,588
Provision (benefit) for income taxes	(14,286)	10,655	5,191
Income (loss) before extraordinary item	(116,366)	11,102	1,397
Extraordinary item: loss on early extinguishment of debt, net of income tax of $1,144	(1,660)	--	--
Net income (loss)	$ (118,026)	$ 11,102	$ 1,397

Earnings (loss) per share, basic and diluted:			
Income (loss) before extraordinary item....	$ (3.72)	$ 0.39	$ 0.05
Extraordinary item.....	(0.05)	--	--
Net income (loss).....	$ (3.77)	$ 0.39	$ 0.05
Weighted average common shares outstanding.....	31,332	28,693	28,718

</TABLE>

See accompanying notes to consolidated financial statements.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Other
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 30, 1995.....	28,743	$287	$39,548	$ 86,984	$ 39	$(1,166)
Net income.....	--	--	--	1,397	--	--
Amortization of options issued as compensation.....	--	--	--	--	--	389
Unrealized gains on marketable securities....	--	--	--	--	4,293	--
Repurchase and retirement of shares.....	(50)	--	(956)	--	--	--
Foreign currency translation adjustments.....	--	--	--	--	(835)	--
Balance, December 28, 1996.....	28,693	287	38,592	88,381	3,497	(777)
Net income.....	--	--	--	11,102	--	--
Amortization of options issued as compensation.....	--	--	(98)	--	--	726
Decline in unrealized gains on marketable securities.....	--	--	--	--	(2,046)	--
Foreign currency translation adjustments.....	--	--	--	--	51	--
Balance, December 27, 1997.....	28,693	287	38,494	99,483	1,502	(51)
Net loss.....	--	--	--	(118,026)	--	--
Shares issued in initial public offering	3,450	35	52,415	--	--	--
Shares issued upon exercise of stock options, including tax benefit.....	249	2	5,212	--	--	--
Shares issued to employee stock purchase plan	107	1	1,055	--	--	--
Amortization of options issued as compensation.....	--	--	--	--	--	51
Decline in unrealized gains on marketable securities.....	--	--	--	--	(2,096)	--
Foreign currency translation adjustments.....	--	--	--	--	121	--
Balance, December 26, 1998.....	32,499	$325	$97,176	$(18,543)	$ (473)	$ --

</TABLE>

See accompanying notes to consolidated financial statements.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	$ (118,026)	$ 11,102	$ 1,397
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization	24,600	25,474	25,450
Impairment of long-lived assets, due to restructuring	102,280	--	--
Inventory write-off, due to restructuring	30,500	--	--
Deferred income taxes	(4,896)	(2,676)	(3,342)
Gain on sale of marketable securities	(4,439)	(12,745)	--
Extraordinary item: loss on early extinguishment of debt, non-cash	2,304	--	--
Other	(1,282)	3,698	4,360
Changes in operating assets and liabilities:			
Accounts receivable	6,060	(16,346)	(15,743)
Inventories	(17,709)	12,123	(15,305)
Prepaid expenses and other assets	(2,707)	(1,205)	2,048
Income taxes	(18,869)	3,694	9,140
Accounts payable, accrued expenses and other liabilities	10,041	11,756	2,751
Net cash provided by operating activities	7,857	34,875	10,756
Cash flows from investing activities:			
Capital expenditures	(22,381)	(14,446)	(11,309)
Product rights and licenses	(16,143)	(150)	(4,089)
International investments	(6,511)	(173)	(2,036)
Proceeds from the sale of marketable securities	6,607	14,737	--
Other, net	(872)	119	(2,582)
Net cash provided by (used in) investing activities	(39,300)	87	(20,016)
Cash flows from financing activities:			
Principal payments on, or repayments of, debt	(192,208)	(287,090)	(261,078)
Proceeds from issuance of debt	165,520	255,755	267,000
Net proceeds from initial public offering	52,450	--	--
Proceeds from employee stock purchase plan and exercise of stock options	5,367	--	--
Increase in other non-current assets	(113)	(4,962)	(2,360)
Net cash provided by (used in) financing activities	31,016	(36,297)	3,562
Net decrease in cash and cash equivalents	(427)	(1,335)	(5,698)
Cash and cash equivalents, beginning of year	804	2,139	7,837
Cash and cash equivalents, end of year	$ 377	$ 804	$ 2,139
Supplemental cash flow information:			
Taxes paid	$ 9,274	$ 7,546	$ 5,813
Interest paid	20,317	25,182	23,508
Product rights and licenses acquired with liabilities	12,289	--	--

</TABLE>

See accompanying notes to consolidated financial statements.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
<S>	<C>	<C>	<C>
Net income (loss)	$ (118,026)	$ 11,102	$ 1,397
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	121	51	(835)
Unrealized holding gains arising during period	612	5,537	4,293
Less: reclassification adjustment for gains included in net income	(2,708)	(7,583)	--
Other comprehensive income (loss)	(1,975)	(1,995)	3,458
Comprehensive income (loss)	$ (120,001)	$ 9,107	$ 4,855

</TABLE>

Components of accumulated other comprehensive income (loss), included in the Company's consolidated balance sheets, are as follows:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
<S>	<C>	<C>
Unrealized gains on marketable securities	$ 190	$ 2,286
Cumulative foreign currency translation adjustment	(663)	(784)
	$ (473)	$ 1,502

</TABLE>

See accompanying notes to consolidated financial statements.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF ACCOUNTING POLICIES

The Company and Principles of Consolidation
Schein Pharmaceutical, Inc. and its subsidiaries (the Company) are engaged in developing, manufacturing, marketing and distributing generic pharmaceutical products and a line of specialty branded pharmaceutical products. The Company sells to drug store chains, retail pharmacies, dialysis chains, managed care organizations, hospitals and other institutions, both through drug wholesalers and directly, primarily in the United States. The Company operates in one segment.

On April 9, 1998, the Company consummated an initial public offering of common stock. In anticipation of the offering, the Company effected a 105-for-one stock split, and increased its authorized common stock to 100,000,000 shares. All applicable share and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect the stock split.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in unconsolidated affiliated companies are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities including restructuring reserves and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

The Company reports its operations on a 52-53 week basis ending on the last Saturday of December. All of the years presented in these statements include 52 weeks.

Revenue Recognition

Revenues are recognized when products are shipped. Provisions for estimated sales allowances, returns and losses are accrued at the time revenues are recognized.

Research and Development Expenditures

Expenditures for research and development are expensed as incurred.

Stock-Based Compensation

The Company accounts for its stock option awards to employees under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company provides pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied as required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation".

Computation of Earnings Per Common Share

Basic earnings per share has been computed using the weighted average number of shares of common stock outstanding. Diluted earnings per share includes the assumed exercise of stock options using the treasury stock method that could potentially dilute earnings per share. In all periods presented, there were no differences between basic and diluted income (loss) per common share because the assumed exercise of stock options was anti-dilutive. The assumed exercise of stock options could potentially dilute basic earnings per share amounts in the future.

Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity date of three months or less from purchase date to be cash equivalents.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the

first-in, first-out method.

Property, Plant, Equipment, Depreciation and Amortization

Property, plant and equipment are stated at cost. Depreciation and amortization are computed primarily under the straight-line method over estimated useful lives. Amortization of capital leases is computed using the straight-line method over the lease term.

Product Rights, Licenses, Regulatory Approvals and Goodwill

Product rights, licenses and regulatory approvals are amortized primarily on a straight-line basis over the expected profitable and useful lives of the underlying products and manufacturing facilities, generally for periods ranging from 10 to 15 years. Goodwill was being amortized over 25 years on a straight-line basis. Due to an impairment loss, the remaining net book value of goodwill was written off in the third quarter of 1998 (see Note 17).

Deferred Loan Fees

Costs incurred in connection with debt agreements are capitalized and included in other assets and amortized to interest expense using the effective interest method over the expected term of the related debt.

Investments in Marketable Securities

The Company's available-for-sale marketable securities are carried at fair market value and are included in other assets in the accompanying balance sheets. Unrealized gains are recorded directly to stockholders' equity, net of applicable income taxes. The Company uses the specific identification method of determining cost in calculating related gains and losses. The Company does not own held-to-maturity or trading securities.

Long-Lived Assets

Long-lived assets, such as goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When such impairment exists, the related assets will be written down to fair value. In connection with the Food and Drug Administration consent agreement, the Company determined that certain long-lived assets were impaired (see Note 17).

Taxes on Income

The Company accounts for income taxes under an asset and liability approach. Accordingly, deferred taxes on income are provided for those items for which the reporting period and methods for income tax purposes differ from those used for financial statement purposes using the asset and liability method. Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of the current nature of these instruments. The carrying amounts reported for revolving credit and long-term debt approximate fair value because the interest rates on these instruments are subject to changes with market interest rates.

In order to manage interest rate exposure, the Company has entered into interest rate swap agreements to exchange variable rate debt into fixed rate debt without the exchange of the underlying principal amounts. Net payments or receipts under the agreements are recorded as adjustments to interest expense.

Concentration of Credit Risk

The Company is potentially subject to a concentration of credit risk with respect to its trade receivables, the majority of which are due from wholesalers, drug store chains and distributors. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains allowances and insurance to cover potential or anticipated losses for uncollectible accounts.

Foreign Currency Translations

Assets and liabilities of international affiliates, which are not material, are translated at current exchange rates and related translation adjustments are reported as a component of stockholders' equity. Income statement accounts are translated at the average rates during the period.

Effect of Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement will be adopted in the Company's 2000 fiscal year. While management is still reviewing the statement, it believes the adoption of this statement will not have a material effect on the Company's consolidated financial position, results of operations or cash flows, and any effect will generally be limited to the form and content of its disclosures.

NOTE 2--INVENTORIES

Inventories are summarized as follows:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Finished products	$ 29,207	$ 45,568
Work-in-process	27,574	33,160
Raw materials and supplies	49,570	40,414
	$ 106,351	$ 119,142

</TABLE>

NOTE 3--PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment consist of the following:

<TABLE>

<CAPTION>

	Fixed Asset Lives	December 26, 1998	December 27, 1997
	(In years)	(In thousands)	
<S>	<C>	<C>	<C>
Land		$ 5,482	$ 5,043
Buildings and improvements	40	67,975	64,026
Plant and office equipment	3-10	103,213	104,260
Construction-in-progress		11,141	9,553
		187,811	182,882
Less: Accumulated depreciation and amortization ...		75,587	72,450
		$ 112,224	$ 110,432

</TABLE>

Depreciation and amortization expense for property, plant and equipment amounted to $12.5 million, $11.7 million and $12.1 million in 1998, 1997 and 1996, respectively.

NOTE 4--INTANGIBLE ASSETS

Product rights, licenses and regulatory approvals, net, consist of the following:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Product rights and licenses	$ 41,250	$ 12,732
Regulatory approvals, products	78,000	78,000
Regulatory approvals, facilities	10,000	10,000
	129,250	100,732
Less: Accumulated amortization	21,481	14,168
	$ 107,769	$ 86,564

</TABLE>

NOTE 5--MARKETABLE SECURITIES

Included in other assets in the accompanying balance sheets are marketable equity securities consisting of:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Cost	$ 8,724	$ 3,677
Gross unrealized gains	320	3,399
Fair value	$ 9,044	$ 7,076

</TABLE>

Included in other income for 1998 and 1997 are realized gains of $4.4 million

and $12.7 million, respectively, from the sale of marketable securities.

In 1998, the Company entered into a strategic alliance agreement with Cheminor Drugs Limited and its subsidiaries (Cheminor) and Dr. Reddy's Laboratories Limited and its subsidiaries (Reddy). As part of the arrangement, the Company purchased two million shares of Cheminor (12.79% of the outstanding shares of Cheminor) and other rights for $10.0 million, of which $6.2 million represented the fair value of the stock and $3.8 million represented product rights and other intangible assets. Pursuant to the agreement, Cheminor will make available to the Company its present and future dosage form generic products on an exclusive basis in the United States and certain other countries, and the Company will make available to Cheminor and Reddy its present and future products on an exclusive basis for sale in India and certain other countries. Cheminor and Reddy will make available to the Company bulk active pharmaceutical ingredients.

NOTE 6--INVESTMENTS IN INTERNATIONAL AFFILIATES

During 1998, 1997 and 1996, the Company invested approximately $0.3 million, $0.2 million and $2.0 million, respectively, to acquire up to a 50% interest in each of several international pharmaceutical businesses. At December 1998, the Company had guaranteed $6.1 million of borrowings of these businesses. These businesses are jointly owned with subsidiaries of Bayer AG, the parent of Bayer Corporation, a minority investor in the Company. These investments are accounted for under the equity method and are included in other assets in the accompanying balance sheets. Equity losses resulting from the Company's investments in international businesses in 1998, 1997 and 1996 are included in other expenses (income), net, in the accompanying statements of operations. The Company generally anticipates that these international businesses would not have significant revenues or operations for a period of at least two to three years following their establishment, during which time the businesses are expected to incur expenses to register products in anticipation of future sales.

NOTE 7--ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Included in accounts payable, which total $41.2 million and $36.5 million, are outstanding checks of approximately $4.6 million and $6.9 million as of December 26, 1998 and December 27, 1997, respectively.

Accrued expenses consist of the following:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Salaries and related expenses	$ 16,773	$ 16,554
Product rights and licenses	12,289	--
Restructuring expenses (see Note 17)	7,232	--
Profit-sharing expenses	5,242	12,567
Other	16,337	15,904
	$ 57,873	$ 45,025

</TABLE>

NOTE 8-- TAXES ON INCOME

Provisions (benefits) for Federal, state and Puerto Rico income taxes consist of the following:

<TABLE>
<CAPTION>

	Years Ended		
	December 26,	December 27,	December 28,

	1998	1997	1996
		(In thousands)	
<S>	<C>	<C>	<C>
Current:			
Federal	$ (11,410)	$ 10,952	$ 7,404
State and Puerto Rico	876	2,379	1,129
	(10,534)	13,331	8,533
Deferred:			
Federal	(2,677)	(1,705)	(2,215)
State and Puerto Rico	(2,219)	(971)	(1,127)
	(4,896)	(2,676)	(3,342)
	$ (15,430)	$ 10,655	$ 5,191

</TABLE>

Differences between the Federal statutory rate and the Company's effective tax rate are as follows:

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
		(In thousands)	
<S>	<C>	<C>	<C>
Statutory rate	$ (46,709)	$ 7,615	$ 2,309
Amortization / write-off of goodwill	34,428	1,515	1,515
Puerto Rico tax-exempt operations	(2,622)	(752)	(519)
State and Puerto Rico taxes	(1,437)	1,642	241
Equity in net loss of unconsolidated affiliates	632	494	1,202
Other	278	141	443
	$ (15,430)	$ 10,655	$ 5,191

</TABLE>

The Company has a tax grant in Puerto Rico which provides a 90% exclusion from Puerto Rico income tax. The 15 year tax grant began in 1996. The grant benefits are recognized in conjunction with the Company's election to compute its U.S. tax under Internal Revenue Code Section 936 which reduces the tax by an amount based on the Company's operations.

The exercise of stock options resulted in a tax benefit of $0.9 million in 1998 and is reflected as an increase in the income tax receivable and increase in additional paid-in capital.

Deferred income tax assets and liabilities are classified as current and non-current as follows:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Deferred income taxes, current:		

Deferred tax assets	$ 8,838	$ 10,204
Deferred income taxes, non-current:		
Deferred tax assets	8,779	7,341
Deferred tax liabilities	(38,498)	(44,421)
	(29,719)	(37,080)
	$ (20,881)	$ (26,876)

</TABLE>

Temporary differences which give rise to a significant portion of deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Gross deferred tax assets:		
Deferred compensation expenses	$ 4,397	$ 4,648
Restructuring charge	4,061	--
Net operating loss carryforwards	3,801	1,648
Inventory valuation	3,461	4,682
Accounts receivable allowances	134	3,961
Other	1,091	2,606
	16,945	17,545
Gross deferred tax liabilities:		
Write-up of acquired assets to fair value	(27,471)	(30,309)
Depreciation and amortization	(10,228)	(12,883)
Unrealized gains from marketable securities	(127)	(1,229)
	(37,826)	(44,421)
	$ (20,881)	$ (26,876)

</TABLE>

In 1998, the Company incurred operating losses of approximately $30.5 million which are deductible for federal tax purposes. The Company has prior year taxable income of $26.5 million available to partially recover the tax benefit on this loss. The balance of the federal operating loss is available as a net operating loss carryforward. The Company also has various state loss carryforwards which are available to offset future state taxable income. These carryforwards will expire at various times between 2000 and 2018.

NOTE 9--BORROWINGS

Long-term debt consists of the following:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>

Revolving credit and loan agreement.....	$ 175,898	$ 154,000
Senior floating rate notes.....	50,000	100,000
Capitalized lease obligations and other.....	2,559	1,145
	228,457	255,145
Less: Current maturities.....	103,975	56,440
	$ 124,482	$ 198,705

</TABLE>

Revolving Credit and Loan Agreement

In September 1995, the Company entered into a secured revolving credit and term loan agreement, as amended (the credit agreement) with a group of banks to provide funds for an acquisition, the repayment of certain of its debt, working capital and general corporate purposes. The credit agreement at December 1998 provided a term loan facility of $100.9 million and a revolving credit facility of $100.0 million available through December 2001. The borrowings outstanding under the revolving credit facility were $75.0 million and $44.0 million as of December 26, 1998 and December 27, 1997, respectively. Amounts borrowed under the revolving credit are classified as current in the accompanying balance sheets.

Borrowings under the credit agreement bear interest, which is payable at least quarterly, at a rate equal to the bank's floating base rate plus a premium ranging from 0.50% to 2.00%, or at a rate equal to LIBOR plus a premium ranging from 1.50% to 3.00%, depending upon the type of borrowing and the Company's performance against certain leverage and interest expense ratios. The effective borrowing rate was 7.71% and 7.91% at December 26, 1998 and December 27, 1997, respectively. A commitment fee ranging from 0.25% to 0.50% per annum of the unused daily amount of the total commitment is payable quarterly. Borrowings under the credit agreement are secured by a mortgage on all real property, liens on inventory and receivables and a pledge of subsidiaries' stock. The debt is guaranteed by the Company's domestic subsidiaries.

The credit agreement contains limitations and restrictions concerning investments, acquisitions, capital expenditures, debt, liens, transactions with affiliates, dividend payments and borrowings. In addition, the agreement requires the Company to maintain minimum net worth levels and certain ratios (as defined therein) of leverage to EBITDA, working capital and fixed charge coverage. Amounts available for dividends as permitted by the credit agreement as of December 26, 1998 were not material. Currently, the Company's credit agreement and its senior floating rate notes contain restrictions on the payment of dividends.

Senior Floating Rate Notes

In December 1997, the Company issued $100.0 million of senior floating rate notes due in 2004, the proceeds of which were used to repay a senior subordinated loan. Interest on the notes is payable quarterly at a rate per annum equal to LIBOR plus 3.0%. The effective borrowing rate was 8.47% as of December 26, 1998.

In December 1997, the Company incurred costs of $4.4 million in connection with the senior floating rate notes. In April 1998, the Company consummated an initial public offering and generated net proceeds of $52.5 million. The majority of these proceeds were used to retire $50.0 million of the senior floating rate notes. This resulted in an extraordinary charge of $1.7 million, net of taxes, related to the early extinguishment of debt, which included the write-off of deferred financing fees as well as costs associated with the reacquisition of the notes. Excluding the amount treated as an extraordinary item in 1998, deferred loan fees amortized in 1998, 1997 and 1996 were $1.9 million, $3.3 million and $2.6 million, respectively.

The Company's senior floating rate notes are fully and unconditionally

guaranteed jointly and severally by each of the Company's domestic wholly-owned subsidiaries. These subsidiaries sell all of their products to Schein Pharmaceutical, Inc., the parent company. Summarized financial information for these wholly-owned subsidiary guarantors (using the push-down method of accounting) is as follows:

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	(In thousands)	
<S>	<C>	<C>
Current assets:		
Inventory	$ 82,164	$ 74,924
Intercompany receivables	63,385	119,191
Other current assets	3,960	4,197
Property, plant and equipment, net	101,139	104,807
Product rights, licenses and regulatory approvals, goodwill, net and other assets	69,459	178,548
Current liabilities	119,591	109,800
Deferred income taxes and other liabilities	38,271	44,921
Long-term debt (pushed down)	120,000	186,000

</TABLE>

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
	(In thousands)		
<S>	<C>	<C>	<C>
Net revenues	$ 433,775	$ 373,712	$ 355,262
Gross profit	127,317	100,151	91,689
Operating income (loss)	(131,787)	27,193	14,152
Net income (loss)	(125,877)	7,383	(4,179)

</TABLE>

Separate financial statements of the wholly-owned domestic subsidiary guarantors are not presented because management believes they would not be meaningful.

Included in interest expense is interest income in 1998, 1997 and 1996 of $0.2 million, $0.1 million and $0.4 million, respectively.

At December 26, 1998, aggregate required principal payments for the succeeding four years, the remaining term under the existing credit agreement, are $26.6 million in 1999, $32.2 million in 2000, $33.7 million in 2001 and $83.4 million in 2002.

NOTE 10--FINANCIAL INSTRUMENTS

As of December 26, 1998, the Company had $150 million notional amount interest rate swaps outstanding. These swaps are used to convert floating rate debt to fixed rate debt to reduce the Company's exposure to interest rate fluctuations. The net result was to substitute a weighted average fixed interest rate of 5.45% for the variable LIBOR rate of 5.59% on the Company's debt. The swaps expire in September 1999 and February 2001.

While the Company is exposed to credit loss in the event of non-performance by the counterparties of these contracts, the Company does not anticipate nonperformance by the counterparties. The Company does not require collateral or other security to support these financial instruments.

NOTE 11--STOCKHOLDERS' EQUITY

Currently the Company has one class of common stock. Prior to the initial public offering in April 1998, the Company had Class A common shares and Class B common shares. Each of the two classes of stock were identical except that the Class B common shares were non-voting. Upon the initial public offering, the Class A common shares and Class B common shares converted on a one-for-one basis to a new share of the Company's common stock.

In connection with the offering, the Company's Board of Directors authorized the issuance of up to 2,000,000 shares of preferred stock, par value $.01 per share.

NOTE 12--COMMITMENTS AND CONTINGENCIES

Consulting Agreement

The Company has a series of agreements (collectively, the Consulting Agreement) with a patent attorney (the Consultant). The Consulting Agreement generally provides that if a challenge based on an opinion of the Consultant results in either a favorable judicial determination which enables the Company to market a generic version of the product or in a settlement, the Company will pay the Consultant one half of the adjusted gross profit (as defined) from its sales of the generic versions of the patented product (until the date on which the patent would normally have expired) or one half of the proceeds of any settlement. Under the Consulting Agreement, the Consultant, together with the Company, has identified certain patents on branded pharmaceutical products susceptible to a challenge and the Consultant acted as counsel to the Company in those instances where it decided to proceed with a patent challenge.

In 1994, the Company settled two such patent challenges. The first settlement resulted in a series of cash payments to the Company. Included in net revenues are settlement revenues of $30.0 million, $25.0 million and $12.5 million in 1998, 1997 and 1996, respectively. Pursuant to the settlement, the Company paid profit sharing expenses to the Consultant amounting to $15.0 million, $12.5 million, and $6.3 million in 1998, 1997 and 1996, respectively. Such amounts are included in cost of sales.

The second settlement involved a license grant to the Company to begin manufacturing and marketing a product which was the subject of the patent challenge. Sales of such product commenced in 1996. In connection with the license grant, profit sharing expenses amounted to $4.4 million, $14.5 million and $8.6 million in fiscal 1998, 1997 and 1996, respectively. Profit sharing expenses are included in cost of sales.

Operating Leases

The Company leases facilities and equipment under operating leases expiring through 2007. Some of the leases have renewal options and most contain provisions for passing through certain incremental costs. At December 26, 1998, future net minimum annual rental payments under noncancelable leases are as follows (in thousands):

<TABLE>
<S> <C>

1999	$ 5,262
2000	5,261
2001	4,467
2002	3,740
2003-2007	11,614
Total minimum lease payments	$ 30,344

</TABLE>

Total rental expense for the years ended 1998, 1997 and 1996 was approximately $5.8 million, $5.6 million and $5.4 million, respectively.

Product Technology Licensing and Development

On March 31, 1998, the Company entered into an agreement with Elan Corporation Plc covering several products in various stages of development in the areas of oral sustained-release and transdermal products. Under the agreement and its amendments, the Company is obligated to pay $15.0 million in license fees through March 1999, of which $7.0 million was paid in 1998, and $8.0 million was included in accrued expenses at December 1998. Additionally, the Company may be obligated to pay approximately $3.5 million in additional fees as and when certain milestones are achieved. Certain of these fees may be increased by up to $2.0 million or decreased by up to $0.5 million depending on whether certain other milestones are achieved.

In 1994, the Company entered into a worldwide technology licensing and development agreement with a U.K. based pharmaceutical development company for the development of a portfolio of oral controlled release and transdermal products. Under the terms of the agreement, the Company is obligated to pay product licensing fees and development costs totaling $32.0 million, dependent on achievement of interim milestones. In 1996, the Company incurred obligations totaling $3.0 million, consisting of a $0.5 million licensing fee, which was capitalized, and $2.5 million in development costs which were charged to research and development expense. The Company recognized $2.3 million in development expenses in 1997. No amounts were expended in 1998. The remaining commitment under the agreement as of December 26, 1998 was $12.2 million, subject to the completion of milestones.

In 1996, the Company entered into a marketing and distribution agreement with a corporation to jointly commercialize Ferrlecit(R). Under the terms of the agreement, the Company is obligated to pay product licensing fees and development costs of $12.0 million, dependent on the achievement of certain milestones. The Company paid and capitalized $5.0 million and $2.0 million of product license fees in 1998 and 1996, respectively.

Litigation

In September and October 1998, following the commencement of a seizure action by the United States Food and Drug Administration (FDA) against the Company's Steris Laboratories, Inc. (Steris) facility on September 10, 1998 (see Note 17), a number of substantially similar complaints were filed in federal court in the District of New Jersey against the Company, its Chairman and Chief Executive Officer, its Chief Financial Officer and, in certain actions, one or more of the following: the Company's Senior Vice President of Technical Operations, General Counsel and three underwriters of the Company's April 9, 1998 initial public offering. Plaintiffs purported to sue on behalf of a class of persons who purchased shares of the Company's common stock pursuant or traceable to the initial public offering and allege that defendants violated the Securities Act of 1933 by making misrepresentations and omissions of material facts in connection with the initial public offering and in the registration statement and prospectus issued pursuant to the initial public offering. In November and December 1998, groups of plaintiffs seeking appointment as lead plaintiff for a class filed complaints or amended complaints that added claims under the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of purchasers of the Company's common stock between April 9, 1998 and September 28, 1998 to the claims described above. Plaintiffs allege, among other things, that defendants failed to disclose or misrepresented facts concerning the status of the Company's internal controls and ability to comply with government regulations relating to its manufacturing activities, including the status of the Company's corrective actions at the Steris facility and the effect of the FDA enforcement action on the Company's operations. Plaintiffs on behalf of the purported class seek damages, recision and/or recisionary damages.

On December 21, 1998, the court entered an order consolidating the actions, appointing lead plaintiffs and approving selection of lead and liaison counsel. Defendants have not yet responded to the complaints, pending the filing by lead plaintiffs of a consolidated amended complaint in the actions. The Company intends to defend itself vigorously against these actions.

In one of the Company's patent challenge litigations filed in the U.S. District Court for the Southern District of New York, the trial judge ruled against the Company and upheld the validity of the patent at issue. On October 1, 1998, the Court awarded attorney's fees to the patent holder and its licensee. The Company has been informed that the fees sought will be approximately $3 million, subject to final determination by the Court. The Company intends to appeal this decision.

In addition, the Company is a defendant in several product liability cases. These cases are typical for a company in the pharmaceutical industry. The Company also is involved in other proceedings and claims of various types. Management presently believes that the disposition of all such known product liability and other proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the Company's financial position, operations or liquidity.

NOTE 13--EMPLOYEE BENEFIT PLANS

Stock Option Plan

Under the Company's 1993 Stock Option Plan, 1995 Non-Employee Director Stock Option Plan and 1997 Stock Option Plan, the Company may grant non-qualified and incentive stock options to certain officers, employees and directors. The options expire ten years from the date of grant. Generally the options may be exercised subject to continued service (up to five years) and certain other conditions. Accelerated vesting occurs following a change in control of the Company and under certain other conditions. The Company may grant an aggregate of 5,859,000 shares under the plans. The Company does not intend to issue 222,810 shares available for issuance under the 1993 Stock Option Plan.

The following table summarizes information about stock options outstanding at December 26, 1998:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Exercise prices:	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$9.19 - $9.52	188,265	5.0	$ 9.52	186,375	$ 9.52
$13.63	686,166	10.0	13.63	201,327	13.63
$14.29	1,113,745	8.6	14.29	456,221	14.29
$17.00	1,702,754	7.9	17.00	755,410	17.00
$19.05	1,089,375	5.5	19.05	1,052,485	19.05
$26.19 - $26.75	2,039	9.4	26.61	--	--
	4,782,344	7.5	$16.06	2,651,818	$16.57

</TABLE>

Transactions under the stock option plans and individual non-qualified options not under the plans are summarized as follows:

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
	Weighted Average Exercise	Weighted Average Exercise	Weighted Average Exercise

	Shares	Price	Shares	Price	Shares	Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year...	3,123,435	$17.36	2,521,575	$18.31	2,087,400	$18.10
Granted.....	2,063,485	14.75	887,145	14.29	513,135	19.05
Exercised.....	(248,626)	17.35	--	--	--	--
Canceled.....	(155,950)	18.14	(285,285)	16.67	(78,960)	17.45
Outstanding at end of year.....	4,782,344	$16.06	3,123,435	$17.36	2,521,575	$18.31
Options exercisable at year-end....	2,651,818	$16.57	1,917,405	$18.11	1,601,880	$17.96
Options available for grant.....	1,076,656		2,735,565		460,425	

</TABLE>

Under the accounting provisions of SFAS No. 123, the Company's pro-forma net income (loss) and earnings (loss) per share would have been:

<TABLE>
<CAPTION>

	1998	1997	1996
	(In thousands, except per share amount)		
<S>	<C>	<C>	<C>
Net income (loss).....	$(123,265)	$7,402	$(903)
Net income (loss) per share:			
Basic and diluted.....	$(3.93)	$0.26	$(0.03)

</TABLE>

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following assumptions:

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
<S>	<C>	<C>	<C>
Dividend yield.....	0%	0%	0%
Expected volatility.....	29%	24%	0.01%
Risk-free interest rate.....	5.6%	6%-7%	5%-7%
Expected life - years.....	10	10	10
Discount for marketability.....	0%	25%	25%
Weighted average fair value of options granted.	$7.85	$6.26	$8.54

</TABLE>

Employee Stock Purchase Plan

The Company has an employee stock purchase plan to offer employees an incentive to acquire an ownership interest in the Company. The plan permits eligible employees to purchase, through payroll deductions, an aggregate of 500,000 shares of common stock at approximately 85% of the fair market value of such shares. Under the plan, share purchases were 106,644 for the year ended 1998.

Other

The Company maintains a defined contribution retirement plan. The discretionary contributions to the plan by the Company vest to employees over seven years. Additionally, employees are permitted to make pre-tax contributions to the plan with the Company making matching contributions. The contributions, which were charged to operations, amounted to approximately $5.9 million, $4.6 million and $3.5 million for the years ended 1998, 1997 and 1996, respectively.

The Company has entered into deferred compensation agreements with certain officers of the Company. As of December 1998, future obligations under these agreements were approximately $3.3 million, assuming the officers remain with the Company over the remaining vesting period of one to two years. These agreements provide for accelerated vesting if there is a change in control of the Company and under certain other conditions. The Company expensed $1.3 million, $0.8 million and $4.8 million in the fiscal years ended 1998, 1997 and 1996, respectively, in connection with these agreements.

The Company established an unfunded supplemental retirement program for its CEO during 1994. The estimated obligation of $5.0 million is included in other liabilities.

NOTE 14--OTHER EXPENSES (INCOME), NET

<TABLE>
<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
		(In thousands)	
<S>	<C>	<C>	<C>
Equity (earnings) loss of unconsolidated international ventures	$ 1,872	$ 3,372	$ 3,439
Gain on sales of marketable securities	(4,439)	(12,745)	--
Other	321	55	(2,246)
	$ (2,246)	$ (9,318)	$ 1,193

</TABLE>

NOTE 15--RELATED PARTY TRANSACTIONS

The Company has a co-promotion agreement covering INFeD(R) which expires in June 1999 with Bayer Corporation, a minority investor in the Company. Under the terms of the agreement, in exchange for promotional support, the Company shared with Bayer Corporation financial results in excess of specified threshold amounts. Included in selling, general and administrative expenses are selling expenses under the agreement of approximately $3.0 million, $4.2 million and $3.0 million in 1998, 1997 and 1996, respectively. Included in accrued expenses as of December 26, 1998 and December 27, 1997 are approximately $0.8 million and $1.9 million, respectively, under this agreement.

In the ordinary course of business, the Company sells pharmaceutical products to affiliates for distribution to their customers. Net sales to the affiliates were $8.6 million, $12.8 million and $8.6 million in fiscal 1998, 1997 and 1996, respectively. Included in accounts receivable at December 26, 1998 and December 27, 1997 are amounts due from the affiliates for sale of products of approximately $5.3 million and $4.2 million, respectively.

NOTE 16--MAJOR CUSTOMERS AND PRODUCT

The following customers are nationwide wholesalers through whom the majority of the Company's products are distributed to the retail, institutional and managed care markets:

<TABLE>
<CAPTION>

	Major Customers		
	1998	1997	1996
<S>	<C>	<C>	<C>

Customer A	22%	19%	15%
Customer B	14%	18%	16%
Customer C	14%	10%	11%

One product, INFeD, generated 19%, 21%, and 19% of net revenues for 1998, 1997 and 1996, respectively.

NOTE 17--CONSENT AGREEMENT AND RESTRUCTURING CHARGE

Food and Drug Administration Consent Agreement

On September 10, 1998, the United States, on behalf of the FDA, based on actions it filed in federal court in the Southern District of New York on September 9 and in the District of Arizona on September 10, initiated seizures of drugs and drug related products manufactured by Steris. The actions alleged certain instances in which the Steris facility was not operating in conformity with current Good Manufacturing Practices (known as cGMP) regulations. The actions resulted in the seizure of all drugs and drug related products in the Company's possession manufactured at the Steris facility and halted the manufacture and distribution of Steris products.

On or about October 16, 1998, Steris and certain of its officers, without admitting any allegations of the complaints and disclaiming any liability in connection therewith, entered into a consent agreement filed in the District of Arizona (to which the New York action had been transferred). Under the terms of the consent agreement, Steris is required, among other things, to demonstrate through independent certification that Steris' processes, quality assurance and quality control programs, and management controls comply with cGMP regulations. The consent agreement also provides for independent certification of Steris' management controls, quality assurance and quality control programs, and employee cGMP training. It further requires that Steris develop a timeline and Corrective Action Plan for implementing these actions and for expert certification with respect to matters covered in previous FDA inspections of the facility. Steris has submitted to the FDA the Corrective Action Plan provided for under the consent agreement and has begun implementation of that plan. Steris posted a bond in the amount of $6 million to secure certain obligations under the consent agreement.

As a result of the consent agreement, Steris has divided its product line into three categories: products that it will seek to manufacture under expedited certification procedures under the consent agreement, products that it will seek to manufacture once it satisfies all conditions under the consent agreement, and products it currently has decided not to manufacture. Expedited certification procedures apply for certain products that are particularly important to the medical community because they are primarily or exclusively available from the Company or that are particularly significant to the Company.

The Steris facility accounted for approximately 40% of the Company's net sales and 50% of gross profits for the first six months of 1998. The Company resumed shipments of INFeD, its branded injectable iron product, from existing inventory on October 30, 1998. Newly manufactured lots of INFeD must undergo certification by independent experts and review by the FDA prior to commercial distribution. The Steris products the Company has decided not to manufacture in the near term contributed approximately $65 million in revenue in the 12-month period ended June 1998.

During the 30 days following the signing of the consent agreement, Steris continued and expanded the records review and product-testing program it initiated earlier in 1998, which includes oversight by independent expert consultants. Based on the findings of this program to date and other commitments under the consent agreement, Steris has initiated a number of recalls.

The consent agreement was filed as an exhibit to the Company's report on Form 8-K, dated October 27, 1998, and the foregoing description of the consent agreement is qualified in its entirety by reference to the full and complete terms of the consent agreement.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Restructuring Charge

As a result of the actions taken by the FDA and the consent agreement, the Company recorded a restructuring charge of $135.0 million, net of tax benefit, in 1998. The details of this restructuring charge are as follows (in millions):

	<C>
Costs of restructuring:	
Regulatory and compliance related costs	$ 12.7
Temporary manufacturing shutdown costs	5.3
Severance and related costs	5.4
Recalls and related expenses	2.0
Other costs and expenses	3.0
	28.4
Asset impairments:	
Inventory write-off	30.5
Fixed asset impairment	6.8
Goodwill write-off	95.5
	132.8
Total charges and impairments	161.2
Income tax benefit	(26.2)
	$ 135.0

Costs of restructuring consist largely of costs incurred at the Steris facility and, to a lesser extent, costs of closing one of the Company's distribution centers and other steps taken by the Company to reduce its ongoing operating costs, including workforce reductions. Regulatory and compliance related costs consist primarily of costs related to products the Company will recondition and validation testing of products in the market as required by the consent agreement. Temporary manufacturing shutdown costs are the idle plant costs of the Steris facility. Severance costs relate to reductions in workforce costs at the Steris facility, the closed distribution center, and in the institutional sales and marketing organization. Workforce reductions in 1998 totaled approximately 370 individuals. Recalls and related expenses and other costs and expenses are those costs that the Company estimates will be incurred related to the consent agreement. As of December 26, 1998, $21.2 million has been charged against the restructuring reserve of $28.4 million established in 1998.

The inventory write-off was determined based upon the terms of the consent agreement that required the Company to destroy certain finished goods and work-in-process inventories. Additionally, valuation adjustments were recorded for raw materials and supplies associated with products that the Company no longer expects to market. Fixed asset impairments were recorded for plant and equipment at the Steris facility that is not expected to be utilized in production.

SCHEIN PHARMACEUTICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The goodwill impairment was recorded in accordance with SFAS No. 121,

"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In 1995, the Company acquired Marsam Pharmaceuticals, Inc. (Marsam), which like Steris is a manufacturer and marketer of generic injectable products for the institutional market. The Company subsequently combined the two organizations' sales and marketing forces with a goal of leveraging the combined product lines. Additionally, other functions were combined including manufacturing and research and development activities. As a result of the FDA consent agreement and the decision not to manufacture a significant number of Steris products, the Company's opportunities in and approach to the institutional market place was re-evaluated. As part of this re-evaluation, management reviewed the carrying value of the goodwill. Based upon an evaluation of projected non-discounted operating cash flows, management determined there was impairment to goodwill. Fair value was then determined based upon discounted operating cash flows (using a discount rate of 9%). Based on this analysis, the goodwill amount was written off since it was deemed to have no remaining value.

NOTE 18--QUARTERLY DATA (UNAUDITED)

A summary of the quarterly results of operations is as follows:

<TABLE>
<CAPTION>

1998	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)			
<S>	<C>	<C>	<C>	<C>
Net revenues	$ 121,655	$ 116,922	$ 137,974	$ 146,678
Gross profit	37,198	38,853	46,153	51,885
Operating income (loss)	2,890	(150,032)	14,278	20,592
Income (loss) before extraordinary item	(1,111)	(130,820)	6,443	9,122
Net income (loss)	(1,111)	(130,820)	4,783	9,122
Earnings (loss) per share, basic and diluted:				
Income (loss) before extraordinary item	$ (0.03)	$ (4.04)	$ 0.20	$ 0.32
Net income (loss)	$ (0.03)	$ (4.04)	$ 0.15	$ 0.32

</TABLE>

In 1998, the annual results included a provision for a restructuring charge of $161.2 million ($135.0 million net of taxes). Of this amount, $156.6 was recorded in the third quarter ($132.4 million net of taxes), and $4.6 million was recorded in the fourth quarter ($2.6 million net of taxes).

<TABLE>
<CAPTION>

1997	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)			
<S>	<C>	<C>	<C>	<C>
Net revenues	$ 136,341	$ 107,549	$ 114,441	$ 131,839
Gross profit	47,142	31,977	36,568	44,722
Operating income (loss)	16,282	(158)	7,407	15,486
Net income (loss)	7,376	(476)	319	3,883
Earnings (loss) per share, basic and diluted:				
Net income (loss)	$ 0.26	$ (0.02)	$ 0.01	$ 0.14

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the fiscal year ended December 26, 1998, there have been no changes in the independent accountants nor disagreements with such accountants as to accounting and financial disclosures of the type required to be disclosed in this Item 9.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information as to directors required by this Item 10 is hereby incorporated by reference to this section entitled "Election of Directors" in the Company's Proxy Statement. Information concerning executive officers required by this Item 10 is provided in Item 4A of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the section entitled "Executive Compensation" in the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is incorporated herein by reference to the section entitled "Certain Transactions" and "Restructuring Agreements" in the Company's Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

<TABLE>
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(a) 1. List of Financial Statements
See Item 8 hereto.

2. Financial Statement Schedules

The following financial statement schedule of the Company included herein on pages 68 and 69 should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included on pages 35 through 60 of this Form 10-K.

	Page
Report of Independent Certified Public Accountants on Supplemental Schedule to the Consolidated Financial Statements	68
Schedule II - Valuation and Qualifying Accounts	69

All other schedules for the Company are omitted because either they are not applicable or the required information is shown in the financial statements or notes thereto.
</TABLE>

3. Exhibits

<TABLE>
<CAPTION>

Exhibit Number	Note	Description
<S>	<C>	<C>
3.1	(1)	Restated Certificate of Incorporation of the Company.
3.2	(1)	Amended and Restated By-Laws of the Company.
3.3	(1)	Restated Certificate of Incorporation of the Company adopted by the Company on March 6, 1998.
3.4	(1)	Amended and Restated By-Laws of the Company adopted by the Company on March 6, 1998.
4.1	(2)	Amended and Restated Credit Agreement, dated as of November 6, 1998, amending and restating the Credit Agreement dated as of September 5, 1995 among the Company, the Lenders (as defined therein), and Chemical Bank as Issuing Bank, Administrative Agent and as Collateral Agent for the Lenders.
4.2		(Intentionally Omitted)
4.3	(1)	Senior Subordinated Loan Agreement dated as of December 20, 1996 among the Company, the Lenders (as defined therein) and Societe Generale as Administrative Agent.
4.4	(1)	Offering Memorandum, dated December 19, 1997, with respect to the Company's $100,000,000 Senior Floating Rate Notes Due 2004.
9.1	(1)	Voting Trust Agreement, dated September 30, 1994, by and among the Company, Marvin H. Schein, the trust established by Marvin H. Schein under trust agreement dated December 31, 1993, the trust established by Marvin H. Schein under trust agreement dated September 9, 1994, Pamela Schein, the trust established by the Trustees under Article Fourth of the Will of Jacob M. Schein for the benefit of Pamela Schein and her issue under trust agreement dated September 29, 1994, Pamela Joseph, and the trust established by Pamela Joseph under trust agreement dated September 28, 1994, and Martin Sperber, as voting trustee.
10.1	(1)	Supply Agreement, dated May 1, 1992, between Abbott Laboratories, and Steris Laboratories, Inc., including Letter Amendment, dated December 2, 1993, and Letter Amendment, dated June 9, 1995.

</TABLE>

<TABLE>

<S>	<C>	<C>
10.2	(1)	Agreement, dated June 10, 1994, between Steris Laboratories, Inc., Akzo Pharma International B.V., and Organon Inc.
10.3		(Intentionally Omitted)
10.4	(1)	Sublicense, Co-marketing and Supply Agreement, dated September 30, 1996, between the Company and Makoff R&D Laboratories, Inc., dated September 30, 1996.
10.5	(1)	Agreement, dated August 16, 1994, between the Company and Elan Pharma Ltd. (currently Elan Corporation Plc).
10.6	(1)	Custom Manufacturing Agreement, dated July 1, 1995, between the Company and Johnson Matthey, Inc.
10.7		(Intentionally Omitted)
10.8	(1)	Lease Agreement, dated March 30, 1992, between the Company and Harold Lepler.
10.9	(1)	Lease Agreement, dated February 16, 1992, between the Company and Ronald G. Roth.
10.10	(1)	Memorandum of Lease for Danbury, dated December 1, 1995 between Danbury Pharmacal, Inc. and Albert J. Salame.
10.11	(1)	Agreement of Lease for Florham Park Corporate Office, dated April 16, 1993, between the Company and Sammis Morristown Associates, including First Amendment and Second Amendment thereto.
10.12		(Intentionally Omitted)
10.13	(1)(3)	Schein Holdings, Inc. 1993 Stock Option Plan (formerly the Schein Pharmaceutical, Inc. 1993 Stock Option Plan) dated as of November 5, 1993.
10.14	(1)(3)	Schein Pharmaceutical, Inc. 1997 Stock Option Plan.
10.15	(1)(3)	Schein Pharmaceutical, Inc. 1995 Non-Employee Director Stock Option Plan (amended and restated as of August 8, 1996).
10.16	(1)(3)	Employment Agreement, dated November 29, 1993 between the Company and Paul Feuerman.
10.17	(1)(3)	Deferred Compensation Agreement, dated August 8, 1996, between the Company and Paul Feuerman.
10.18	(1)(3)	Employment Agreement, dated May 1, 1995, between the Company and Dariush Ashrafi.
10.19	(1)(3)	Employment offer letter, dated April 17, 1995, from the Company to Dariush Ashrafi.
10.20	(1)(3)	Employment Agreement, dated September 30, 1994, between the Company and Martin Sperber, including Amendment No. 1 dated as of March 6, 1998.
10.21	(1)(3)	Option Agreement Pursuant to 1993 Stock Option Plan dated September 30, 1994 between Schein Holdings, Inc. and Martin Sperber.
10.22	(1)(3)	Employment Agreement, dated as of July 28, 1995, between the Company and Marvin Samson.
10.23	(1)(3)	Compensation Continuation Agreement, dated October 19, 1991, between the Company and Marvin Samson.

10.24	(1)	Split Dollar Insurance Agreement, dated March 25, 1991, between the Company, Michael Samson and Andrew Samson, Trustees under Indenture of Trust of Marvin Samson.
10.25	(1)(3)	Retirement Plan of Schein Pharmaceutical, Inc. and Affiliates, including Amendment No. 4.
10.26	(1)(3)	Amendment No. 1 to the Retirement Plan of Schein Pharmaceutical, Inc. and Affiliates.
10.27	(1)(3)	1993 Book Equity Appreciation Rights Program.
10.28	(1)(3)	Form of Book Equity Appreciation Rights Award.
10.29	(1)	Form of Split Dollar Life Insurance Agreement.
10.30	(1)	General Shareholders Agreement, dated September 30, 1994, by and among the Corporation, Bayer Corporation (formerly Miles Inc.), each of the family shareholders listed as such on schedule A thereto, each of the other shareholders listed as such on schedule A thereto and Martin Sperber, as trustee under the Voting Trust Agreement.
10.31	(1)	Continuing Shareholders Agreement, dated September 30, 1994, by and among the Company and each of the shareholders listed on schedule A thereto.
10.32	(1)	Company, Bayer Corporation (formerly Miles Inc.) and Bayer A.G.

</TABLE>

<TABLE>

<S>	<C>	<C>
10.33	(1)	Second Consolidated Agreement, dated December 15, 1992, between the Company, its affiliates, and Alfred B. Engelberg.
10.34	(1)	License and Development Agreement, dated November 30, 1993, between the Company and Ethical Holdings Plc.
10.35	(1)	License and Development Agreement, dated January 15, 1993, between the Company and Ethical Holdings Limited, including Amendment, dated November 4, 1994.
10.36	(1)	Letter Agreement, dated June 23, 1995, between the Company and Ethical Holdings, Inc., including Revised Schedule 5, effective July 21, 1995.
10.37	(1)	(Intentionally Omitted)
10.38	(1)	Multiproduct Technology Transfer, Development and License Agreement, dated August 30, 1994, between the Company and Ethical Holdings Plc.
10.39	(1)	License and Development Agreement, dated March 31, 1994, between the Company and Ethical Holdings Plc.
10.40	(1)(3)	Employment Agreement, dated November 29, 1993, between the Company and Paul Kleutghen.
10.41	(1)(3)	Employment Agreement, dated November 22, 1993 between the Company and Javier Cayado.
10.42	(1)(3)	Deferred Compensation Agreement, dated August 8, 1996, between the Company and Paul Kleutghen.
10.43	(1)(3)	Deferred Compensation Agreement, dated November 22, 1993, between the Company and Jay Cayado.
10.44	(1)	Co-Promotion Agreement, dated August 1, 1994, between the Company and Bayer Corporation (formerly Miles Inc.), including Amendment Number 1, dated January 1, 1997, Amendment Number 2, dated January 1, 1997 and Amendment No. 3 dated as of January 28, 1998.
10.45	(1)(3)	Schein Pharmaceutical, Inc. 1998 Employee Stock Purchase Plan, dated January 28, 1998.
10.46	(1)	Stock Purchase Agreement, dated February 6, 1998, between the Company and Cheminor Drugs Limited.
10.47	(1)	Shareholders Agreement, dated February 6, 1998, between the Company, Cheminor Drugs Limited and the principal shareholders of Cheminor Drugs Limited listed on Schedule A.
10.48	(1)	Strategic Alliance Agreement, dated February 6, 1998, among the Company, Cheminor Drugs Limited, Dr. Reddy's Laboratories Limited and Reddy-Cheminor, Inc.
10.49	(1)	Development, License and Supply Agreement, dated March 31, 1998, between the Company and Elan Corporation, Plc.
10.50	(4)(5)	Amendment Number 4, dated February 11, 1999, to the Co-Promotion Agreement, dated August 1, 1994, between the Company and Bayer Corporation.
10.51	(4)(5)	Amendment, dated February 25, 1999, to the Supply Agreement, dated May 1, 1992, between Abbott Laboratories and Steris Laboratories, Inc.
10.52	(4)(5)	Supply Agreement, dated February 25, 1999, between the Company and Abbott Laboratories.
10.53	(4)	Amendment No. 1, dated September 4, 1998, to the Development License and Supply Agreement, dated March 31, 1998, between the Company and Elan Corporation Plc.
10.54	(4)(5)	Amendments No. 2, dated December 1, 1998, to the Development License and Supply Agreement, dated March 31, 1998, between the Company and Elan Corporation Plc.
10.55	(3)(4)	Amendment No. 2 to the Retirement Plan of Schein Pharmaceutical, Inc and Affiliates.
10.56	(3)(4)	Schein Pharmaceutical, Inc. 1995 Non-Employee Director Stock Option Plan (Amended

		and Restated as of August 24, 1998).
10.57	(3)(4)	Schein Pharmaceutical, Inc. 1999 Stock Option Plan
21.1	(4)	List of Subsidiaries.
23.1	(4)	Consent of BDO Seidman, LLP.
27.1	(4)	Financial Data Schedule.

Notes to Exhibits

(1) Incorporated herein by reference to the exhibit with the corresponding number filed as part of the Company's Registration Statement on Form S-1, dated December 3, 1997, as amended (Registration No. 333-41413).

(2) Incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on November 17, 1998.

(3) Management contracts or compensatory plans or arrangements required to be filed pursuant to this Item 14.

(4) Filed herewith.

(5) Material has been omitted from this Exhibit pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated October 16, 1998, was filed with the Commission on October 27, 1998, to report (i) the execution of a consent agreement, dated October 21, 1998, between Steris and the FDA, (ii) the expected resumption by Steris of its manufacturing and distribution activities, and (iii) the expected incurrence by the Company of a one time after-tax charge of approximately $135 million in 1998.

A Current Report on Form 8-K, dated November 6, 1998 was filed with the Commission on November 17, 1998, to report the Company's execution of an Amended and Restated Credit agreement, dated as of November 6, 1998, with its bank group.

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.

SCHEIN PHARMACEUTICAL, INC.
(Registrant)

By /s/Martin Sperber

Martin Sperber
Chairman of the Board and
Chief Executive Officer

March 26, 1999

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

Signature	Title	Date
/s/Martin Sperber Martin Sperber	Chairman of the Board, Chief Executive Officer And Director (Principal Executive Officer)	March 26, 1999
/s/Dariush Ashrafi Dariush Ashrafi	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 26, 1999
/s/Paul Feuerman Paul Feuerman	Senior Vice President, General Counsel and Director	March 26, 1999
/s/David R. Ebsworth David R. Ebsworth	Director	March 22, 1999
/s/Richard L. Goldberg Richard L. Goldberg	Director	March 26, 1999
/s/Harvey Rosenthal Harvey Rosenthal	Director	March 20, 1999

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Schein Pharmaceutical, Inc.

The audits referred to in our report dated February 10, 1999 relating to the consolidated financial statements of Schein Pharmaceutical, Inc. and subsidiaries, which is contained in Item 8 of this Form 10-K, included the audit of the financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based upon our audits.

In our opinion such financial statement schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

New York, New York
February 10, 1999

SCHEIN PHARMACEUTICAL, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

<TABLE>
<CAPTION>

	Balance at beginning of period	Additions	Deductions	Other	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts:					
Year ended December 26, 1998.....	$2,260	$ 467	$ (241)(1)	--	$ 2,486
Year ended December 27, 1997.....	$2,434	--	$ (174)(1)	--	$ 2,260
Year ended December 28, 1996.....	$3,835	$ 366	$ (1,801)(1)	$34	$ 2,434
Restructuring Reserves:					
Year ended December 26, 1998:					
Inventory.....	--	$30,500	$ (8,516)(2)	--	$21,984
Other.....	--	$35,200	$(24,827)(3)	--	$10,373

</TABLE>

(1) Accounts written off, net of recoveries
(2) Disposals
(3) Payments, disposals and other

CONFIDENTIAL TREATMENT REQUESTED

AMENDMENT NUMBER 4 TO CO-PROMOTION AGREEMENT

This Amendment Number 4 to Co-Promotion Agreement (the "Amendment") is entered into as of the __ day of February 1999 between Bayer Corporation an Indiana corporation, formerly known as Miles Inc. ("Bayer"), and Schein Pharmaceutical, Inc., a Delaware corporation ("Schein").

Introduction

A. Bayer and Schein entered into a Co-Promotion Agreement, dated August 1, 1994 which was amended by Amendment Number 1 to Co-Promotion Agreement dated January 1, 1997, Amendment Number 2 to Co-Promotion Agreement dated January 1, 1997 and Amendment Number 3 to Co-Promotion Agreement dated as of January 28, 1998 (the "Agreement").

B. Pursuant to the terms of the Agreement, Bayer and Schein agreed to jointly promote and detail the Product (as defined in the Agreement) in the United States and Puerto Rico.

C. The parties wish to amend the Agreement in accordance with the terms of this Amendment.

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

1. Definitions In This Amendment and Incorporation. Unless otherwise defined, all terms used herein shall have the meaning ascribed to them in the Agreement, and the terms and provisions of the Agreement are incorporated herein by reference as though set forth in full.

2. Term.

In accordance with Article VII and Section 4.12 of the Agreement, Bayer and Schein hereby agree that the term of the Agreement shall terminate on June 30, 1999. The period commencing on January 1, 1999 and ending on June 30, 1999 is hereinafter referred to as the "Extended Period".

3. Payments.

(a) For the avoidance of doubt, Bayer and Schein acknowledge and agree that the amount payable by Schein to Bayer under Section 3.01(a)(i) of the Agreement for the Extended Period shall be an aggregate of $__*__, which amount shall be payable in two equal installments of $__*__ each, within sixty (60)

days after the close of each fiscal quarter during

---

* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

the Extended Period in accordance with the terms and conditions of said Section 3.01(a) of the Agreement.

(b) In accordance with Section 3.01(a)(ii) of the Agreement, Bayer and Schein hereby agree that the Base Line Figure for the Extended Period shall be $__*__.

4. Reaffirmation of Agreement and Other Documents. Except as modified herein, all of the covenants, terms and conditions of the Agreement remain in full force and effect and are hereby ratified and reaffirmed in all respects. In the event of any conflict, inconsistency or incongruity between the terms and conditions of this Amendment and the covenants, terms and conditions of the Agreement the terms and conditions of this Amendment shall govern and control.

5. Counterparts. This Amendment may be executed in two or more counterparts, each of which together shall constitute an original but which, when taken together, shall constitute but one instrument and shall become effective when copies hereof, when taken together, bear the signatures of all required parties and persons.

IN WITNESS WHEREOF, this Amendment is executed as of the day and year first above written.

BAYER CORPORATION

By: /s/ Gerald Rosenberg

Name: Gerald Rosenberg

Title: SrVP General Manager

SCHEIN PHARMACEUTICAL, INC.

By: /s/ Adam A. Levitt

Name: Adam A. Levitt

Title: VP, Brand Products Group

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

CONFIDENTIAL TREATMENT REQUESTED

[Letterhead of ABBOTT]

February 25, 1999

Mr. Dariush Ashrafi
Executive Vice President
Chief Executive Officer
Schein Pharmaceutical, Inc.
100 Campus Drive
Florham Park, NJ 07932

Re: Amendment to the Supply Agreement

Dear Dariush:

Reference is made to the Supply Agreement dated as of May 1, 1992, as amended December 1, 1993, June 9, 1995, June 24, 1998, August 28, 1998, September 22, 1998, October 26, 1998, November 30, 1998, December 29, 1998, January 29, 1999, February 5, 1999, February 12, 1999 and February 19, 1999 between Abbott Laboratories ("Abbott") and Steris Laboratories, Inc. ("Steris") (collectively, the "Supply Agreement").

This will confirm our agreement that, with respect to the term of the existing Supply Agreement, the parties hereby agree to the modifications set forth below.

1. Exhibit A to the existing Supply Agreement is hereby deleted and replaced in its entirety by Exhibit A, which is attached hereto.

2. Exhibit B to the existing Supply Agreement is hereby deleted and replaced in its entirety by Exhibit B, which is attached hereto.

3. The price per kilogram for Drug Substance (as defined in the existing Supply Agreement) in calendar year 1999 shall be the price set forth in the existing Supply Agreement, (attached hereto as Exhibit C), as adjusted for a CPI increase of 1.6% over the 1998 price of $__*__ per kilogram, and otherwise subject to adjustment according to the provisions of the Supply Agreement.

4. Schein Pharmaceutical, Inc. (the parent company of Steris, hereafter referred to as "Schein") hereby agrees to purchase a minimum of __*__ kilograms of Drug Substance in 1999 (the "Minimum Purchase Requirement"). In the event that Abbott is unable to

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

supply Drug Substance within thirty (30) days of Schein's purchase order placed under Section 5.3 of the Supply Agreement, Schein's Minimum Purchase Requirement shall be reduced by the amount of kilograms that Abbott has been unable to supply, provided that such failure to supply is not attributable to Schein. In the event that Schein fails to purchase its Minimum Purchase Requirement in 1999, Schein shall be obligated to pay to Abbott the difference in amount between the Minimum Purchase Requirement and the amount of kilograms actually purchased in 1999 (the "Shortfall"). Subject to Schein's obligation to purchase its Minimum Purchase Requirement or to pay for the Shortfall, Abbott and Schein shall endeavor to establish a schedule for shipping Drug Substance which would permit Schein to fully utilize in commercial manufacture of finished dosage product the Drug Substance so shipped and Schein shall not be obligated to accept more than __*__ lots of Drug Substance per week in 1999. Abbott may, at its sole discretion, offer free goods to Schein in Year 2000 up to the amount of the Shortfall; provided that Schein has then met its

obligations under Section 5.1 of the new supply agreement of even date herewith.

5. The payment terms contained in Section 3.3 shall be modified to read as follows.

Abbott shall invoice Schein upon shipment of Drug Substance. For invoices dated prior to July 1, 1999 payment shall be made by Schein net sixty (60) days from date of invoice; for invoices dated on and after July 1, 1999, payment shall be made by Schein net forty-five (45) days from date of invoice.

6. Except as modified above, the Supply Agreement shall continue in full force and effect through 11:59 p.m. December 31, 1999, at which point the Supply Agreement shall terminate. All provisions of the Supply Agreement which by their terms continue after termination shall survive termination, except Sections 4.3, 15.1, 15.2 and 15.3 of the Supply Agreement shall be superceded by Sections 4.3, 15.1, 15.2 and 15.3 of the supply agreement between Schein Pharmaceutical, Inc. and Abbott Laboratories Inc. of even date herewith and shall not survive such termination.

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

If the foregoing is acceptable to you, please sign both originals and return one original to the undersigned.

ABBOTT LABORATORIES

By: /s/ Chris M. Kolber

Chris M. Kolber, Vice-President, Commercial Operations
Chemical and Agricultural Products Division

AGREED AND ACCEPTED:

SCHEIN PHARMACEUTICAL, INC.

By: /s/ Dariush Ashrafi

Dariush Ashrafi
Executive Vice President and
Chief Financial Officer

EXHIBIT A

Drug Substance Specifications

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The Drug Substance delivered hereunder will satisfy conditions for Iron Dextran bulksolution as set forth in: Schein's NDA; the DMF; the United States Pharmacopeia, as in effect at the time Drug Substance is shipped; and such other appropriate necessary specifications related to Drug Substance to enable the finished dosage form to comply with the United States Pharmacopeia requirements. If Schein intends to petition U.S.P. for a change in the specifications, Schein shall first discuss such change with Abbott. Abbott shall not be obligated to make an otherwise appropriate necessary change or changes to its specifications arising from any Schein petition to U.S.P. on less than twelve (12) months' notification to Abbott.

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EXHIBIT B

I. Documentation

1. Certificate of Manufacturing Conformance and supporting deviation reports if applicable.

2. Interim Certificate of Analysis will be facsimiled prior to shipment.

3. Full Certificate of Analysis in duplicate:

4. CAPD shall advise Schein of any changes to the Drug Master File for the Drug Substance which would require prior approval by the FDA.

II. Procedures

1. Two (2) identification tags will accompany each vessel of Drug Substance. Tags will list name of product, lot number, gross, net and tare weight, CAPD Code and List Numbers, and order number.

2. Each vessel shall be sealed in a tamper-evident manner.

3. Unpreserved bulk needs to be received at Schein within __*__ after the time of final filtration by CAPD.

4. CAPD shall provide an interim Certificate of Analysis with each batch. The Interim Certificate will contain results for __*__.

5. The final Certificate of Analysis and Certificate of Manufacturing conformance must be received by Schein within __*__ days of final filtration by CAPD.

6. Each vessel shall be a clean depyrogenated vessel. CAPD will not alter the container/closure system without the approval of Schein.

7. The bulk solution shall be kept between __*__C during storage at CAPD.

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

EXHIBIT C

1999 IRON DEXTRAN PRICING MODEL

<TABLE>
<CAPTION>

AVERAGE SELLING PRICE (PER VIAL)	1999 DRUG SUBSTANCE 1-X SCALE PRICE (PER KILO)	1999 DRUG SUBSTANCE 2-X SCALE PRICE (PER KILO)
<S>	<C>	<C>

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

CONFIDENTIAL TREATMENT REQUESTED

SUPPLY AGREEMENT
BY AND BETWEEN
ABBOTT LABORATORIES INC.
AND
SCHEIN PHARMACEUTICAL, INC.

THIS SUPPLY AGREEMENT ("AGREEMENT"), is made as of February 25, 1999, by and between the Chemical and Agricultural Products Division of Abbott Laboratories Inc., a Delaware corporation having a principal place of business at 100 Abbott Park Road, Abbott Park, Illinois 60064-3500 (as further defined in Section 1.2, "CAPD"), and Schein Pharmaceutical, Inc., a Delaware corporation having a principal place of business at 100 Campus Drive, Florham Park, New Jersey 07932 ("Schein").

WHEREAS, Schein is the holder of a New Drug Application ("NDA") covering a pharmaceutical product manufactured and marketed by Schein under the trade name INFeD(R);

WHEREAS, Abbott Laboratories, an Illinois corporation having a principal place of business at 100 Abbott Park Road, Abbott Park, Illinois 60064-3500, and Schein's subsidiary, Steris Laboratories, Inc., previously entered into a Supply Agreement dated May 1, 1992, as amended December 1, 1993; June 9, 1995; June 24, 1998; August 28, 1998; September 22, 1998; October 26, 1998; November 30, 1998; December 29, 1998; January 29, 1998, February 5, 1999, February 12, 1999, February 19, 1999 and as of even date herewith (the "Current Supply Agreement") pertaining to the supply of iron dextran bulk solution;

WHEREAS, under separate agreement, the term of the Current Supply Agreement shall terminate on December 31, 1999;

WHEREAS, CAPD desires to manufacture for Schein its commercial requirements of Drug Substance (as defined below) and Schein desires to purchase from CAPD such commercial quantities of Drug Substance pursuant to this Agreement.

NOW, THEREFORE, in consideration of the above premises and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

1. Definitions

As used in this Agreement, the following words and phrases shall have the following meanings:

1.1 "Affiliate" of a party hereto shall mean any entity that controls, is controlled by, or is under common control with such party. For purposes of this definition, a party shall be deemed to control another entity if it owns or controls, directly or indirectly, more than fifty percent (50%) of the voting equity of another entity (or other comparable ownership interest for an entity other than a corporation).

1.2 "CAPD" shall mean solely the Chemical and Agricultural Products Division of Abbott Laboratories Inc. and shall not include any of the other operating divisions of Abbott Laboratories Inc.

1.3 "Confidential Information" shall mean all written information and data provided by the parties to each other hereunder or under the Current Supply Agreement or the Confidential Disclosure Agreement dated October 30, 1997, between Abbott Laboratories and Schein and marked as confidential, or if disclosed orally, is

reduced to writing within thirty (30) days of oral disclosure and identified as being confidential, except any portion thereof that:

(i) is known to the recipient as evidenced by its written records before receipt thereof;

(ii) is disclosed to the recipient by a third person who has the right to make such disclosure;

(iii) is or becomes part of the public domain through no fault of the recipient; or

(iv) is independently developed by employees of the recipient who have not had access to the information disclosed hereunder, under the Current Supply Agreement or under the Confidential Disclosure Agreement dated October 30, 1997 between Schein and Abbott Laboratories.

1.4 "Contract Requirements" shall mean one hundred percent (100%) of the worldwide commercial requirements for Drug Substance of Schein and its Affiliates.

1.5 "Contract Year" shall mean a twelve (12) month period commencing each January 1.

1.6 "DMF" shall mean the Drug Master File owned by CAPD.

1.7 "Drug Substance" shall mean iron dextran bulk solution, as more fully described in the Drug Substance Specifications (as defined below).

1.8 "Drug Substance Specifications" shall mean the specifications for Drug Substance, set forth in Exhibit A.

1.9 "Drug Substance Technology" shall mean the manufacturing process for Drug Substance developed by CAPD from October 30, 1989 until November 2, 1990 under that certain Development Contract between CAPD and Steris Laboratories, Inc., dated December 1, 1989 ("Development Contract").

1.10 "Effective Date" shall mean January 1, 2000.

1.11 "Exclusive Term" shall have the meaning set forth in Section 4.1 of this Agreement.

1.12 "FDA" shall mean the Food and Drug Administration.

1.13 "Non-Exclusive Term" shall have the meaning set forth in Section 4.1 of this Agreement.

1.14 "Product" shall mean finished pharmaceutical drug product which contains iron dextran as an active ingredient.

1.15 "Shortfall" shall mean the amount, if any, by which Schein's actual purchases of Drug Substance in a Contract Year are less than the minimum Drug Substance purchase obligation for such Contract Year, as set forth in Section 5.1, reduced by the number of kilograms, if any, which CAPD does not supply within thirty (30) days of Schein's purchase order placed under Section 5.2.

1.16 "Term" shall have the meaning set forth in Section 4.1 of this Agreement.

2. Manufacture and Supply of Drug Substance

2.1 Pursuant to the terms and conditions of this Agreement, during the Term, Schein shall purchase or have purchased from CAPD, except as provided in Section 5.3 and Article 14 hereof, and CAPD shall use its reasonable best efforts to

manufacture, or have manufactured, sell and deliver to Schein on an exclusive (except as provided below) worldwide basis the Contract Requirements. Provided that less than two (2) years remain in the Exclusive Term (but not before January 16, 2000), (i) CAPD shall have the right to qualify third parties (including other divisions or Affiliates of Abbott Laboratories Inc.) as potential purchasers of Drug Substance and/or Product, and to initiate and carry out development work with such third party, including supplying Drug Substance or Product, but shall not supply either Drug Substance or Product to any third party for commercial sale and distribution until the expiration of the Exclusive Term, and (ii) Schein shall have the right to qualify third parties as potential suppliers of Drug Substance, and to initiate and carry out development work with

such third party, including purchasing Drug Substance from such third party, but shall not commercially sell or distribute any Product which is not manufactured from Drug Substance purchased from CAPD until the expiration of the Term, except as provided in Section 5.3. The provisions of this Section 2.1 shall apply to CAPD regardless of the technology employed by CAPD in manufacturing Drug Substance or Product.

2.2 Drug Substance shall be manufactured to conform with the Drug Substance Specifications. Drug Substance Specifications may be modified from time to time by written agreement signed by an authorized representative of each party without the necessity of amending this Agreement.

2.3 Except as provided in Section 2.1 of the Agreement, during the Exclusive Term, CAPD shall not manufacture, sell, ship, market or distribute Drug Substance or any Product, or license Drug Substance Technology, to any third party or other division

of Abbott Laboratories Inc. and its Affiliates. During the Exclusive Term and notwithstanding the foregoing, the other divisions of Abbott Laboratories Inc., excluding the Chemical and Agricultural Products Division, and any Affiliates of Abbott Laboratories Inc. shall have the right to manufacture (but not commercially sell or distribute) their own bulk iron dextran solution and the right to manufacture, sell, ship, market and distribute Product, so long as during the Exclusive Term such Product is not manufactured with Drug Substance or technology relating to Drug Substance obtained in either case from CAPD or a licensee or sublicensee of CAPD.

3. Price

3.1 The price for Drug Substance delivered from the Effective Date through the Term shall be the price set forth on Exhibit B.

3.2 During the first week of each calendar quarter during the Term following the first date on which the Average Selling Price of INFeD(R) is less than $__*___ per vial, Schein shall promptly notify CAPD in writing of the Average Selling Price then in effect (the "Notification"). As used in this Agreement, the "Average Selling Price" means the weighted average selling price per vial for INFeD(R) sold by Schein (or its Affiliates) to third parties in the United States during the prior calendar quarter. Schein represents that the Average Selling Price calculation will be based on total Net Sales of INFeD(R) to third parties. As used in this Agreement, "Net Sales" means gross sales of INFeD(R) invoiced to third parties in arms-length transactions within the United States, less any chargebacks, incentive/promotional payments, rebates, cash discounts, Medicaid rebates, trade discounts, excise taxes and consumption taxes to the extent incurred or

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

granted in respect of INFeD(R) sales, customs duty, credits or allowances granted on account of rejection or return of INFeD(R), and credits for inventory and price protection in the event of any price decrease. If at any time during the Term the Average Selling Price of INFeD(R) is less than $__*___ per vial, then within seven (7) days of CAPD's receipt of a Notification, the price to Schein of the Drug Substance shall be reduced in accordance with Exhibit B, retroactive to the first business day of the then-current calendar quarter. CAPD shall have the right at any time of receipt of a Notification to commence an audit in accordance with Section 7.3 herein to confirm the accuracy of the determination of the then-current Average Selling Price, provided no such audit shall commence after March 31st as to any calendar quarter in the prior calendar year or any period prior thereto. Notwithstanding the foregoing, the price of the Drug Substance will not be reduced pursuant to this Section 3.2 more than once per calendar quarter. Fifty percent (50%) of any price reductions made pursuant to this Section 3.2 also shall apply to Drug Substance contained in Schein's or its Affiliate's inventory and which was received by Schein or its Affiliate during the calendar quarter preceding Notification. If at any time during the Term the Average Selling Price of INFeD(R) increases above the price contained in the prior Notification, then the price for Drug Substance shall be adjusted for that calendar quarter to correspond to such increased Average Selling Price as set forth in Exhibit B. Fifty percent (50%) of any price increases made pursuant to this Section 3.2 also shall apply to Drug Substance contained in Schein's or its Affiliate's inventory and which was received by

Schein or its Affiliate during the calendar quarter preceding Notification. Notwithstanding anything

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herein to the contrary, if at any time CAPD is entitled to and makes Drug Substance available to any party (excluding transfers within Abbott Laboratories Inc. or to its Affiliates, unless the Drug Substance is resold by the recipient other than to an Affiliate) at a price lower than the price available to Schein hereunder for similar or lesser quantities, then the price of Drug Substance hereunder shall be reduced to that lower price for all quantities sold to Schein during the same Contract Year as Drug Substance was sold to the third party.

3.3 Drug Substance shall be delivered to Schein FOB CAPD's plant in North Chicago, Illinois, by a common carrier selected by Schein. Normal airfreight carrying charges shall be paid by CAPD. Title and risk of loss shall pass to Schein upon delivery of Product to the carrier.

3.4 CAPD shall invoice Schein upon shipment of Drug Substance. Payment shall be made by Schein net thirty (30) days from the date of invoice.

3.5 Any federal, state, county, or municipal sales or use tax, excise or similar charge, or other tax assessment (other than that assessed against income), assessed or charged on the sale of Drug Substance sold pursuant to this Agreement shall be paid by Schein. Notwithstanding the preceding sentence, Schein may furnish CAPD any exemption certificate for which Schein is entitled or authorized to issue with respect to the taxes imposed on the sale or use of Drug Substance sold hereunder.

3.6 Due to the restrictive shipping requirements contained in CAPD's drug master file for Drug Substance, no Drug Substance shall be subject to rework.

4. Term and Termination

4.1 The term of this Agreement shall consist of the Exclusive Term and the Non-Exclusive Term (collectively, the "Term"). The Exclusive Term shall commence on the Effective Date and shall extend to midnight on December 31, 2001. The Exclusive Term shall automatically be extended for twelve (12) month periods unless either party terminates the Exclusive Term in writing on or before January 15, 2000 for the first Contract Year, and with twenty-four (24) months' advance notice for every Contract Year thereafter. The Non-Exclusive Term shall commence at the expiration of the Exclusive Term and shall end on the December 31 of the second Contract Year of the Non-Exclusive Term.

4.2 (a) Either party may terminate this Agreement by giving the other sixty (60) days' prior written notice as follows: (i) upon the bankruptcy or insolvency of the other party; or (ii) upon the breach of any material provision of this Agreement or the Current Supply Agreement by the other party if the breach is not cured within forty-five (45) days after written notice thereof to the breaching party.

(b) Abbott may terminate this Agreement by giving Schein sixty (60) days' prior written notice if Schein fails to purchase the Minimum Purchase Requirement (as defined in the amendment to the Current Supply Agreement of even date herewith) of Drug Substance under the Current Supply Agreement for any reason, including an event of force majeure, and fails to pay for the Shortfall as set forth in the amendment to the Current Supply Agreement of even date herewith, and such failure is not cured within forty-five (45) days after written notice thereof to Schein.

4.3 Termination, expiration, cancellation or abandonment of this Agreement through any means or for any reason shall not relieve the parties of any obligation accruing prior thereto and shall be without prejudice to the rights and remedies of either party with respect to any antecedent breach of any of the provisions of this Agreement.

4.4 In the event Schein terminates this Agreement as a result of the

bankruptcy or insolvency of Abbott Laboratories Inc. or CAPD's breach of this Agreement under Section 4.2 above, without limiting any other remedy available to Schein, CAPD shall continue to supply Drug Substance to Schein pursuant to the terms hereof for the eighteen (18) month period following the effective date of such termination.

5. Minimum Volume Commitments, Forecasts and Firm Purchase Orders

5.1 (a) Schein shall purchase the following minimum amounts of Drug Substance during the Exclusive Term: __*___ kg in the first Contract Year and __*___ kg in each of the remaining Contract Year(s) during the Exclusive Term. Such minimum volume commitments shall only be excused due to a failure by CAPD to deliver Drug Substance within thirty (30) days of Schein's purchase orders under Section 5.2 for a reason other than an event of force majeure and shall be extended for an event of force majeure as set forth in Article 14. CAPD and Schein will review purchases, availability, market conditions, production, and inventory levels in the fourth quarter of each Contract Year during the Exclusive Term and may mutually agree to modify the volume commitments for the following Contract Year based on such factors. Any such modification must be in writing and signed by both parties. In the event of a

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Shortfall, Schein shall pay to CAPD within sixty (60) days of the applicable Contract Year the payment amount in respect of such Shortfall in accordance with Exhibit C. Abbott and Schein shall endeavor to establish a schedule for shipping Drug Substance which would permit Schein to fully utilize in commercial manufacture of finished dosage product the Drug Substance so shipped and Schein shall not be obligated to accept more than __*___ lots of Drug Substance per week. Schein shall have the right to commence an audit in accordance with Section 7.3 herein to confirm the accuracy of the calculations underlying Exhibit C, provided no such audit shall commence after the March 31st immediately following the prior calendar year for which the Shortfall has been calculated.

(b) There shall be no minimum purchase obligations during the Non-Exclusive Term.

5.2 (a) On the Effective Date and each July 1 during the Term or any extension thereof, Schein shall provide to CAPD an annual forecast for the next succeeding Contract Year estimating its purchases of Drug Substance for such Contract Year. This forecast shall be non-binding and shall be used for planning purposes only. Further, during the Term, Schein shall issue on the Effective Date, and then on or before the first business day of each calendar quarter thereafter, a non-binding twelve (12) month rolling forecast estimating in good faith the amount of its purchases of Drug Substance for the next succeeding four (4) quarterly periods.

(b) On or before forty-five (45) days prior to each calendar quarter, Schein shall submit in writing to CAPD a statement quantifying the Contract

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Requirements for the next succeeding calendar quarter. Upon receipt of such statement, CAPD shall have ten (10) days to submit in writing to Schein a firm delivery schedule setting forth the quantity of Drug Substance CAPD shall be able to sell to and deliver to Schein. Upon receipt of each firm delivery schedule, Schein shall promptly submit to CAPD a firm purchase order for Drug Substance for the next succeeding calendar quarter reflecting the same terms of CAPD's firm delivery schedule. If CAPD fails to timely submit such delivery schedule, CAPD shall be obligated to sell and deliver to Schein the amount of Drug Substance listed in Schein's earlier submitted written statement. Each purchase order issued by Schein shall be governed by the terms of this Agreement, and none of the terms or conditions of Schein's purchase order shall be applicable, except those specifying quantity ordered, delivery dates, special supply instructions and invoice information.

5.3 During the Term, Schein may obtain or receive from any other party

a reference letter with respect to such party's drug master file required to manufacture, market and sell the Drug Substance in the United States or in any other territory, or initiate or carry out any development work in connection with the Drug Substance with any other party, for purposes of securing an alternate source of the Drug Substance in the event of a force majeure as described in Article 14 hereof or in the event CAPD does not deliver Drug Substance in accordance with Schein's purchase orders under Section 5.2 for a period of forty-five (45) days.

6. Manufacture of Drug Substance

6.1 Drug Substance shall be manufactured in accordance with current Good Manufacturing Practices promulgated by the FDA and pursuant to the applicable DMF prepared by CAPD and filed with the FDA or foreign regulatory authorities as requested by Schein. CAPD shall promptly advise Schein of any proposed change (whether in manufacturing process, test methods, or specifications) outside the applicable DMF, which change must be approved by Schein prior to its implementation by CAPD, and which approval shall not be unreasonably withheld by Schein. Schein shall have the right to audit CAPD for compliance with current Good Manufacturing Practices at reasonable intervals. Such audits shall be scheduled at mutually agreeable times upon at least fifteen (15) days advance written notice to CAPD.

6.2 For each shipment of Drug Substance delivered hereunder, CAPD shall provide to Schein certificates of analysis, batch record documentation as specified in Exhibit D, and final yield quantity information. Further, CAPD shall follow the procedures described in Exhibit D.

6.3 Each party shall promptly advise the other of any safety or toxicity problem or any FDA regulatory or compliance activity of which either party becomes aware regarding Product, Drug Substance or intermediates used in the manufacture of Drug Substance.

6.4 Schein shall pay CAPD for its direct costs pre-approved by Schein associated with any FDA filing by CAPD requested by Schein of more than one (1) DMF in support of Schein's regulatory filings with respect to Drug Substance. Schein

also shall pay CAPD's direct costs pre-approved by Schein for any work requested by Schein to produce and assemble documentation for Drug Substance registrations outside the United States.

6.5 CAPD shall provide Schein with technical assistance as may be reasonably requested by Schein from time to time; provided such request relates to Drug Substance delivered by CAPD or Product manufactured by Schein or its Affiliate from such Drug Substance, including, without limitation, assistance relating to test methods, specifications, and impurity/degradation product identification. CAPD shall provide Schein with a written estimate of such technical assistance; provided, however, CAPD shall not perform any work under this Section 6.5 until such time as CAPD and Schein mutually agree to a price for CAPD to perform such technical assistance.

7. Acceptance of Drug Substance

7.1 Subject to the terms of Schein's NDA for Product, Schein shall have a period of twenty (20) days from the date of receipt of Drug Substance to inspect and accept or advise CAPD in writing that a shipment of Drug Substance does not conform with Drug Substance Specifications. If Schein does not accept all or any part of a shipment of Drug Substance, then the parties shall have ninety (90) days from the date of CAPD's receipt of Schein's notification to resolve any dispute regarding whether all or any part of such shipment of Drug Substance conforms with the Drug Substance Specifications. If the parties are unable to resolve any such dispute within the ninety (90) day period, Schein shall be deemed to have rejected the Drug Substance in dispute. Schein shall have the right to return any Drug Substance which does not

conform, whether such non-conformance is discovered before, during or after processing of Product. All or any part of any shipment may be held for CAPD's disposition and at CAPD's expense if found to be not in conformance with the Drug Substance Specifications. Without limiting Sections 9.2, 10.2 or Article 11

hereof, no claims under this Section 7.1 with respect to rejected Drug Substance shall be greater in amount than the purchase price of such Drug Substance. Schein's failure to timely advise CAPD that a shipment of Drug Substance does not conform to the Drug Substance Specifications shall constitute a waiver of any claims it may have against CAPD with respect to such shipment. Disputes between the parties as to whether all or any part of a shipment rejected by Schein conforms with the Drug Substance Specifications shall be resolved by an independent GMP testing laboratory or consultant acceptable to CAPD and Schein. In the event that such independent GMP testing laboratory or consultant cannot be agreed upon, the parties shall resolve the issue of whether all or any part of such shipment conforms with the Drug Substance Specifications through the alternative dispute resolution ("ADR") described in Exhibit E.

7.2 CAPD's quality control procedures and in-plant quality control checks on the manufacture of Drug Substance for Schein shall be applied in the same manner as those procedures and checks are applied to pharmaceutical grade products manufactured for sale by CAPD.

7.3 Schein shall provide CAPD's independent auditors (reasonably acceptable to Schein), at CAPD's expense, with access during regular business hours and upon reasonable prior request (and subject to the confidentiality obligations

contained in this Agreement) to Schein's records and documents relating to INFeD(R) solely for the purpose of verifying the accuracy of the Average Selling Price calculation described in Section 3.2 above and Schein's obligation to purchase its Contract Requirements described in Section 2.1. CAPD shall provide Schein's independent auditors (reasonably acceptable to CAPD), at Schein's expense, with access during regular business hours and upon reasonable prior request (and subject to the confidentiality obligations contained in the Agreement) to CAPD's records and documents relating to Drug Substance made available to any third party pursuant to Section 3.2 hereof, and to CAPD's records regarding the calculation of the amount of any Shortfall described in Section 1.15.

8. Representations, Warranties, Covenants and Guarantees

8.1 CAPD guarantees and warrants that Drug Substance delivered to Schein pursuant to this Agreement shall, at the time of delivery, not be adulterated or misbranded within the meaning of the Federal Food, Drug and Cosmetic Act, as amended, or within the meaning of any applicable state or municipal law in which the definitions of adulteration and misbranding are substantially the same as those contained in the Federal Food, Drug and Cosmetic Act, as such Act and such laws are constituted and effective at the time of delivery and will not be an article which may not, under the provisions of Sections 404 and 505 of such Act, be introduced into interstate commerce.

8.2 CAPD and Schein, respectively, represent, warrant and covenant to each other that it has all requisite corporate power and authority to enter into this Agreement

and to consummate the transactions contemplated hereby.

8.3 CAPD and Schein, respectively, represent and warrant to each other that it is not currently debarred or suspended by any United States government agency from receiving federal contracts.

8.4 CAPD further represents and warrants that:

(i) it has the right and is fully empowered to manufacture and sell the Drug Substance to Schein as contemplated hereby;

(ii) neither the import of any raw material for the manufacture of Drug Substance as contemplated hereby nor the manufacture of Drug Substance as contemplated hereby will involve any infringement of any existing patents or proprietary rights of third parties for or in the Drug Substance, nor has CAPD received any notice of any claimed infringement (including, without limitation patent infringement) in connection with the Drug Substance; and

(iii) it has not disclosed or provided Drug Substance or Drug Substance Technology to any third party or to any other division or Affiliate of Abbott Laboratories Inc.

8.5 CAPD warrants that Drug Substance delivered to Schein pursuant to this Agreement shall conform with the Drug Substance Specifications and shall be in compliance with applicable law and all applicable regulatory requirements of the FDA. CAPD MAKES NO OTHER WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO DRUG SUBSTANCE. ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE HEREBY DISCLAIMED BY CAPD. IN NO EVENT SHALL CAPD BE LIABLE FOR INDIRECT,

INCIDENTAL OR CONSEQUENTIAL DAMAGES OF SCHEIN OR ITS AFFILIATES; PROVIDED THAT THE FOREGOING SHALL IN NO RESPECT LIMIT CAPD'S OBLIGATIONS UNDER SECTIONS 9.2 AND 11.1 HEREOF.

9. Indemnification

9.1 Schein shall indemnify and hold CAPD and its Affiliates and their respective employees, directors, officers, servants and agents harmless from and against any and all liabilities, claims, demands, actions, suits, losses, damages, costs and expenses (including reasonable attorney's fees) based upon the death or any actual bodily injury or physical property damage resulting from the packaging, labeling, handling, storage, promotion, marketing, distribution, disposal, use or sale of Drug Substance or Product by Schein, its Affiliates, or any third party claiming an interest in Drug Substance or Product through Schein or its Affiliates (the "Indemnitors") to the extent any of the foregoing results from the Indemnitors' negligence, willful misconduct or material breach of any of their obligations under this Agreement.

9.2 CAPD shall indemnify and hold Schein and its Affiliates and their respective employees, directors, officers, servants and agents harmless from and against any and all liabilities, claims, demands, actions, suits, losses, damages, costs and expenses (including reasonable attorney's fees) based upon the death or any actual bodily injury or physical property damage resulting from CAPD's negligence or willful misconduct in its manufacture or handling of Drug Substance, or its material breach of any of its obligations under this Agreement.

9.3 Each of the parties shall promptly notify the other of any such claim or potential claim covered by any of the above Sections in this Article 9 and shall include sufficient information to enable the other party to assess the facts. Each of the parties shall cooperate fully with the other party in the defense of all such claims. No settlement or compromise shall be binding on a party hereto without its prior written consent.

10. Product Recall

10.1 In the event of a recall ordered by a government agency or a confirmed Product failure ("Recall"), Schein shall be responsible for the coordination of Recall activities.

10.2 Where the Recall is caused by CAPD's negligence or willful misconduct or its material breach of any of its obligations or warranties under this Agreement, CAPD agrees to pay all costs and expenses of any Recall, including costs of retrieving Product already delivered to Schein's customers. CAPD further agrees to reimburse Schein for costs and expenses Schein is required to pay for notification, shipping and handling charges. Prior to any such reimbursement, Schein shall provide CAPD with supporting documentation of all reimbursable costs and expenses. If the Recall is caused by reasons other than CAPD's negligence, willful misconduct or material breach of any of its obligations or warranties hereunder, Schein shall pay all of the costs and expenses described above for such Recall.

11. Patent Indemnification

11.1 CAPD shall indemnify and hold Schein and its Affiliates and their respective employees, directors, officers, servants and agents (the "Indemnitees") harmless from and against any and all liabilities, claims,

demands, judgments, actions, suits, losses, damages, costs and expenses (including reasonable attorney's fees) which Schein may incur, suffer or be required to pay by reason of any patent infringement suit or claim of violation of any proprietary right of any third party brought against any of the Indemnitees because of CAPD's manufacture of Drug Substance or relating to the Drug Substance Technology.

11.2 Schein shall indemnify and hold CAPD and its Affiliates and their respective employees, directors, officers, servants and agents harmless from and against any and all liabilities, claims, demands, judgments, actions, suits, losses, damages, costs and expenses (including reasonable attorney's fees) which CAPD may incur, suffer or be required to pay by reason of any patent infringement suit or claim of violation of any proprietary right of any third party brought against CAPD because of Schein's formulation, testing, use, packaging, labeling, distribution, promotion, marketing, or sale of Drug Substance or Product, except to the extent arising from CAPD's manufacture of Drug Substance or relating to the Drug Substance Technology.

11.3 Each of the parties shall promptly notify the other of receipt of any notice of infringement or violation of any proprietary right and shall permit the other party to defend such actions in such manner as that party, in its sole discretion, shall choose to defend it. Further, each party shall cooperate fully with the other in the defense of any

such suit. No settlement or compromise shall be binding on a party hereto without its prior written consent.

12. Insurance

Schein and CAPD each agree to maintain in force, during the Term and for a period of thirty-six (36) months thereafter, the following product liability insurance coverage, in minimum limits as specified:

Schein	$10 million
CAPD	$10 million

CAPD's and Schein's obligations under this Section may be met by a policy of self-insurance in the amount of Ten Million U.S. Dollars (US $10,000,000). Upon execution of this Agreement, each party shall furnish the other with either a certificate of insurance signed by an authorized representative of such party's insurance underwriter or by a certification of self-insurance signed by an appropriate corporate authority, evidencing the insurance coverage required by this Agreement and providing for at least thirty (30) days prior written notice to the other party of any cancellation, termination or reduction of such insurance coverage.

13. Confidential Information

It is contemplated that in the course of the performance of this Agreement each party may, from time to time, disclose Confidential Information to the other. Each party agrees to take all reasonable steps to prevent disclosure of Confidential Information. No provision of this Agreement shall be construed so as to preclude disclosure of Confidential Information to any governmental agency as may be reasonably necessary

to secure from such governmental agency necessary approvals or licenses or to obtain patents with respect to Drug Substance, Drug Substance Technology or Product; provided such Confidential Information is disclosed solely to enable such party to perform its obligations under this Agreement. Such obligations of the parties relating to Confidential Information shall expire five (5) years after expiration or termination of this Agreement. CAPD agrees that it shall hold in confidence and will not disclose to any third party the pricing information that may be disclosed to it pursuant to Section 3.2. CAPD shall not use any of the pricing information which it is required to hold in confidence except in connection with any adjustment of the Drug Substance price as contemplated by Section 3.2. CAPD further agrees to restrict access to such pricing information to the minimum number of its employees necessary for the purpose of such reevaluation and shall use the same standard of care to preserve and safeguard the confidential pricing information as is used with its own information of a similar kind. CAPD agrees that such confidential pricing information will not be disclosed to any other division, group or affiliated company, including, without limitation, Abbott Laboratories Inc.'s Hospital Products Division.

14. Force Majeure

Any delay in the performance of any of the duties or obligations of either party hereto (except the payment of money) caused by an event outside the affected party's reasonable control shall not be considered a breach of this Agreement, and unless provided to contrary herein, the time required for performance shall be extended for a period equal to the period of such delay. Such events shall include without limitation,

acts of God; acts of the public enemy; insurrections; riots; injunctions; embargoes; labor disputes, including strikes, lockouts, job actions, or boycotts; fires; explosions; floods; shortages of material or energy; delays in the delivery of raw materials; or other unforeseeable causes beyond the reasonable control and without the fault or negligence of the party so affected. The party so affected shall give prompt notice to the other party of such cause, and shall take whatever reasonable steps are appropriate in that party's discretion to relieve the effect of such causes as rapidly as possible. Without limiting the foregoing, if an event of force majeure attributable to CAPD prevents CAPD from fulfilling Schein's purchase orders for Drug Substance for forty-five (45) days or more, Schein may purchase Drug Substance from an alternate source or sources only until the later of (i) such time CAPD is able to cure the event of force majeure so that CAPD is able to fill Schein's purchase orders for Drug Substance, and (ii) such time as Schein is able to extricate itself on a commercially reasonable basis from the purchase obligations it has incurred with the alternate source or sources, in any event not to extend beyond the last day of the first full calendar quarter following the date on which CAPD notifies Schein that the event of force majeure is cured and CAPD is able to fill Schein's purchase orders for Drug Substance. If an event of force majeure attributable to Schein prevents Schein from fulfilling its purchase obligations for Drug Substance for forty-five (45) days or more, CAPD may supply a third party or third parties only until the later of (i) such time Schein is able to cure the event of force majeure so that Schein is able to fulfill its purchase obligations for Drug Substance under this Agreement, and (ii) such time as CAPD is able to extricate itself on a

commercially reasonable basis from the supply obligations it has incurred with the third party or third parties, in any event not to extend beyond the last day of the first full calendar quarter following the date on which Schein notifies CAPD that the event of force majeure is cured and Schein is able to fulfill its purchase obligations for Drug Substance under this Agreement. The Term shall be extended by the same amount of time as elapses during the event of force majeure. Schein and CAPD shall have a period of time equal to the Term extension to meet any obligation that would have arose but for the event of force majeure, including volume commitments. If an event of force majeure exceeds nine (9) months, the party not experiencing the event of force majeure shall be entitled to terminate this Agreement upon written notice to the other party.

15. Technical Exchange

15.1 (a) CAPD hereby grants to Schein a royalty free, worldwide, non-exclusive license to the Drug Substance Technology solely for the limited purposes set forth in Section 2.1, 5.3, and Article 14 of this Agreement.

(b) CAPD hereby grants to Schein a royalty free, worldwide, perpetual, exclusive, except for Abbott Laboratories Inc. and its Affiliates, an irrevocable license for the use and practice of the Drug Substance Technology commencing as follows:

(i) upon expiration of the Term, the aforesaid Drug Substance Technology license shall commence on the Term expiration date; or

(ii) upon the bankruptcy or insolvency of CAPD or a determination of breach by CAPD under ADR or judicial procedures, the aforesaid Drug Substance Technology license shall commence on the 60th day following such event; or

(iii) upon the termination of this Agreement for any

reason, the aforesaid Drug Substance Technology license shall commence on the effective date of the termination.

The license granted in this Section 15.1(b) shall survive termination or expiration of this Agreement.

15.2 The licenses granted in Section 15.1 hereof shall be in consideration of sums and other good and valuable consideration heretofore provided by Schein to CAPD, receipt of which is hereby acknowledged by CAPD, and shall be at no additional expense to Schein. The licenses shall include the right to use all proprietary technical information and know-how reasonably necessary for the practice of the Drug Substance Technology, and shall include the right to grant sublicenses for the limited purpose of meeting Schein's need for Drug Substance to enable Schein, or its designee, to manufacture INFeD(R), and CAPD shall provide the same to Schein on the applicable commencement date of the license. In addition, CAPD shall have the right to grant sublicenses during the Non-Exclusive Term for the purposes of meeting CAPD's contractual obligations to a third party for supply of Drug Substance.

15.3 CAPD hereby grants to Schein the right of first refusal to acquire the rights to technology other than the Drug Substance Technology relating to manufacture of Drug Substance, which CAPD may desire to transfer. A "transfer" for purposes of this Section 15.3 shall mean a transfer from CAPD to an unrelated third party and shall not

include a transfer among or by the business divisions of Abbott Laboratories Inc., and its Affiliates. The provisions of this Section 15.3 shall survive termination, expiration, cancellation or abandonment of this Agreement through any means or for any reason for a period of three (3) years.

15.4 CAPD shall execute and deliver such documents and instruments of conveyance and transfer, and take such other actions and provide such information, as Schein may reasonably request in order to effectuate the licenses contemplated in Section 15.1 hereof.

16. Notices

All notices, reports and other communications required by this Agreement shall be transmitted by overnight courier service or by facsimile transmission to the other party at its address set forth below, or such other address as shall be specified by the parties hereto by written notice given in accordance with this section and shall be effective upon receipt thereof, or five (5) days after dispatch.

If to Schein:
Schein Pharmaceutical, Inc.
100 Campus Drive
Florham Park, NJ 07932
Telecopier No.: (973) 593-5820
Attention: General Counsel

cc: Chief Executive Officer

If to CAPD:
Abbott Laboratories Inc.
100 Abbott Park Road
Abbott Park, IL 60064
Telecopier No.: (847) 938-6277
Attention: General Counsel

cc: President, Chemical and Agricultural Products Division

17. Applicable Law

This Agreement shall be construed, interpreted and governed by the laws of the State of Illinois, except for choice of law rules. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be resolved through ADR procedures.

18. Assignment

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective permitted assigns and successors in

interest; provided, however neither party shall assign this Agreement or any part thereof without the prior written consent of the other party. Notwithstanding the preceding sentence, either party, without such consent, may assign or sell the same in connection with the transfer or sale of substantially its entire business to which this Agreement pertains, in the event of its merger or consolidation with another company or in the event of the transfer or sale to a wholly-owned subsidiary; provided, however, that the assignor shall guarantee the performance of the assignee. Any permitted assignee or transferee shall assume all obligations of its assignor under this Agreement. No assignment shall

relieve any party of responsibility for the performance of any accrued obligation which such party then has hereunder.

19. Entire Agreement

This Agreement, together with the Exhibits and Schedules hereto, contains the entire agreement between the parties hereto and supersedes any agreements between them with respect to the subject matter hereof, other than the Current Supply Agreement and the Confidential Disclosure Agreement dated October 30, 1997 between Abbott Laboratories and Schein, each of which shall remain unmodified by this Agreement.

20. Severability

If any term or provision of this Agreement shall for any reason by held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other term or provision hereof, and this Agreement shall be interpreted and construed as if such term or provision, to the extent the same shall have been held to be invalid, illegal or unenforceable, had never been contained herein.

21. Waiver Modification of Agreement

This Agreement (including the Exhibits and Schedules hereto) may be amended, modified, superseded or canceled, and any other of the terms or conditions hereof may be modified, only by a written instrument executed by both parties hereto or, in the case of a waiver, by the party waiving compliance. Failure of any party at any time or times to require performance of any provision hereof shall in no manner affect

the right of such party at a later time to enforce the same, and no waiver of any nature, whether by conduct or otherwise, in anyone or more instances, shall be deemed to be or considered as a further or continuing waiver of any other provision of this Agreement.

22. Publicity

Except for such disclosure as is deemed necessary, in the reasonable judgment of a party, to comply with applicable laws, no announcement, news release, public statement or publication relating to the existence or terms of this Agreement, the subject matter hereof, or either party's performance hereunder will be made without the other party's prior written approval, which shall not be unreasonably withheld; provided, however, nothing herein shall preclude CAPD from disclosing to its existing third party supplier of bulk iron dextran the existence of this Agreement.

23. Independent Contractor

Schein's and CAPD's relationship under this Agreement shall be that of independent contractors. Nothing in this Agreement shall be deemed or construed by the parties hereto or by any third parties creating the relationship of principal and agent, employer and employee or of partnership or of joint venture between the parties hereto.

24. Counterparts

This Agreement may be executed in any number of separate counterparts, each of which shall be deemed to be an original, but which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their duly authorized representatives as of the later date written below.

ABBOTT LABORATORIES INC.	SCHEIN PHARMACEUTICAL, INC.
By: /s/ Chris M. Kolber	By: /s/ Dariush Ashrafi
Chris M. Kolber	Dariush Ashrafi
Title: Vice-President, Commercial Operations Chemical and Agricultural Products Division	Title: Executive Vice President and Chief Financial Officer
Date: Feb. 25, 1999	Date: Feb. 25, 1999

EXHIBIT A

Drug Substance Specifications

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The Drug Substance delivered hereunder will satisfy conditions for Iron Dextran bulksolution as set forth in: Schein's NDA; the DMF; the United States Pharmacopeia, as in effect at the time Drug Substance is shipped; and such other appropriate necessary specifications related to Drug Substance to enable the finished dosage form to comply with United States Pharmacopeia requirements. If Schein intends to petition U.S.P. for a change in the Specifications, Schein shall first discuss such change with CAPD. CAPD shall not be obligated to make an otherwise appropriate necessary change or changes to its specifications arising from any Schein petition to U.S.P. on less than twelve (12) months' notification to CAPD.

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

EXHIBIT B

IRON DEXTRAN PRICING MODEL

<TABLE>
<CAPTION>

AVERAGE SELLING PRICE (PER VIAL)	2000 DRUG SUBSTANCE 1-X SCALE PRICE * (PER KILO)	2000 DRUG SUBSTANCE 2-X SCALE PRICE * (PER KILO)	NON-EXCLUSIVE DRUG SUBSTANCE 1-X SCALE PRICE * (PER KILO)	NON-EXCLUSIVE DRUG SUBSTANCE 2-X SCALE PRICE * (PER KILO)
<S>	<C>	<C>	<C>	<C>
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*

*	*	*	*	*
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*
*	*	*	*	*

</TABLE>

* Price is subject to annual CPI adjustments [equal to annual increase in the Consumer Price Index - All Urban Consumers - (CPI-U) over the 2000 average CPI-U] beginning in the year 2001. CPI adjustments will be effective each January 1 with thirty days' prior notice.

For purposes of the Exhibit B, "1X" shall mean approximately __*__ of Drug Substance, and "2X" shall mean approximately __*__ of Drug Substance.

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

EXHIBIT C

Shortfall Payment

The Shortfall payment shall be the weighted average bulk price for the given year multiplied first by the amount of such Shortfall in that Level and then multiplied by the applicable Margin Percentage. The applicable Margin Percentage is determined by reference to the chart below. The Shortfall in the applicable year is first applied to Level 1, until the lower range of that Level is reached; then any remaining Shortfall is applied to Level 2, and so on, until the Shortfall is fully accounted for.

<TABLE>
<CAPTION>

	Minimum Bulk Purchase Requirement (in Kilograms)	Margin Percentage
<S>	<C>	<C>
Level 1	*	*
Level 2	*	*
Level 3	*	*
Level 4	*	*
Level 5	*	*
Level 6	*	*

</TABLE>

EXAMPLE: Schein purchases __*__ kg of Drug Substance in the first Contract Year. This amounts to a __*__ kg Shortfall. __*__ kg are in Level 1 (__*__ obligation less __*__ Level 1 minimum), __*__ kg are placed in Level 2, leaving a Shortfall of __*__ to be placed in Level 3. The total of all 3 Levels adds up to the amount of the Shortfall. Each Level amount is then multiplied by the price per kilogram for that Contract Year and then multiplied again by the applicable Margin Percentage for a total payment of $__*__. See chart below:

<TABLE>
<CAPTION>

Year - 2000	Minimum Purchase Obligations	Actual Purchases	Shortfall	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

	*	*	*	*	*	*	*	*	*
Volume (kg)									
	*	*	*	*	*	*	*	*	*
Sales ($,000)									
	*	*	*	*	*	*	*	*	*
Margin Buyout ($,000)									

</TABLE>

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

EXHIBIT C (continued)

In no event shall the applicable Margin Percentage at an applicable Level or Levels exceed CAPD's actual margin for its Drug Substance in that year at such applicable Level or Levels.

EXHIBIT D

I. Documentation

1. Certificate of Manufacturing Conformance and supporting deviation reports if applicable.

2. Interim Certificate of Analysis will be facsimiled prior to shipment.

3. Full Certificate of Analysis in duplicate:

4. CAPD shall advise Schein of any changes to the Drug Master File for the Drug Substance which would require prior approval by the FDA.

II. Procedures

1. Two (2) identification tags will accompany each vessel of Drug Substance. Tags will list name of product, lot number, gross, net and tare weight, CAPD Code and List Numbers, and order number.

2. Each vessel shall be sealed in a tamper-evident manner.

3. Unpreserved bulk needs to be received at Schein within __*___ after the time of final filtration by CAPD.

4. CAPD shall provide an interim Certificate of Analysis with each batch. The Interim Certificate will contain results for __*___ .

5. The final Certificate of Analysis and Certificate of Manufacturing conformance must be received by Schein within __*___ days of final filtration by CAPD.

6. Each vessel shall be a clean depyrogenated vessel. CAPD will not alter the container/closure system without the approval of Schein.

7. The bulk solution shall be kept between __*__ C during storage at CAPD.

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

EXHIBIT E

Alternative Dispute Resolution

The parties recognize that a bona fide dispute as to certain matters may arise from time to time during the term of this Agreement which relates to either party's rights and/or obligations. To have such a dispute resolved by this Alternative Dispute Resolution ("ADR") provision, a party first must send written notice of the dispute to the other party for attempted resolution by good faith negotiations between their respective presidents (or their equivalents) of the affected subsidiaries, divisions, or business units within twenty-eight (28) days after such notice is received (all references to "days" in this ADR provision are to calendar days).

If the matter has not been resolved within twenty-eight (28) days of the notice of dispute, or if the parties fail to meet within such twenty-eight (28) days, either party may initiate an ADR proceeding as provided herein. The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party of the issues to be resolved by ADR. Within fourteen (14) days after its receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following receipt of the original ADR notice, the parties shall select a mutually acceptable neutral to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, either party may request the President of the CPR Institute for Dispute Resolution ("CPR"), 366 Madison Avenue, 14th Floor, New York, New York 10017, to select a neutral pursuant to the following procedures:

   (a) The CPR shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request, along with a Curriculum Vitae for each candidate. No candidate shall be an employee, director, or shareholder of either party or any of their subsidiaries or affiliates.

   (b) Such list shall include a statement of disclosure by each candidate of any circumstances likely to affect his or her impartiality.

   (c) Each party shall number the candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the CPR within seven (7) days following receipt of the list of candidates. If a

party believes a conflict of interest exists regarding any of the candidates, that party shall provide a written explanation of the conflict to the CPR along with its list showing its order of preference for the candidates. Any party failing to return a list of preferences on time shall be deemed to have no order of preference.

(d) If the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the CPR immediately shall designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie should result between two candidates, the CPR may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the CPR shall review the explanations regarding conflicts and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set forth in Sections 2(a) - 2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-six (56) days after selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location other than the principal place of business of either party or any of their subsidiaries or affiliates.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue.

(d) a brief in support of such party's proposed rulings and remedies, provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in Sections 4(a) - 4(d), no discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular and rebuttal testimony, documents or other evidence, to cross-examine witnesses, and to make a closing argument. Cross-examination of witnesses shall occur immediately after their direct testimony, and cross-examination time shall be charged against the party conducting the cross-examination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence, and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations, including any statements made therein, shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post-hearing brief in support of its proposed rulings and remedies, provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy of one of the parties on each disputed issue but may adopt one

party's proposed rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall not issue any written opinion or otherwise explain the basis of the ruling.

8. The neutral shall be paid a reasonable fee plus expenses. These fees and expenses, along with the reasonable legal fees and expenses of the prevailing party (including all expert witness fees and expenses), the fees and expenses of a court reporter, and any expenses for a hearing room, shall be paid as follows:

(a) If the neutral rules in favor of one party on all disputed issues in the ADR, the losing party shall pay 100% of such fees and expenses.

(b) If the neutral rules in favor of one party on some issues and the other party on other issues, the neutral shall issue with the rulings a written determination as to how such fees and expenses shall be allocated between the parties. The neutral shall allocate fees and expenses in a way that bears a reasonable relationship to the outcome of the ADR, with the party prevailing on more issues, or on issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in Section 9 or as required by law, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.

AMENDMENT NUMBER 1 TO DEVELOPMENT, LICENSE AND SUPPLY AGREEMENT

This Amendment to Development, License, Supply Agreement (the "Amendment") is entered into as of the 4th day of September 1998 between Elan Corporation plc, a corporation organized under the laws of Ireland ("Elan") and Schein Pharmaceutical, Inc., a Delaware corporation ("Schein").

Introduction

A. Elan and Schein entered into a Development, License and Supply Agreement, dated March 31, 1998 (the "Agreement").

B. The parties wish to amend the Agreement in accordance with the terms of this Amendment.

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

1. Definitions and Incorporation. Unless otherwise defined, all terms used herein shall have the meaning ascribed to them in the Agreement, and the terms and provisions of the Agreement are incorporated herein by reference as though set forth in full.

2. Patent Strategy/Patent Determination.

(a) Section 3.2.2 of the Agreement is hereby deleted in its entirety and replaced by the following:

> "Schein shall report to Elan Schein's decision that Schein believes the Product(s) are non-infringing within a period of not more than 180 days from the Effective Date; provided, however, that on a Product by Product basis, Elan shall not unreasonably withhold its consent to a request by Schein to extend the period in which Schein is required to report such decision by an additional 30 days (thereby requiring Schein to report to Elan Schein's decision that Schein believes the Product(s) are non-infringing within a period of 210 days from the Effective Date). Elan and Schein shall prioritize the order in which the Products are to be reviewed;"

(b) The second sentence of Section 3.2.4 of the Agreement is hereby deleted in its entirety and replaced by the following:

> "All such decisions will be finalized no later than

180 days from the Effective Date; provided, however, that on a Product by Product basis, Elan shall not unreasonably withhold its consent to a request by Schein to extend the period in which all such decisions will be finalized by an additional 30 days (thereby requiring all such decisions to be finalized no later than 210 days from the Effective Date)."

3. Reaffirmation of the Agreement and Other Documents. Except as modified herein, all of the covenants, terms and conditions of the Agreement, and all documents, instruments and agreements executed in conjunction therewith remain in full force and effect and are hereby ratified and reaffirmed in all respects. In the event of any conflict, inconsistency or incongruity between the terms and conditions of this Amendment and the covenants, terms and conditions of the Agreement or any documents, instruments or agreements executed in conjunction therewith, the terms and conditions of this Amendment shall govern and control.

4. Counterparts. This Amendment may be executed in two or more counterparts, each of which together shall constitute an original but which, when taken together, shall constitute but one instrument.

IN WITNESS WHEREOF, this Amendment is executed as of the day and year first above written.

ELAN CORPORATION, PLC

By: /s/ Donal J. Geaney

Name: Donal J. Geaney

Title: Chief Executive Officer

SCHEIN PHARMACEUTICAL, INC.

By: /s/ Paul Kleutghen

Name: Paul Kleutghen

Title: SVP, Strategic Development

CONFIDENTIAL TREATMENT REQUESTED

AMENDMENT NUMBER 2 TO DEVELOPMENT, LICENSE AND SUPPLY AGREEMENT

This Amendment to Development, License, Supply Agreement (the "Amendment") is effective as of the 1st day of December 1998 between Elan Corporation plc, a corporation organized under the laws of Ireland ("Elan") and Schein Pharmaceutical, Inc., a Delaware corporation ("Schein").

Introduction

A. Elan and Schein entered into a Development, License and Supply Agreement, dated March 31, 1998, as amended by Amendment Number 1 to the Development, License and Supply Agreement (the "Agreement").

B. The parties wish to amend the Agreement in accordance with the \ terms of this Amendment.

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

1. Definitions and Incorporation. Unless otherwise defined, all terms used herein shall have the meaning ascribed to them in the Agreement, and the terms and provisions of the Agreement are incorporated herein by reference as though set forth in full.

2. Amendments. The parties agree as follows with respect to the pharmaceutical product __*__, each with an A Rated equivalence rating to __*___:

2.1. __*__ shall be included in the definition of "DSDF" (and thereby also included in the definition of "Product") under the terms and conditions of the Agreement provided however, that the exclusive license granted to Schein for __*__ pursuant to Clause 2.1 of the Agreement shall be limited to prescription use in the Territory. For the avoidance of doubt, Schein shall have no rights to __*__ for over the counter non-prescription use in the Territory.

2.2. Schein shall pay to Elan a license fee with respect to __*__ in the aggregate amount of $1,000,000, which shall be due upon the execution of this Amendment by both parties but payable on 31st March 1999.

2.3. No development fees shall be payable to Elan for __*__ under the Agreement, including, without limitation, the cost for Pivotal Bio PK Study, pharmacokinetic studies and related assays, stability data generation, clinical studies and compilation and submission of dossiers required for registration, and market pack stability studies. Furthermore,

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

in no event, shall Elan shall be obliged to incur any such development fees or perform any development work on __*__.

2.4. With respect to the __*__, the Parties hereby expressly agree that (i) Clauses 3.2 and 10.3 of the Agreement shall not apply and have no force or effect, and (ii) the application of Clause 13.1.1 of the Agreement shall be subject to Clause 2.6 of this Addendum. Schein also acknowledges that Clause 4.3 of the Agreement does not in any way restrict Elan's freedom to license third parties or itself to market any __*__ product which is A Rated to __*__ for over the counter non-prescription use in the Territory.

2.5. At a date to be agreed in good faith between the Parties but in no event before July 1, 1999 (the "Supply Date"), Elan shall supply __*__ exclusively to Schein for prescription use under the terms of the Agreement. Elan shall use its commercially reasonable efforts to expeditiously supply __*__ to Schein prior to July 1, 1999. From and after said Supply Date, Elan shall be entitled to receive 45% of the Profit of __*__ in accordance with Clause 10.5 of the Agreement. For avoidance of doubt, the Parties hereby expressly agree that Elan's obligation to supply __*__ to Schein under the Agreement shall have no force or effect prior to the Supply Date and in particular, the provisions of Clauses 9.15 and 12.5.3 shall have no effect prior to such Supply Date.

2.6. As of the date hereof, Elan is required to supply __*__ to __*__ ("__*__") pursuant to an agreement, dated __*__, as amended (the "__*__ Agreement"). Elan hereby undertakes to terminate in full the __*__ Agreement and __*__'s right to sell __*__ for prescription use in the Territory effective __*__. Elan shall pay to Schein __*__ generated by __*__ and Elan under the terms of the __*__ Agreement with respect to the sale of __*__ during the period commencing __*__ and ending __*__. Such __*__ shall be due and payable by Elan to Schein promptly after receipt thereof by Elan.

3. Reaffirmation of the Agreement and Other Documents. Except as modified herein, all of the covenants, terms and conditions of the Agreement, and all documents, instruments and agreements executed in conjunction therewith remain in full force and effect and are hereby ratified and reaffirmed in all respects. In the event of any conflict, inconsistency or incongruity between the terms and conditions of this Amendment and the covenants, terms and conditions of the Agreement or any documents, instruments or agreements executed in conjunction therewith, the terms and conditions of this Amendment shall govern and control.

4. Counterparts. This Amendment may be executed in two or more counterparts, each of which together shall constitute an original but which, when taken together, shall constitute but one instrument.

IN WITNESS WHEREOF, this Amendment is executed as of the day and year

first above written.

ELAN CORPORATION, PLC

By: /s/ Donal J. Geaney

Name:

Title:

SCHEIN PHARMACEUTICAL, INC.

By: /s/ Paul Kleutghen

Name: Paul Kleutghen
Title: Sr VP, Strategic Development

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* Material omitted pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

AMENDMENT NO. 2 TO
THE RETIREMENT PLAN OF
SCHEIN PHARMACEUTICAL, INC. & AFFILIATES
(Amended and Restated as of January 1, 1998)

Effective as of the dates set forth herein, the Retirement Plan of Schein Pharmaceutical, Inc. & Affiliates (Amended and Restated as of January 1, 1998) (the "Plan"), is amended as follows:

Effective as of September 1, 1998, Section 6.04 of the Plan is amended by deleting the word "or" from subsection (b), deleting the period at the end of subsection (c) and adding ", or" to the end of such subsection (c), and adding the following new subsection (d):

"(d) termination of employment with the Employer pursuant to an employment reduction plan during the period September 1, 1998 through and including August 3l, 1999."

Schein Pharmaceutical, Inc.

1995 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

(Amended and Restated as of August 24, 1998)

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Schein Pharmaceutical, Inc.

1995 Non-Employee Director Stock Option Plan

(Amended and Restated as of August 24, 1998)

I. Purposes

The purposes of this 1995 Non-Employee Director Stock Option Plan (this "Plan"), as amended and restated effective as of August 24, 1998, are to enable Schein Pharmaceutical, Inc. (the "Company") to attract, retain and motivate directors who will be important to the success of the Company, and to increase the identity of interest between directors and stockholders of the Company by granting certain directors options to purchase common stock of the Company.

II. Definitions

For purposes of this Plan, the following terms have the following

meanings:

A. "Act" means the Securities Exchange Act of 1934 and the rules and regulations under the Securities Exchange Act of 1934.

B. "Board" means the board of directors of the Company.

C. "Committee" means the Board or a duly appointed committee of the Board to which the Board has delegated its power and functions under this Plan.

D. "Common Stock" means the common stock of the Company, par value $0.01 per share, any common stock into which such common stock of the Company may be converted and any common stock resulting from any reclassification of such common stock.

E. "Eligible Director" means an Eligible Director -- Class 1 or an Eligible Director -- Class 2.

F. "Eligible Director -- Class 1" means a director of the Company who is not an Eligible Director -- Class 2 and who is not an active employee of the Company or any subsidiary of the Company.

G. "Eligible Director -- Class 2" means a director of the Company designated by the Board as such at the time the director is first elected to serve on the Board or, in the case of members of the Board at the time this Plan is adopted, a director of the Company designated by the Board as such at that time, and, in each case, who is not an active employee of the Company or any subsidiary of the Company (it being understood that the Board shall have the right, but shall not be required, to designate a director as an Eligible Director -- Class 2, and that the Board shall designate a director as an Eligible Director -- Class 2 only if, at the time of the designation, the director shall have waived all future annual fees for serving as a director of the Company but not fees for attending Board meetings or committee meetings or reimbursement of out-of-pocket expenses for traveling to and from and attending such meetings).

H. "Fair Market Value" means the value of a Share as of a particular date determined as follows:

1. If the Common Stock is listed or admitted to trading on that date on a national securities exchange or is quoted on the Nasdaq National Market, the closing sale price of a Share as reported on the relevant composite transaction tape, if applicable, or on the principal national securities exchange or through the Nasdaq National Market, as the case may be, on that date, or, in the absence of reported sales on that date, the mean between the highest reported bid and lowest reported asked prices reported on the relevant composite transaction tape or national securities exchange or through the Nasdaq National Market, as the case may be, on that date.

2. If the Common Stock is not listed or quoted as described in clause 1, but bid and asked prices are quoted through Nasdaq, the mean between the highest reported bid and the lowest reported asked prices as quoted through Nasdaq on that date.

3. If the Fair Market Value would otherwise be determined in accordance with clause 2 but the Committee determines that that would not properly reflect the Fair Market Value, by any other method the Committee determines to be reasonable.

4. If the Common Stock is not publicly traded, an amount determined by the Committee in good faith.

I. "Option" means the right to purchase one Share at a prescribed purchase price on the terms specified in this Plan.

J. "Share" means a share of Common Stock.

K. "Termination of Directorship" with respect to an individual means

that individual is no longer a director of the Company.

III. Effective Date

This Plan became effective January 1, 1995 (the "Effective Date"), and was approved on September 30, 1995 by holders of a majority of the outstanding Shares at the time of approval. This Plan was amended and restated as of August 8, 1996, and further amended and restated as of August 24, 1998.

IV. Administration

A. Duties of the Committee. This Plan shall be administered by the Committee. The Committee shall have full authority to interpret this Plan and to decide any questions and settle any controversies or disputes that may arise in connection with this Plan; to establish, amend and rescind rules for carrying out this Plan; to administer this Plan; to prescribe the forms of instruments evidencing Options and any other instruments required under this Plan, and to change such forms from time to time; and to make all other determinations and to take all actions in connection with this Plan and the Options as the Committee, in its sole discretion, deems necessary or desirable. The Committee shall not be bound to any standards of uniformity or similarity of action, interpretation or conduct in the discharge of its duties under this Plan. Any determination, action or conclusion of the Committee shall be final, conclusive and binding on all parties.

B. Advisors. The Committee may employ such legal counsel, consultants and agents as it deems desirable for the administration of this

Plan, and may rely upon any advice or opinion received from any such counsel or consultant and any computation received from any such consultant or agent. The Company shall pay all the expenses of any such counsel, consultant or agent.

C. Indemnification. To the maximum extent permitted by applicable law, no officer of the Company or member or former member of the Committee or of the Board shall be liable for any action or determination made in good faith with respect to this Plan or any Option granted under it. To the maximum extent permitted by applicable law and the certificate of incorporation and by-laws of the Company, the Company shall indemnify and hold harmless each officer and member or former member of the Committee and the Board against any cost or expense (including reasonable fees of counsel reasonably acceptable to the Company) or liability (including any sum paid in settlement of a claim with the approval of the Company), and advanced amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted, arising out of any act or omission to act in connection with this Plan. Such indemnification shall be in addition to any rights of an indemnitee under applicable law or the certificate of incorporation or by-laws of the Company.

Notwithstanding anything to the contrary in this paragraph, however, the rights under this paragraph shall not apply to actions or determinations by an individual with regard to Options granted to that individual under this Plan.

D. Meetings of the Committee. The Committee shall adopt such rules and regulations as it deems appropriate concerning its meetings and the transaction of its business. All determinations by the Committee shall be made by the affirmative vote of a majority of its members. Any such determination may be made at a meeting duly called and held at which a majority of the members of the Committee are in attendance in person or through telephonic communication. Any written determination signed by all the members of the Committee shall be as effective as if made by a majority vote of the members at a meeting duly called and held.

V. Adjustments

A. Shares to be Delivered; Fractional Shares. Shares to be issued under this Plan shall be made available, at the sole discretion of the Board, either from authorized but unissued Shares or from issued Shares reacquired by the Company and held in treasury. No fractional Shares shall be issued or transferred upon the exercise of any Option, nor shall any compensation be paid with regard to fractional shares.

B. Number of Shares. Subject to adjustment as provided in this Article V, the maximum aggregate number of Shares that may be issued under this Plan shall be 105,000 (after giving effect to a 105-for-one stock split on April 3, 1998). Where Options are for any reason canceled, or expire or terminate unexercised, the Shares covered by those Options shall again be available for the grant of Options, subject to the preceding sentence.

C. Adjustments. The existence of this Plan and the Options granted under this Plan shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issuance of securities, whether or not senior to the Common Stock, the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, but this Article V(C) shall govern outstanding Options in each such case.

1. If the Company effects a subdivision, recapitalization or consolidation of Shares or effects a stock dividend on Shares without receipt of consideration, the aggregate number and kind of shares of capital stock issuable under this Plan shall be proportionately adjusted, and each holder of a then outstanding Option shall have the right to purchase under that Option, in lieu of the number of Shares as to which the Option was then exercisable but on the

same terms and conditions of exercise set forth in that Option, the number and kind of shares of capital stock the holder would have owned after the subdivision, recapitalization, consolidation or dividend, if, immediately prior to the subdivision, recapitalization, consolidation or dividend, the holder had been the holder of record of the number of Shares as to which that Option was then exercisable.

2. If the Company merges or consolidates with one or more corporations and the Company is the surviving corporation, thereafter, upon exercise of an Option theretofore granted, the holder shall be entitled to purchase under that Option, in lieu of the number of Shares as to which the Option was then exercisable, but on the same terms and conditions of exercise set forth in that Option, the number and kind of shares of capital stock or other property to which the holder would have been entitled pursuant to the agreement of merger or consolidation, if, immediately prior to the merger or consolidation, the holder had been the holder of record of the number of Shares as to which that Option was then exercisable.

3. If the Company is not the surviving corporation in any merger or consolidation, or if the Company is to be dissolved or liquidated, then, unless the surviving corporation assumes the Options or substitutes new options that are determined by the Board in its sole discretion to be substantially similar in nature and equivalent in terms and value to Options then outstanding, upon the effective date of the merger, consolidation, liquidation or dissolution, any unexercised Options shall expire without additional compensation to the holders; provided that the Committee shall give notice to each holder at least 20 days prior to the merger, consolidation, dissolution or liquidation that the Options, if unexercised, will expire upon the merger, consolidation, dissolution or

liquidation, and each holder has the right to exercise in full, effective as of the consummation of the merger, consolidation, dissolution or liquidation, all the holder's then outstanding Options (without regard to limitations on exercise otherwise contained in the Options, other than pursuant to Article III) contingent on the occurrence of the merger, consolidation, dissolution or liquidation, and provided that, if the contemplated transaction does not take place within 90 days after that notice, the notice, accelerated vesting and exercise shall be null and void. Notwithstanding the foregoing, the Options held by persons subject to section 16(b) of the Act that would not have vested under this Plan except pursuant to Article VI(E) prior to the effective date of the merger, consolidation, liquidation or dissolution shall not expire upon the consummation of the merger, consummation of the merger, consolidation, liquidation or dissolution, but shall expire 30 days after they would have otherwise vested under this Plan and shall, after the merger, consolidation, liquidation or dissolution, represent the right to receive the number and kind of shares of capital stock or other property to which the holder would have been entitled, if, immediately prior to the merger, consolidation, liquidation or dissolution, the holder had been the holder of record

of the number of Shares as to which that Option was then exercisable.

4. If, as a result of any adjustment pursuant to the preceding paragraphs of this Article V(C), any holder becomes entitled upon exercise of an Option to receive any shares of capital stock other than Common Stock, then the number and kind of shares of capital stock so receivable shall be subject to adjustment from time to time pursuant to this Article V(C), mutatis mutandis.

5. Except as provided above, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property or services, upon direct sale, upon exercise of rights or warrants or upon conversion of shares or other securities, whether or not for fair value, shall not affect, and no adjustment by reason of the issuance shall be made with respect to, the number of Shares subject to Options granted or the purchase price per Share.

VI. Awards and Terms of Options

A. Grant. Without further action by the Board or the stockholders of the Company, each Eligible Director on each Annual Date of Grant (as defined below) shall be automatically granted Options to purchase a number of Shares determined by dividing $50,000 by the Fair Market Value on the Annual Date of Grant, in the case of each Eligible Director -- Class 1, and a number of Shares determined by dividing $100,000 by the Fair Market Value on the Annual Date of Grant, in the case of each Eligible Director -- Class 2; provided that no such

Option shall be granted, if, on the date of grant, the Company shall have liquidated, dissolved or merged or consolidated with another entity and is not the surviving entity (unless this Plan shall have been assumed by the surviving entity with regard to future grants). If an Eligible Director shall first become a member of the Board on a date other than an Annual Date of Grant, such Eligible Director on the date he first becomes a member of the Board shall be automatically granted Options to purchase a number of Shares equal to the number set forth above (i) multiplied by a fraction, the numerator of which shall be the number of days from the date of grant until the next following Annual Date of Grant, and the denominator of which shall be 365 and (ii) divided by the Fair Market Value on the date of grant. In addition, on August 24, 1998, each then Eligible Director -- Class 1 shall be automatically granted Options to purchase a number of Shares determined by dividing $18,223 by the Fair Market Value on August 24, 1998, and each then Eligible Director -- Class 2 shall be automatically granted Options to purchase a number of Shares determined by dividing $11,554 by the Fair Market Value on August 24, 1998.

B. Date of Grant. Grants shall be made on the Effective Date, annually on each anniversary of the Effective Date (the "Annual Date of Grant") and at such other times as provided in Article VI(A); provided that, if the Common Stock is

then publicly traded and that date in any year is a date on which the national securities exchange or automated quotation system on which the Common Stock is primarily traded or through which it is primarily quoted is not open for trading or quotation, the grant shall be made on the first day thereafter on which the relevant exchange or quotation system is open for trading or quotation.

C. Option Terms

1. The purchase price per Share ("Purchase Price") deliverable upon the exercise of an Option shall be 100% of the Fair Market Value at the time of the grant of the Option, or the par value of a Share, whichever is greater.

2. Except as otherwise provided in this Plan, each Option (a) granted prior to August 8, 1996 shall be exercisable with respect to 20% of the Shares subject to the Option on or after the first anniversary of the date of grant and with respect to an additional 20% of the Shares subject to the Option on or after each of the next four anniversaries of the date of grant, and (b) granted on or after August 8, 1996 shall be exercisable with respect to one-third of the Shares subject to the Option on or after the first anniversary of the date of grant and with respect to an additional one-third of the Shares subject to the Option on or after each of the next two anniversaries of the date of grant.

3. An Option holder electing to exercise one or more Options shall give written notice to the secretary of the Company of the election

and the number of Options the holder elects to exercise. Shares so purchased shall be paid for at the time of exercise in cash or by delivery of unencumbered Shares (valued, for these purposes, at 100% of the Fair Market Value at the time) owned by the holder for at least six months (or such longer period as required by applicable accounting standards to avoid a charge to earnings) or a combination of cash and such Shares.

D. Expiration. Except as otherwise provided in this Plan, if not previously exercised, each Option shall expire upon the tenth anniversary of the date of grant.

E. Acceleration of Exercisability. All Options granted and not previously exercisable shall become fully exercisable immediately upon a Change of Control (as defined below). A "Change of Control" shall be deemed to have occurred upon:

1. any individual, entity or group (within the meaning of section 13d-3 or 14d-1 of the Act) (a "Person") directly or indirectly being a beneficial owner (within the meaning of Rule 13d-3 under the Act, except that a Person shall not be deemed a beneficial owner of securities solely by virtue of that

Person's rights under any voting trust or shareholders agreement in effect on the Effective Date) of more than 50% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); excluding, however, the following: (x) the Company, (y) any employee benefit plan (or related trust) sponsored or maintained by the Company or (z) any corporation that becomes a beneficial owner pursuant to a reorganization, merger, consolidation or similar corporate transaction (in each case, a "Corporate Transaction"), if, pursuant to the Corporate Transaction, the conditions described in clauses (a), (b) and (c) of paragraph 3 below are satisfied; or

2. a change in the composition of the Board, such that the individuals who, as of the Effective Date, constitute the Board (the Board as of the Effective Date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that, for purposes of this clause, any individual who becomes a member of the Board subsequent to the Effective Date and whose election, or nomination for election by the Company's stockholders, was approved by the members of the Board who also are members of the Incumbent Board (or so deemed to be pursuant to this proviso) shall be deemed a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A under the Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so deemed a

member of the Incumbent Board; or

3. the approval by the stockholders of the Company of a Corporate Transaction, or, if consummation of the Corporate Transaction is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the obtaining of the consent (either explicitly or implicitly by consummation); excluding, however, such a Corporate Transaction pursuant to which (a) the beneficial owners (or beneficiaries of the beneficial owners) of the outstanding Shares and Outstanding Voting Securities immediately prior to the Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock of the corporation resulting from the Corporate Transaction and the combined voting power of the outstanding voting securities of that corporation entitled to vote generally in the election of directors, in substantially the same proportions as their ownership, immediately prior to the Corporate Transaction, of the outstanding Shares and Outstanding Voting Securities, as the case may be, (b) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or the corporation resulting from the Corporate Transaction and any Person beneficially owning, immediately prior to the Corporate Transaction, directly or indirectly, 20% or more of the outstanding Shares or Outstanding Voting Securities, as the case may be) will beneficially

own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from the Corporate Transaction or the combined voting power of the then outstanding securities of that corporation entitled to vote generally in the election of directors and (c) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from the Corporate Transaction; or

4. the approval of the stockholders of the Company of (a) a complete liquidation or dissolution of the Company or (b) the sale or other disposition of all or substantially all the assets of the Company; excluding, however, such a sale or other disposition to a corporation with respect to which, following the sale or other disposition, (i) more than 60% of the then outstanding shares of common stock of that corporation and the combined voting power of the then outstanding voting securities of that corporation entitled to vote generally in the election of directors will be then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners (or beneficiaries of the beneficial owners), respectively, of the outstanding Shares and Outstanding Voting Securities immediately prior to the sale or other disposition in substantially the same proportion as their ownership, immediately prior to the sale or other disposition, of the outstanding Shares and Outstanding Voting Securities, as the case may be, (ii) no

Person (other than the Company and any employee benefit plan (or related trust) of the Company or that corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the outstanding Shares or Outstanding Voting Securities, as the case may be) will beneficially own, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of that corporation and the combined voting power of the then outstanding voting securities of that corporation entitled to vote generally in the election of directors and (iii) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of that corporation.

VII. Effect of Termination of Directorship

Upon Termination of Directorship for any reason other than cause, all outstanding Options shall continue to vest, and remain exercisable until the expiration of the Option, in accordance with this Plan. Upon Termination of Directorship for cause, all outstanding Options shall terminate and become null and void.

VIII. Nontransferability of Options

No Option shall be transferable by the holder otherwise than by will or under applicable laws of descent and distribution, and, during the lifetime of the holder, may be exercised only by the holder or the holder's guardian or legal representative. In addition, except as provided above, no Option shall be assigned, negotiated, pledged or hypothecated (whether by operation of law or otherwise), and no Option shall be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, negotiate, pledge or hypothecate any Option, or in the event of any levy upon any Option by reason of any execution, attachment or similar process contrary to the provisions of this paragraph, the Option shall immediately terminate and become null and void.

IX. Rights as a Stockholder

A holder of an Option (or a permitted transferee of an Option) shall have no rights as a stockholder with respect to any Shares covered by the holder's Options, until the holder (or permitted transferee) shall have become the holder of record of the Shares, and no adjustments shall be made for dividends in cash or other property or distributions or other rights in respect of any Shares, except as otherwise specifically provided in this Plan.

X. Termination, Amendment and Modification

This Plan shall terminate at the close of business on the tenth

anniversary of the Effective Date (the "Termination Date"), unless terminated sooner as provided in this Plan, and no Option shall be granted under this Plan on or after that date. The termination of this Plan shall not terminate any outstanding Options that by their terms continue beyond the Termination Date. The Committee at any time or from time to time may amend this Plan to effect (A) amendments necessary or desirable in order that this Plan and the Options shall conform to all applicable laws and regulations, and (B) any other amendments deemed appropriate. Notwithstanding the foregoing, the Committee may not effect any amendment that would require the approval of the stockholders of the Company unless the approval is obtained.

This Plan may be amended or terminated at any time by the stockholders of the Company.

Except as otherwise required by law, no termination, amendment or modification of this Plan may, without the consent of the holder of an Option or the permitted transferee of the holder's Option, alter or impair the rights and obligations under any then outstanding Option.

XI. Issuance of Stock Certificates; Legends; Payment of Expenses

A. Stock Certificates. Upon any exercise of an Option and payment of the exercise price as provided in the Option, a certificate or certificates for the Shares as to which the Option has been exercised shall be issued by the Company in the name of the person or persons exercising the Option and shall be delivered to or upon the order of that person or those persons, subject, however, in the case of Options exercised pursuant to clause 3 of Article V(C), to the merger, consolidation, dissolution or liquidation triggering the rights under that section.

B. Legends. Certificates for Shares issued upon exercise of an Option shall bear such legends as the Committee, in its sole discretion, determines to be necessary or appropriate to prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act of 1933 or to implement the provisions of any agreements between the Company and the holder of the Option with respect to the Shares.

C. Payment of Expenses. The Company shall pay all issue or transfer taxes with respect to the issuance or transfer of Shares, as well as all fees and expenses incurred by the Company in connection with the issuance or transfer and with the administration of this Plan.

XII. Listing of Shares and Related Matters

If at any time the Board or the Committee determines in its sole discretion that the listing, registration or qualification of the Shares covered

by this Plan upon any national securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the grant of Options or the award or sale of Shares under this Plan, no Option grant shall be effective and no Shares shall be delivered, as the case may be, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained, or otherwise provided for, free of any conditions not acceptable to the Board.

XIII. Withholding Taxes

The Company shall have the right to require, prior to the issuance or delivery of any Shares, payment by the holder of an Option of any federal, state or local taxes required by law to be withheld.

XIV. General

A. Right to Terminate Directorship. This Plan shall not impose any

obligation on the Company to retain any Eligible Director as a director, nor shall it impose any obligation on the part of any Eligible Director to remain as a director.

B. No Trust. Nothing in this Plan and no action taken pursuant to this Plan (including, without limitation, the grant of any Option) shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and any Option holder or the executor, administrator or other personal representative or designated beneficiary of a holder or any other person.

C. Notices. Any notice or other communication to the Company under this Plan shall be addressed to the Company at its principal executive offices from time to time. Each Eligible Director shall be responsible for furnishing the Committee with the Eligible Director's current address for the mailing to that Eligible Director of notices and other communications. Any notice or other communication to the Eligible Director shall, if the Company has received notice that the Eligible Director is then deceased, be given to the Eligible Director's personal representative, if that representative has previously informed the Company of his or her status and address (and has provided such reasonable substantiating information as the Company may request) by written notice under this section. Any notice under this Plan shall be deemed to have been given when delivered in person or when dispatched by telegram or one business day after having been dispatched by a nationally recognized overnight courier service or three business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid.

D. Severability. If any provision of this Plan is held invalid or

unenforceable, the invalidity or unenforceability shall not affect any other provision of this Plan, and this Plan shall be construed and enforced as if that provision had not been included.

E. Costs. The Company shall bear all expenses included in administering this Plan, including expenses of issuing Common Stock pursuant to any Options.

F. Controlling Law. This Plan shall be construed and enforced according to the laws of the state of incorporation of the Company.

G. Section 16(b). All elections and transactions under this Plan by persons subject to section 16 of the Act involving shares of Common Stock are intended to comply with all exemptive conditions under Rule 16b-3. To the extent any provision of this Plan or action by the Committee fails so to comply, it shall be deemed null and void. The Committee may establish and adopt written administrative guidelines, designed to facilitate compliance with section 16(b) of the Act, as it may deem necessary or proper for the administration and operation of this Plan and the transaction of business under this Plan.

SCHEIN PHARMACEUTICAL, INC.

1999 STOCK OPTION PLAN

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SCHEIN PHARMACEUTICAL, INC.

1999 STOCK OPTION PLAN

1. Purposes of the Plan.

The purposes of this Schein Pharmaceutical, Inc. 1999 Stock Option Plan (the "Plan") are to enable Schein Pharmaceutical, Inc. ("SPINC") and its Affiliates (as defined herein) to attract, retain and motivate the employees who are important to the success and growth of the business of SPINC and to create a long-term mutuality of interest between those employees and the stockholders of SPINC by granting those employees options (which may be either Incentive Stock Options (as defined herein) or Non-Qualified Stock Options (as defined herein)) to purchase the Common Stock (as defined herein) of SPINC.

2. Definitions.

(a) "Act" means the Securities Exchange Act of 1934, as amended. Any reference to any section of the Act shall also be a reference to any successor provision.

(b) "Affiliate" means each of the following: (i) any Subsidiary; (ii) any Parent; (iii) any corporation, trade or business (including, without limitation, a partnership or limited liability company) which is directly or indirectly controlled 50% or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) by SPINC or one of its Affiliates; (iv) any corporation, trade or business (including, without limitation, a partnership or limited liability company) which directly or indirectly controls 50% or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) of SPINC or one of its Affiliates; and (v) any other entity in which SPINC or any of its Affiliates has

a material equity interest and which is designated as an "Affiliate" by resolution of the Committee.

(c) "Board" means the Board of Directors of SPINC.

(d) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to any section of the Code shall also be a reference to any successor provision.

(e) "Committee" means such committee, if any, appointed by the Board to administer the Plan, consisting of two (2) or more non-employee directors, each of whom is intended to be a "non-employee director" as defined in Rule 16b-3 and an "outside director" as defined under Section 162(m) of the Code. If the Board does not appoint a committee for this purpose, "Committee" means the Board. If for any reason the appointed Committee does not meet the requirements of Rule 16b-3 or Section 162(m) of the Code, such noncompliance with

the requirements of Rule 16b-3 and Section 162(m) of the Code shall not affect the validity of Option grants, interpretations or other actions of the Committee.

(f) "Common Stock" means the common stock of SPINC, par value $.01 per share, any Common Stock into which the Common Stock may be converted and any Common Stock resulting from any reclassification of the Common Stock.

(g) "Disability" means a permanent and total disability, as determined by the Committee in its sole discretion. A Disability shall be deemed to occur at the time of the determination by the Committee of the Disability.

(h) "Fair Market Value" means, for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations thereunder, the value of a Share (as defined herein) on a particular date, determined as follows:

(i) If the Common Stock is listed or admitted to trading on such date on a national securities exchange or quoted through the Nasdaq Stock Market, Inc. ("NASDAQ"), the closing sale price of a Share as reported on the relevant composite transaction tape, if applicable, or on the principal such exchange (determined by trading value in the Common Stock) or, if not traded on any such national securities exchange or the NASDAQ, as quoted on an automated quotation system sponsored by the National Association of Securities Dealers, Inc., on such date, or in the absence of reported sales on such date, the last reported sales price prior to such date; or

(ii) If the Common Stock is not listed or quoted as described in the preceding clause, but bid and asked prices are quoted through

NASDAQ, the mean between the highest reported bid and lowest reported asked prices as quoted through NASDAQ on such date; or

(iii) If the Common Stock is not listed or quoted on a national securities exchange or through NASDAQ or, if pursuant to (i) and (ii) above the Fair Market Value is to be determined based upon the mean of the highest reported bid and lowest reported asked prices and the Committee determines that such mean does not properly reflect the Fair Market Value, by such other method as the Committee determines to be reasonable and consistent with applicable law; or

(iv) If the Common Stock is not publicly traded, such amount as is set by the Committee in good faith.

(i) "Incentive Stock Option" means any Option which is intended to qualify as an "incentive stock option," as defined in Section 422 of the Code.

(j) "Non-Qualified Stock Option" means any option awarded under this Plan that is not an Incentive Stock Option.

(k) "Option" means the right to purchase one Share at a prescribed Purchase Price (as defined in Section 6(b)) on the terms specified in the Plan. An Option may be an Incentive Stock Option or a Non-Qualified Stock Option.

(l) "Participant" means an employee of SPINC or an Affiliate who is granted an Option under the Plan.

(m) "Parent" shall mean any parent corporation of SPINC within the meaning of Section 424(e) of the Code.

(n) "Rule 16b-3" means Rule 16b-3 under Section 16(b) of the Act as then in effect or any successor provisions.

(o) "Securities Act" means the Securities Act of 1933, as amended. Any reference to any section of the Securities Act shall also be a reference to any successor provision.

(p) "Share" means a share of Common Stock.

(q) "Subsidiary" means any subsidiary corporation of SPINC within the meaning of Section 424(f) of the Code. An entity shall be deemed a Subsidiary of SPINC only for such periods as the requisite ownership relationship is maintained.

(r) "Substantial Stockholder" means any Participant who at the time of grant owns directly (or is deemed to own by reason of the attribution

rules set forth in Section 424(d) of the Code) Shares possessing more than 10% of the total combined voting power of all classes of stock of SPINC or a Parent or Subsidiary as determined under Section 422 of the Code.

(s) "Termination of Employment" with respect to an individual means that individual is no longer an employee of SPINC or any of its Affiliates. In the event an entity shall cease to be an Affiliate of SPINC, there shall be deemed a Termination of Employment of any individual who is not otherwise an employee of SPINC or another Affiliate at the time the entity ceases to be an Affiliate. A Termination of Employment shall not include a leave of absence approved for purposes of the Plan by the Committee.

(t) "Transfer" or "Transferred" or "Transferable" means anticipate, alienate, attach, sell, assign, pledge, encumber, charge, hypothecate or otherwise transfer and "Transferred" has a correlative meaning.

3 Effective Date/Expiration of Plan

The Plan shall be effective upon its adoption by the Board, subject to stockholder approval of this Plan by the stockholders of SPINC in accordance with the requirements of the laws of the State of Delaware and any applicable exchange requirements. Grants of Options under the Plan may be made after adoption of the Plan by the Board, subject to stockholder approval to the

extent required by law, provided that, in the absence of such approval, such Options shall be null and void. No Option shall be granted under the Plan on or after the tenth anniversary of the Effective Date (the "Termination Date"), but Options granted prior to the Termination Date may be exercised after the Termination Date.

4 Administration.

(a) Duties of the Committee. The Plan shall be administered by the Committee. The Committee shall have full authority to:

(i) interpret the Plan and to decide any questions and settle all controversies and disputes that may arise in connection with the Plan;

(ii) to establish, amend and rescind rules for carrying out the Plan;

(iii) to administer the Plan, subject to its provisions;

(iv) to select the employees to whom Options may from time

to time be granted hereunder;

(v) to determine the terms, Purchase Price (as defined in Section 6(b)), any restriction or limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof and the form of exercise payment for each Option granted under the Plan, including, without limitation, whether and under what circumstances an Option may be settled in cash and/or Common Stock under Section 6(f) and whether, to what extent and under what circumstances to provide loans (which shall be on a recourse basis and shall bear a reasonable rate of interest) to employees in order to exercise Options under the Plan;

(vi) to determine which Options granted under the Plan shall be Incentive Stock Options;

(vii) to prescribe the form or forms of instruments evidencing Options and any other instruments required under the Plan (which need not be uniform) and to change such forms from time to time;

(viii) and to make all other determinations; and

(ix) to take all such steps in connection with the Plan and the Options as the Committee, in its sole discretion, deems necessary or desirable.

The Committee shall not be bound to any standards of uniformity or similarity of action, interpretation or conduct in the discharge of its duties hereunder, regardless of the apparent similarity

of the matters coming before it. Any determination, interpretation or other action made or taken by SPINC, the Board or the Committee arising out of or in connection with the Plan shall be final, conclusive and binding on all parties. Other than with respect to an Option which was granted at a below-market Purchase Price and not intended to satisfy Section 162(m) of the Code, the Committee may correct any defect, supply any omission or reconcile any inconsistency in this Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to carry this Plan into effect, but only to the extent any such action would be permitted under the applicable provisions of Rule 16b-3 (if any) and the applicable provisions of Section 162(m) of the Code (if any). If and to the extent applicable, this Plan is intended to comply with Section 162(m) of the Code and the applicable requirements of Rule 16b-3 and shall be limited, construed and interpreted in a manner so as to comply therewith. The Committee may adopt special guidelines and provisions for persons who are residing in, or subject to, the taxes of, countries other than the United States to comply with applicable tax and securities laws.

(b) Advisors. The Committee may designate the Secretary of SPINC, other employees of SPINC or competent professional advisors to assist the Committee in the administration of the Plan, and may grant authority to such persons to execute Option Agreements (as defined herein) or other documents on behalf of the Committee. The Committee may employ such legal counsel, consultants and agents as it may deem desirable for the administration of the Plan, and may rely upon any advice received from any such counsel or consultant and any computation received from any such consultant or agent and shall not be liable with respect to any action taken or omitted by it in good faith pursuant to the advice of counsel. Expenses incurred by the Committee in the engagement of such counsel, consultant or agent shall be paid by SPINC.

(c) Indemnification. No officer or former officer of SPINC, member or former member of the Board or the Committee, or person designated pursuant to paragraph (b) shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it. To the maximum extent permitted by applicable law or the Certificate of Incorporation or By-Laws of SPINC and to the extent not covered by insurance, each officer or former officer and member or former member of the Committee or of the Board shall be indemnified and held harmless by SPINC against any cost or expense (including reasonable fees of counsel reasonably acceptable to SPINC) or liability (including any sum paid in settlement of a claim with the approval of SPINC), and advanced amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted, arising out of any act or omission to act in connection with the Plan, except to the extent arising out of such officer's, former officer's, member's or former member's own fraud or bad faith. Such indemnification shall be in addition to any rights of indemnification the officers, former officers, directors or members or former officers, directors or members may have under applicable law or under the Certificate of Incorporation or By-Laws of SPINC or any Affiliate. Notwithstanding anything else herein, this indemnification will not apply to the actions or determinations made by an individual with regard to Options granted to him or her under this Plan.

(d) Meetings of the Committee. The Committee shall select one of its members as a Chairman and shall adopt such rules and regulations, subject to the By-Laws of SPINC, as it

shall deem appropriate concerning the holding of its meetings and the transaction of its business. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board, and any vacancy on the Committee may at any time be filled by resolution adopted by the Board. A majority of the Committee members shall constitute a quorum. All determinations by the Committee shall be made by the affirmative vote of a majority of its members. Any such determination may be made at a meeting duly

called and held at which a majority of the members of the Committee are in attendance in person or through telephonic communication. Any determination set forth in writing and signed by all the members of the Committee shall be as fully effective as if it had been made by a majority vote of the members at a meeting duly called and held.

5 Shares; Adjustment Upon Certain Events.

(a) Shares to be Delivered; Fractional Shares. Shares to be issued under the Plan shall be made available, at the discretion of the Board, either from authorized but unissued Shares or from issued Shares reacquired by SPINC and held in treasury. No fractional Shares will be issued or transferred upon the exercise of any Option. In lieu thereof, SPINC shall pay a cash adjustment equal to the same fraction of the Fair Market Value of one Share on the date of exercise.

(b) Number of Shares.

(i) Aggregate Share Limitation. The maximum aggregate number of Shares that may be issued under the Plan shall be 3,250,000 (as adjusted to reflect any increase or decrease pursuant to Section 5(c)). If Options are for any reason canceled, or expire or terminate unexercised, the Shares covered by such Options shall again be available for the grant of Options, subject to the foregoing limit. If any Option granted under this Plan expires, terminates or is canceled for any reason without having been exercised in full or SPINC repurchases any Option pursuant to Section 6(i), the number of Shares and/or the number of Shares underlying any unexercised Option shall again be available for the purposes of awards under the Plan. In determining the number of Shares available for Options, other than awards of Incentive Stock Options, if Shares have been delivered or exchanged by a Participant as full or partial payment to SPINC for the Purchase Price or for withholding taxes in connection with the exercise of an Option, or the number of shares of Common Stock otherwise deliverable has been reduced for full or partial payment for the Purchase Price or for withholding taxes, the number of Shares delivered, exchanged or reduced shall again be available for purposes of awards under this Plan.

(ii) Individual Participant Limitations. The maximum number of Shares subject to any Option which may be granted under this Plan to a Participant shall not exceed 750,000 (as adjusted to reflect any increase or decrease pursuant to Section 5(c)) during each fiscal year of SPINC. To the extent that Shares for which Options are permitted to be granted to a Participant during a fiscal year are not covered by a grant of an Option to an employee issued in such fiscal year, such Shares shall automatically increase the number of

Shares available for grant of Options to such employee in the subsequent fiscal year during the term of the Plan.

(c) Adjustments; Recapitalization, etc. The existence of the Plan and the Options granted hereunder shall not affect in any way the right or power of the Board or the stockholders of SPINC to make or authorize any adjustment, recapitalization, reorganization or other change in SPINC's capital structure or its business, any merger or consolidation of SPINC, any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting Common Stock, the dissolution or liquidation of SPINC or any of its Subsidiaries, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding. If and whenever SPINC takes any such action, however, the following provisions, to the extent applicable, shall govern:

(i) If and whenever SPINC shall effect a stock split, stock dividend, subdivision, recapitalization or combination of Shares or other changes in SPINC's capital stock, (x) the Purchase Price per Share and the number and class of Shares and/or other securities with respect to which outstanding Options thereafter may be exercised, and (y) the total number and class of Shares and/or other securities that may be issued under this Plan shall be proportionately adjusted by the Committee. The Committee may also make such other adjustments as it deems necessary to take into consideration any other event (including, without limitation, accounting changes), if the Committee determines that such adjustment is appropriate to avoid distortion in the operation of the Plan, to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under this Plan.

(ii) Subject to Section 5(c)(iii), if SPINC merges or consolidates with one or more corporations, then from and after the effective date of such merger or consolidation, upon exercise of Options theretofore granted, the Participant shall be entitled to purchase under such Options, in lieu of the number of Shares as to which such Options shall then be exercisable but on the same terms and conditions of exercise set forth in such Options, the number and class of Shares and/or other securities or property (including cash) to which the Participant would have been entitled pursuant to the terms of the agreement of merger or consolidation, if, immediately prior to such merger or consolidation, the Participant had been the holder of record of the total number of Shares receivable upon exercise of such Options (whether or not then exercisable).

(iii) In the event of a merger or consolidation in which SPINC is not the surviving entity or in the event of any transaction that results in the acquisition of all or substantially all of SPINC's outstanding Common Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of all or substantially all of SPINC's assets (the foregoing being referred to as "Acquisition Events"), then the Committee may in its sole discretion terminate all outstanding Options effective as of the

consummation of the Acquisition Event by delivering notice of termination to each Participant at least 20 days prior to the date of consummation of the Acquisition Event; provided that, during the period from the date on which such notice of termination is delivered to the consummation of the Acquisition Event, each Participant shall

have the right to exercise in full all the Options that are then outstanding (without regard to limitations on exercise otherwise contained in the Option Agreement), but contingent on occurrence of the Acquisition Event, and provided that, if the Acquisition Event does not take place within a specified period after giving such notice for any reason whatsoever, the notice and exercise shall be null and void. If an Acquisition Event occurs and the Committee does not terminate the outstanding Options pursuant to the preceding sentence, then the provisions of Section 5(c)(ii) shall apply.

(iv) Subject to Section 5(b), the Committee may grant Options under the Plan in substitution for options held by employees of another corporation who concurrently become employees of SPINC as the result of a merger or consolidation of the employing entity with SPINC or an Affiliate, or as the result of the acquisition by SPINC of property or stock of the employing corporation. SPINC may direct that substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

(v) If, as a result of any adjustment made pursuant to the preceding paragraphs of this Section 5, any Participant shall become entitled upon exercise of an Option to receive any securities other than Common Stock, then the number and class of securities so receivable thereafter shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock set forth in this Section 5, as determined by the Committee in its discretion.

(vi) Except as hereinbefore expressly provided, the issuance by SPINC of shares of stock of any class, or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor or upon conversion of shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number and class of shares and/or other securities or property subject to Options theretofore granted or the Purchase Price.

6 Awards and Terms of Options.

(a) Grant. The Committee may grant Options, including Options intended to be Incentive Stock Options, to employees of SPINC or an Affiliate. Each Option shall be evidenced by an Option agreement (the "Option Agreement") in such form as the Committee shall approve from time to time. To the extent that any Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time or manner of its exercise or otherwise), such Option or the portion thereof which does not qualify shall constitute a separate Non-Qualified Stock Option. Notwithstanding any other provision of this Plan to the contrary or any provision in an agreement evidencing the grant of an Option to the contrary, any Option granted to an employee of an Affiliate (other than an Affiliate which is a Parent or a Subsidiary) shall be a Non-Qualified Stock Option.

(b) Purchase Price. The purchase price per Share (the "Purchase Price") deliverable upon the exercise of an Option shall be determined by the Committee, subject to the

following: (i) the Purchase Price shall not be less than the par value of a Share and (ii) in the case of Incentive Stock Options, the Purchase Price shall not be less than 100% (110% for an Incentive Stock Option granted to a Substantial Stockholder) of the Fair Market Value per Share on the date the Incentive Stock Option is granted. Notwithstanding the foregoing, the Purchase Price of any Option that is intended to satisfy Section 162(m) of the Code shall not be less than 100% of the Fair Market Value per Share on the date the Option is granted.

(c) Exercisability. At the time of grant, the Committee shall specify when and on what terms the Options granted shall be exercisable. In the case of Options not immediately exercisable in full, the Committee may at any time accelerate the time at which all or any part of the Options may be exercised and may waive any other conditions to exercise, subject to the terms of the Option Agreement and the Plan. No Option shall be exercisable after the expiration of ten years from the date of grant (five years, in the case of an Incentive Stock Option granted to a Substantial Stockholder). Each Option shall be subject to earlier termination as provided in Section 7 below.

(d) Special Rule for Incentive Options. If required by Section 422 of the Code, to the extent the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of his or her employer corporation and its parent and subsidiary corporations) exceeds $100,000, such Options shall not be treated as Incentive Stock Options. Nothing in this special rule shall be construed as limiting the exercisability of any Option, unless the Committee expressly provides for such a limitation at time of grant. Should the

foregoing provision not be necessary in order for the Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the stockholders of SPINC.

(e) Acceleration of Exercisability Upon Change of Control. Unless otherwise provided in an Option Agreement, Options granted and not previously exercisable shall become fully exercisable immediately upon a Change of Control (as defined herein). For this purpose, a "Change of Control" shall be deemed to have occurred upon:

(i) an acquisition by any individual, entity or group (within the meaning of Section 13d-3 or 14d-1 of the Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of more than 50% of the combined voting power of the then outstanding voting securities of SPINC entitled to vote generally in the election of directors to the Board (the "Outstanding SPINC Voting Securities"); excluding, however, the following: (x) any acquisition by SPINC, (y) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by SPINC or (z) any acquisition by any corporation pursuant to a reorganization, merger, consolidation or similar corporate transaction (in each case, a "Corporate Transaction"), if, pursuant to such Corporate Transaction, the conditions described in clauses (A), (B) and (C) of paragraph (iii) of this Section 6(e) are satisfied; or

(ii) a change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (the Board as of the Effective Date shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that, for purposes of this Section 6(e)(ii), any individual who becomes a member of the Board subsequent to the Effective Date and whose election, or nomination for election by SPINC's stockholders, was approved by a majority of the members of the Board who also are members of the Incumbent Board (or so deemed to be pursuant to this proviso) shall be deemed a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office is in connection with a Change of Control described in (i), (iii) or (iv) of this Section 6(e) or whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so deemed a member of the Incumbent Board; or

(iii) the approval by the stockholders of SPINC of a Corporate Transaction or, if consummation of such Corporate Transaction is subject,

at the time of such approval by stockholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding, however, such a Corporate Transaction pursuant to which (A) the beneficial owners (or beneficiaries of the beneficial owners) of the outstanding Shares and Outstanding SPINC Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction and the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors, in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the outstanding Shares and Outstanding SPINC Voting Securities, as the case may be, (B) no Person (other than SPINC, any employee benefit plan (or related trust) of SPINC or the corporation resulting from such Corporate Transaction and any Person beneficially owning, immediately prior to such Corporate Transaction, directly or indirectly, 20% or more of the outstanding Shares or Outstanding SPINC Voting Securities, as the case may be) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the then outstanding securities of such corporation entitled to vote generally in the election of directors and (C) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) the approval of the stockholders of SPINC of (A) a complete liquidation or dissolution of SPINC or (B) the sale or other disposition of all or substantially all the assets of SPINC; excluding, however, such a sale or other disposition to a corporation with respect to which, following such sale or other disposition, (x) more than 60% of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the

election of directors will be then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners (or beneficiaries of the beneficial owners), respectively, of the outstanding Shares and Outstanding SPINC Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the outstanding Shares and Outstanding SPINC Voting Securities, as the case may be, (y) no Person (other than SPINC and any employee benefit plan (or related trust) of SPINC or such corporation and

any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the outstanding Shares or Outstanding SPINC Voting Securities, as the case may be) will beneficially own, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (z) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of such corporation.

(f) Exercise of Options.

(i) A Participant may elect to exercise one or more Options by giving written notice to the Committee of such election and of the number of Shares with respect to which the Options are being exercised, accompanied by payment in full of the aggregate Purchase Price for such Shares.

(ii) Shares purchased pursuant to the exercise of Options shall be paid for at the time of exercise as follows:

(A) in cash or by check, bank draft or money order payable to the order of SPINC;

(B) if so permitted by the Committee: (I) through the delivery of unencumbered Shares (including Shares being acquired pursuant to the Options then being exercised), provided such Shares (or such Options) have been owned by the Participant for such period as may be required by applicable accounting standards to avoid a charge to earnings, (II) through a combination of Shares and cash as provided above, (III) by delivery of a promissory note of the Participant to SPINC, such promissory note to be payable, in the case of an Incentive Stock Option, on such terms as are specified in the Option Agreement (except that, in lieu of a stated rate of interest, the Option Agreement may provide that the rate of interest on the promissory note will be such rate as is sufficient, at the time the note is given, to avoid the imputation of interest under the applicable provisions of the Code), or (IV) by a combination of cash (or cash and Shares) and the Participant's promissory note; provided, that, if the Shares delivered upon exercise of the Option is an original issue of authorized Shares, at least so much of the Purchase Price as represents the par value of such Shares shall be paid in cash or by a combination of cash and Shares;

(C) through the delivery of irrevocable instructions to a broker to deliver promptly to SPINC an amount equal to the aggregate Purchase Price; or

(D) on such other terms and conditions as may be acceptable to the Committee and in accordance with applicable law.

(iii) Upon receipt of payment and satisfaction of the requirements, if any, as to withholding of taxes as set forth herein, SPINC shall deliver to the Participant as soon as practicable a certificate or certificates for the Shares then purchased. No Shares shall be issued until payment therefor, as provided herein, has been made or provided for.

(g) Buy Out and Settlement Provisions. The Committee may at any time on behalf of SPINC offer to buy out an Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Participant at the time that such offer is made, and the Participant shall be entitled to accept or reject such offer in his or her sole discretion.

(h) Deferred Delivery of Common Shares. The Committee may in its discretion permit Participants to defer delivery of Shares acquired pursuant to a Participant's exercise of an Option in accordance with the terms and conditions established by the Committee.

(i) Modification, Extension and Renewal of Options. Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options granted under the Plan (provided that the rights of a Participant are not reduced without his or her consent), or accept the surrender of outstanding Options (up to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefor (to the extent not theretofore exercised).

(j) Other Terms and Conditions. Options may contain such other provisions, which shall not be inconsistent with any of the foregoing terms of the Plan, as the Committee shall deem appropriate including, without limitation, permitting "reloads" such that the same number of Options are granted as the number of (i) Options exercised, (ii) Shares used to pay for the Purchase Price of Options or (iii) shares used to pay withholding taxes ("Reloads"). With respect to Reloads, the Purchase Price of the new Option shall be the Fair Market Value on the date of the Reload and the term of the Option shall be the same as the remaining term of the Options that are exercised, if applicable, or such other Purchase Price and term as determined by the Committee.

7 Effect of Termination of Employment.

(a) Death, Disability, Retirement, etc. Except as otherwise provided in the Participant's Option Agreement, upon Termination of Employment, all outstanding Options then exercisable and not exercised by the Participant prior to such Termination of Employment (and any Options not previously exercisable but made exercisable by the Committee at or after the Termination of

Employment) shall remain exercisable by the Participant to the extent not exercised for the following time periods (subject to Section 6(e)):

(i) In the event of the Participant's death, such Options shall remain exercisable (by the legal representative of the Participant's estate or by the person given authority to exercise such Options by the Participant's will or by operation of law) for a period of one year from the date of the Participant's death, provided that the Committee, in its discretion, may at any time extend such time period to up to three years from the date of the Participant's death.

(ii) In the event of the Participant's Disability, or the Participant retires at or after age 65 (or, with the consent of the Committee or under an early retirement policy of SPINC, before age 65), or if the Participant's employment is terminated by SPINC without Cause, such Options shall remain exercisable for one year from the date of the Participant's Termination of Employment, provided that the Committee, in its discretion, may at any time extend such time period to up to three years from the date of the Participant's Termination of Employment.

(b) Cause. Upon the Termination of Employment of a Participant for Cause or by the Participant in violation of an agreement between the Participant and SPINC or any of its Affiliates, or if it is discovered after such Termination of Employment that such Participant had engaged in conduct that would have justified a Termination of Employment for Cause, all outstanding Options shall immediately be canceled. Termination of Employment for "Cause" means, with respect to a Participant's Termination of Employment: (i) in the case where there is no employment agreement, change in control agreement or any other similar agreement in effect between SPINC or an Affiliate and the Participant at the time of the grant of the Option (or where there is such an agreement that does not define "cause" (or words of like import)), termination due to a Participant's fraud, dishonesty, negligence or engaging in competition or solicitations in competition with SPINC or any Affiliate; or (ii) in the case where there is an employment agreement, change in control agreement or any other similar agreement in effect between SPINC or an Affiliate and the Participant at the time of the grant of the Option that defines "cause" (or words of like import), as defined under such agreement; provided, however, that with regard to any agreement that conditions "cause" on occurrence of a change in control, such definition of "cause" shall not apply until a change in control actually takes place and then only with regard to a termination thereafter.

(c) Other Termination. In the event of Termination of Employment for any reason other than as provided in Section 7(a) or 7(b), all outstanding Options not exercised by the Participant prior to such Termination of Employment shall remain exercisable (to the extent exercisable by such Participant immediately before such termination) for a period of three months after such termination, provided that the Committee in its discretion may extend such time

period to up to one year from the date of the Participant's Termination of Employment, and provided further that no Options that were not exercisable during the period of employment shall thereafter become exercisable, unless the Committee determines that such Options shall be exercisable.

(d) Exercise Following Certain Terminations of Employment. If an employee does not remain employed by SPINC, a Parent or any Subsidiary at all times from the time the

Incentive Stock Option is granted until three (3) months prior to the date of exercise (or such other period as required by applicable law, including, without limitation, in the event of death or Disability), such Option shall be treated as a Non-Qualified Stock Option. Any Option held by an employee who is transferred from SPINC, a Subsidiary or a Parent to an Affiliate that is not SPINC, a Subsidiary or a Parent shall be treated as a Non-Qualified Stock Option after the end of the three (3) month period following such transfer.

8 Nontransferability of Options.

No Option shall be Transferable by the Participant otherwise than by will or under applicable laws of descent and distribution, and during the lifetime of the Participant may be exercised only by the Participant or his or her guardian or legal representative. In addition, no Option shall, except as otherwise provided herein, be Transferable in any way (whether by operation of law or otherwise), and any attempt to Transfer shall be void, and no such Option shall in any manner be subject to the debts, contracts, liabilities, engagements or torts of any person who shall be entitled to such Option, nor shall it be subject to attachment or legal process for or against such person. Notwithstanding the foregoing, the Committee may determine at the time of grant or thereafter, that a Non-Qualified Stock Option, that is otherwise not Transferable pursuant to this Section is Transferable in whole or part and in such circumstances, and under such conditions, as specified by the Committee.

9 Rights as a Stockholder.

A Participant (or a permitted transferee of an Option) shall have no rights as a stockholder with respect to any Shares covered by such Participant's Option until such Participant (or permitted transferee) shall have become the holder of record of such Shares, and no adjustments shall be made for dividends in cash or other property or distributions or other rights in respect to any such Shares, except as otherwise specifically provided in this Plan.

10 Determinations

Each determination, interpretation or other action made or taken pursuant to the provisions of this Plan by SPINC, the Board or the Committee shall be final, conclusive and binding for all purposes and upon all persons, including, without limitation, the Participants, SPINC and its Subsidiaries, directors, officers and other employees of SPINC and its Subsidiaries, and the respective heirs, executors, administrators, personal representatives and other successors in interest of each of the foregoing.

11 Termination, Amendment and Modification.

The Plan shall terminate at the close of business on the tenth anniversary of the Effective Date, unless terminated sooner as hereinafter provided, and no Option shall be granted

under the Plan on or after that date. The termination of the Plan shall not terminate any outstanding Options that by their terms continue beyond the termination date of the Plan. At any time prior to the tenth anniversary of the Effective Date, the Board or the Committee may amend or terminate the Plan or suspend the Plan in whole or in part. Notwithstanding the foregoing, however, no such amendment may, without the approval of the stockholders of SPINC, effect any change that would require stockholder approval under applicable law.

Nothing contained in this Section 11 shall be deemed to prevent the Board or the Committee from authorizing amendments of outstanding Options of Participants, including, without limitation, the reduction of the Purchase Price specified therein (or the granting or issuance of new Options at a lower Purchase Price upon cancellation of outstanding Options), as long as all Options outstanding at any one time shall not call for issuance of more Shares than the remaining number provided for under the Plan and as long as the provisions of any amended Options would have been permissible under the Plan if such Option had been originally granted or issued as of the date of such amendment with such amended terms.

Notwithstanding anything to the contrary contained in this Section 11, no termination, amendment or modification of the Plan may, without the consent of the Participant or the permitted transferee of such Participant's Option, alter or impair the rights and obligations arising under any then outstanding Option.

12 Non-Exclusivity.

Neither the adoption of the Plan by the Board nor the submission of the Plan to the stockholders of SPINC for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive

arrangements as it may deem desirable, including, without limitation, the granting or issuance of stock options, Shares and/or other incentives otherwise than under the Plan, and such arrangements may be either generally applicable or limited in application.

13 Use of Proceeds.

The proceeds of the sale of Shares subject to Options under the Plan are to be added to the general funds of SPINC and used for its general corporate purposes as the Board shall determine.

14 General Provisions.

(a) Right to Terminate Employment. Neither the adoption of the Plan nor the grant of Options shall impose any obligation on SPINC to continue the employment of any Participant, nor shall it impose any obligation on the part of any Participant to remain in the employ of SPINC, subject however to the provisions of any agreement between SPINC and the Participant.

(b) Purchase for Investment. If the Board determines that the law so requires, the holder of an Option granted hereunder shall, upon any exercise or conversion thereof, execute and deliver to SPINC a written statement, in form satisfactory to SPINC, representing and warranting that such Participant is purchasing or accepting the Shares then acquired for such Participant's own account and not with a view to the resale or distribution thereof, that any subsequent offer for sale or sale of any such Shares shall be made either pursuant to (i) a Registration Statement on an appropriate form under the Securities Act, which Registration Statement shall have become effective and shall be current with respect to the Shares being offered and sold, or (ii) a specific exemption from the registration requirements of the Securities Act, and that in claiming such exemption the holder will, prior to any offer for sale or sale of such Shares, obtain a favorable written opinion, satisfactory in form and substance to SPINC, from counsel approved by SPINC as to the availability of such exception. In addition to any legend required by this Plan, the certificates for such shares may include any legend which the Committee deems appropriate to reflect any restriction on Transfer.

(c) Unfunded Status of Plan. This Plan is intended to constitute an "unfunded" plan for incentive compensation. Nothing contained in the Plan and no action taken pursuant to the Plan (including, without limitation, the grant of any Option thereunder) shall create or be construed to create a trust of any kind, or a fiduciary relationship, between SPINC and any Participant or the executor, administrator or other personal representative or designated

beneficiary of such Participant, or any other persons. Any reserves that may be established by SPINC in connection with the Plan shall continue to be part of the general funds of SPINC, and no individual or entity other than SPINC shall have any interest in such funds until paid to a Participant. If and to the extent that any Participant or such Participant's executor, administrator or other personal representative, as the case may be, acquires a right to receive any payment from SPINC pursuant to the Plan, such right shall be no greater than the right of an unsecured general creditor of SPINC.

(d) Notices. Each Participant shall be responsible for furnishing the Committee with the current and proper address for the mailing to such Participant of notices and the delivery to such Participant of agreements, Shares and payments. Any notices required or permitted to be given shall be deemed given if directed to the person to whom addressed at such address and mailed by regular United States mail, first class and prepaid. If any item mailed to such address is returned as undeliverable to the addressee, mailing will be suspended until the Participant furnishes the proper address.

(e) Severability of Provisions. If any provisions of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions of the Plan, and the Plan shall be construed and enforced as if such provisions had not been included.

(f) Payment to Minors, Etc. Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receipting therefor shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Committee, SPINC and their employees, agents and representatives with respect thereto.

(g) Headings and Captions. The headings and captions herein are provided for reference and convenience only. They shall not be considered part of the Plan and shall not be employed in the construction of the Plan.

(h) Controlling Law. The Plan shall be construed and enforced according to the laws of the State of Delaware (regardless of the laws that might otherwise govern under applicable principles of conflict of laws).

15 Issuance of Stock Certificates; Legends; Payment of Expenses.

(a) Stock Certificates. Upon any exercise of an Option and payment of the Purchase Price as provided in such Option Agreement, a certificate or certificates for the Shares as to which such Option has been exercised shall be

issued by SPINC in the name of the person or persons exercising such Option and shall be delivered to or upon the order of such person or persons.

(b) Legends. Certificates for Shares issued upon exercise of an Option shall bear such legend or legends as the Committee, in its discretion, determines to be necessary or appropriate to prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act, or to implement the provisions of any agreements between SPINC and the Participant with respect to such Shares, including, without limitation, any right of SPINC to purchase Shares issued to the Participant upon the exercise of Options as contained in the Option Agreement.

(c) Payment of Expenses. SPINC shall pay all issue or transfer taxes with respect to the issuance or transfer of Shares, as well as all fees and expenses necessarily incurred by SPINC in connection with such issuance or transfer and with the administration of the Plan.

(d) Other Benefits. No Option granted under this Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of SPINC or any Affiliate nor affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

(e) No Right to Same Benefits. The provisions of Options need not be the same with respect to each Participant, and such Options to individual Participants need not be the same under subsequent grants.

(f) Death/Disability. The Committee may in its discretion require the transferee of a Participant to supply it with written notice of the Participant's death or Disability and to supply it with a copy of the will (in the case of the Participant's death) or such other evidence as the Committee deems necessary to establish the validity of the transfer of an Option. The Committee may also require the agreement of the transferee to be bound by all of the terms and conditions of the Plan.

(g) Section 16(b) of the Act. All elections and transactions under the Plan by persons subject to Section 16 of the Act involving Shares are intended to comply with any applicable exemptive condition under Rule 16b-3. To the extent applicable, the Committee may establish and adopt written administrative guidelines, designed to facilitate compliance with Section 16(b) of the Act, as it may deem necessary or proper for the administration and operation of this Plan and the transaction of business thereunder.

16 Listing of Shares and Related Matters.

If at any time the Board shall determine in its sole discretion that the listing, registration or qualification of the Shares covered by the Plan upon any national securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the award or sale of Shares under the Plan, no Shares will be delivered unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained, or otherwise provided for, free of any conditions not acceptable to the Board.

17 Withholding Taxes.

SPINC shall be entitled to withhold (or secure payment from the Participant in cash or other property, including Shares already owned by the Participant (valued at the Fair Market Value thereof on the date of delivery) in lieu of withholding) the amount of any Federal, state or local taxes required by law to be withheld by SPINC for any Shares or cash payments deliverable under this Plan, and SPINC may defer such delivery unless such withholding requirement is satisfied.

At the discretion of the Committee, any such withholding obligation with regard to any Participant may be satisfied by reducing the number of Shares otherwise deliverable or by delivering shares of Common Stock already owned. Any fraction of a Share required to satisfy such tax obligations shall be disregarded and the amount due shall be paid instead in cash by the Participant.

EXHIBIT 21.1

SCHEIN PHARMACEUTICAL, INC.

LIST OF SUBSIDIARIES*

Schein Pharmaceutical, Inc.

- Danbury Pharmacal, Inc.
  - Danbury Pharmacal Puerto Rico, Inc.
- Steris Laboratories, Inc.
- Marsam Pharmaceuticals Inc.
  - MSI Inc.
- Schein Pharmaceutical PA, Inc.
- Schein Pharmaceutical Service Company
- Schein Bayer Pharmaceutical Services, Inc. - 50%
- Ranbaxy Schein Pharma, L.L.C. - 50%
- Schein Pharmaceutical International, Inc.
  - Schein Pharmaceutical Canada, Inc. - 50%
  - Schein Pharmaceutical B.V. (Netherlands)
    - Triomed (Pty) Ltd. (South Africa) - 50%
  - Schein Pharmaceutical (Bermuda) Ltd.
    - Schein Pharmaceutical (U.K.) Ltd.
  - Ethical Generics Limited (United Kingdom) - 50%
  - Schein Farmaceutica de Peru
  - Bayfarma de Colombia S.A. - 30%
  - International Generics Company Ltd. (Taiwan)

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* All Companies 100% Owned Unless Otherwise Specified

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Schein Pharmaceutical, Inc.

We hereby consent to the incorporation by reference in the Prospectus constituting a part of the Registration Statement on Form S - 8 (No. 333-49827) dated April 9, 1998 of our reports dated February 10, 1999, relating to the consolidated financial statements and schedule of Schein Pharmaceutical, Inc. appearing in the Company's Annual Report on Form 10-K for the year ended December 26, 1998.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ BDO Seidman, LLP

BDO SEIDMAN, LLP

New York, New York
March 24, 1999

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