# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended: March 31, 2002**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____**

**Commission File No. 333-45241**

# ELITE PHARMACEUTICALS, INC.

(Name of small business issuer in its charter)

| **Delaware** | **22-3542636** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **165 Ludlow Avenue, Northvale, New Jersey** | **07647** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number: **(201) 750-2646**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common stock | American Stock Exchange |

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

(Title of Class)

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ☑ 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 and non-voting common equity held by non-affiliates of the registrant computed by reference to the closing sale price of that portion of the common equity that is publicly trated as of May 21, 2002 is $37,072,520.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

The number of shares outstanding of each of the issuers classes of common equity, as of May 21, 2002 is 9,725,736 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

List here the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; (3) any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for information purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). N/A

## FORWARD LOOKING STATEMENTS

This Annual Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included or incorporated by reference in this Annual Report which address activities, events or developments which the Company expects or anticipates will or may occur in the future, including such things as the attainment of pharmaceutical development milestones or the receipt of regulatory approval or the entering into of licensing or partnership arrangements and other similar matters, are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether

actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from the Company's expectations, including the risk factors discussed below and elsewhere in this Annual Report and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

## PART I

ITEM 1. BUSINESS

Elite Pharmaceuticals, Inc. ("EPI"), the registrant, is the sole owner of the Class A common voting stock of Elite Laboratories, Inc. ("ELI"). EPI and ELI may be referred to collectively in this report as "Elite" or "the Company".

Business Development

EPI was incorporated in the State of Delaware on October 1, 1997. EPI's predecessor, Prologica International, Inc. ("Prologica"), was incorporated in the State of Pennsylvania on April 20, 1984. From the time of its incorporation, and the completion of its initial public offering in August 1998, until the date of its merger with EPI, Prologica engaged in no business other than searching for suitable acquisitions. Except for ELI, it located no such acquisitions. EPI was incorporated for the purpose of merging with Prologica in order to change the name and state of incorporation



of Prologica. EPI survived the merger with Prologica; Prologica ceased to exist at the time of the merger on October 24, 1997. Contemporaneous with the merger of EPI and Prologica, ELI (the business of which is described below) merged with a wholly owned subsidiary of Prologica, HMF Enterprises, Inc. ("HMF"). HMF was incorporated on August 1, 1997 for the purpose of providing a vehicle into which ELI could merge. ELI and HMF merged on October 30, 1997. ELI survived the merger with HMF and HMF ceased to exist subsequent to the merger. The net result of the two mergers is that Prologica and HMF ceased to exist, and EPI at that time owned one hundred percent of the stock of ELI. Such stock ownership is EPI's sole business. At the present time, EPI has no plans to conduct any other business apart from the ownership of ELI.

ELI was incorporated in the State of Delaware on August 23, 1990. On October 30, 1997, one hundred percent of the stock of ELI was acquired by EPI via the merger between ELI and HMF. With that exception, no acquisition or disposition of any material assets, nor any material changes in the method of conducting business have incurred since its incorporation.

Business of EPI

EPI, through its wholly-owned subsidiary ELI, primarily engages in researching, developing, licensing, manufacturing, and marketing proprietary drug delivery systems and products. ELI's drug delivery technology involves releasing a drug into the bloodstream or delivering it to a target site in the body over an extended period of time or at predetermined times. Such products are designed to allow drugs to be administered less frequently, with reduced side effects and, in certain circumstances, in reduced dosages. ELI has concentrated on developing orally administered controlled release products. ELI primarily develops controlled release versions of various drugs as depicted in the table below. The products include drugs which provide therapeutic benefits for angina and hypertension, a nonsteroidal analgesic drug, and one which appears to lower blood glucose by stimulating insulin from the pancreas. None of these products have yet been approved by the Food and Drug Administration ("FDA"), and Elite therefore does not yet market any products. ELI is currently developing and testing products which are at different stages of development, as depicted in the table below.

The following table provides information concerning a majority of the controlled release products under development by the Company.



| | Product | Brand | Brand Annual Sales (Millions) | Indication | NDA/ ANDA | Partner | Competition |
|---|---|---|---|---|---|---|---|
| (1) | Glucolite CR | Glucotrol XL | $300+ | Diabetes | ANDA | Under negotiation | One filed for 10mg |
| (2) | ELI 2 | Undisclosed | $120+ | Infection | ANDA | Self | None |
| (3) | ELI 3 | None | $200+ estimated | Chrono Delivery | NDA For once a day | Identified | Verelan PM, Covera HS, Cardizem XL (awaiting approval) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (4) | ELI 4 | Undisclosed | $1,500+ | CNS | NDA For once a day | TBD | Brand twice a day |
| (5) | ELR 5 | Undisclosed | $900+ | Pain | NDA For once a day | Elan | Brand twice a day |
| (6) | ERL 6 | Undisclosed | $700+ | CNS | NDA or ANDA For once a day | Elan | Brand |
| (7) | EC 7 | None | N/A | Allergy | NDA For once a day | Yes | None |
| (8) | EC 8 | None | N/A | Allergy/ Decongestant | NDA For once a day | Yes | None |
| (9) | Methylphenidate (pulse dose) | Concerta Ritalin LA | N/A | ADHD | NDA | Assigned to Celgene/ Novartis | Concerta Ritalin LA |
| (10) | Diclofelite CR (diclofenac) | Voltaren XR | $100 | Arthritis | NDA For once a day | TBD | Brand |
| (11) | ELI 11 | Undisclosed | $50+ | CNS | ANDA | TBD | No generics |
| (12) | ELI 12 | Undisclosed | $500+ | Infection | ANDA | TBD | No generics |
| (13) | ELI 13 | Undisclosed | N/A | Hypertension Angina | NDA For once a day | Identified - Under negotiation | One |
| (14) | ELI 14 | Undisclosed | N/A | Hypertension Angina | NDA For once a day | Identified - Under negotiation | None |
| (15) | Diltilite CD (diltiazem) | Cardizem CD | $765 | Hypertension Angina | ANDA | Self | 3 generics |
| (16) | Ketolite CR (ketoprofen) | Oruvail | $60 | Arthritis | ANDA | Self | One |
| (17) | Nifelite CR (nifedipne) | Procardia XL Adalat CC | $200+ | Hypertension Angina | NDA For once a day | TBD | Two generics Two brands |

ELI (X) a indicates an internal product number for a product, the identity of which should not be described for competitive reasons; ERL (x) means product being developed by the joint venture and the identity of which is not described due to competitive reasons; and, EC (X) means products being developed for a partner, the



identity of which is not described due to contractual obligations and/or competitive reasons.

CNS means central nervous system disorder, and ADHD means Attention Deficit Hyperactive Disorder.

NDA mean New Drug Application, and ANDA means Abbreviated New Drug Application.

“TBD” means to be determined, and “Identified” means that the identity of the partner is not disclosed due to contractual restraints.

Patents have been issued on products number 9 and number 17. The Company has filed or anticipates filing patent applications on most of the remaining products.

NOTE: It is the general policy of the Company not to disclose products in its development pipeline or the status of such products until a product reaches an appropriate stage, for competitive reasons, and because the disclosure of such information may cause people to infer the occurrence of future matters or events that may not occur. In this instance, it was believed that disclosure of the information in the foregoing table would be helpful to persons in better understanding the general nature, orientation and activity of the Company, and the disclosures are made for such purpose. No inference should be made as to the occurrence of matters or events not specifically described. The Company may or may not disclose such information in the future based on competitive reasons and/or contractual obligations. Meanwhile, it is believed that the information is helpful on a one-time basis for the purpose described above.

The following table presents information with respect the development stage of the principal products under development by the Company. Completion of development of products by the Company depends on a number of factors, and there can be no assurance that specific time frames will be met during the development process or that the development of any particular products will be continued.

| **Development Stage** | Products | Comments | **NDA/ANDA** |
|---|---|---|---|
| Formulation Development | 3 | In progress | |
| Phase I | 4 | Formulation developed Bioavailability studies | For NDA |
| Phase II | 4 | Phase I completed | For NDA |
| Pilot Biostudy | 1 | Bioequivalence Study | For ANDA |
| Pivotal Studies | 2 | Under evaluation | For ANDA |
| Scale Up | 2 | GMP | NDA and ANDA |
| NDA Filing | 1 | Through third party | |

GMP means good manufacturing practices per Food and Drug Administration regulations.



Additionally, the NDA filings contemplated by the Company would be under Sections 505 (b)(1) or 505 (b)(2), which does not require certain studies that would otherwise be necessary; accordingly, the development timetable would be shorter.

Controlled drug delivery of a pharmaceutical compound offers a safer and more effective means of administering drugs through releasing a drug into the bloodstream or delivering it to a certain site in the body at predetermined rates or predetermined times. Its goal is to provide more effective drug therapy while reducing or eliminating many of the side effects associated with conventional drug therapy and/or to reduce the frequency of administration.

ELI spent approximately $1,475,487 in the fiscal year ended March 31, 2001, and $1,609,108 in the fiscal year ended March 31, 2002 on research and development activities.

The Company has acquired pharmaceutical manufacturing equipment with the intention of eventually manufacturing products developed by ELI as well as manufacturing products on a contract basis. The Company has registered its facilities with the FDA and the Drug Enforcement Agency (DEA).

In October 2000, the Company entered into a Joint Development and Operating Agreement with Elan Corporation, plc and Elan International Services, Ltd. (together “Elan”) to develop products using drug delivery technologies and expertise of both companies. This joint venture, Elite Research, Ltd. (“ERL”), a Bermuda corporation, is initially owned 80.1% by the Company and 19.9% by Elan. ERL will fund its research through capital contributions from its partners based on the partners' ownership percentage. ERL will subcontract research and development projects to the Company, Elan and others. The first product developed by ELI for the joint venture has successfully completed Phase I testing. The parties have commenced development activities with regard to two other products. As a part of the transaction, Elan was issued 12,015 shares of class A preferred stock of ELI and 454,000 shares of class B preferred stock of ELI. Both classes of ELI stock issued to Elan are non-voting except on the following issues: (a) amendment of certificate of incorporation in a manner that would adversely affect the rights of the shareholders holding the class of stock or (b) any change in the rights of the class of stock.

Competition

ELI competes in two related but distinct markets: It performs contract research and development work regarding controlled-release drug technology for other pharmaceutical companies, and it seeks to develop and market (either on its own or by licensure to other companies) proprietary controlled-release pharmaceutical products. In both arenas, Elite's competition consists of those companies which are perceived to be able to develop controlled-release drugs.

In recent years, an increasing number of pharmaceutical companies have become interested in the development and commercialization of products incorporating



advanced or novel drug delivery systems. The Company expects that competition in the field of drug delivery will significantly increase in the future since smaller specialized research and development companies are beginning to concentrate on this aspect of the business. Some of the major pharmaceutical companies have invested and are continuing to invest significant resources in the development of their own drug delivery

systems and technologies and some have invested funds in such specialized drug delivery companies. Many of these companies have greater financial and other resources as well as more experience than the Company in commercializing pharmaceutical products. A comparatively small number of companies have a track record of success in developing controlled-release drugs. Significant among these are Alza Corporation, Andrx, Elan Corporation, Biovail Corporation, Ethypharm, Eurand, Faulding, Impax, KV Pharmaceutical, Penwest and Skyepharma. Each of these companies have developed expertise in certain types of drug delivery systems, although such expertise does not carry over to developing a controlled-release version of all drugs. Such companies may develop new drug formulations and products or may improve existing drug formulations and products more efficiently than the Company. While the Company's product development capabilities and patent protection may help the Company to maintain its market position in the field of advanced drug delivery, there can be no assurance that others will not be able to develop such capabilities or alternative technologies outside the scope of the Company's patents if any, or that even if patent protection is obtained, such patents will not be successfully challenged in the future. In addition, it must be noted that almost all of the Company's competitors have vastly greater resources than the Company.

Patents, Trademarks, etc.

ELI has received Notices of Allowance from the U.S. Patent and Trademark Office granting trademark protection for the following trademarks: Albulite CR, Nifelite CR, Diltilite CD, Ketolite CR, Verelite CR and Glucolite CR.

On February 16, 1999, Dr. Atul Mehta was awarded a patent on a controlled-release formulation of nifedipine (U.S. Patent No. 5,871,776). The United States market for controlled-release nifedipine is approximately one billion dollars. On May 11, 1999, Dr. Mehta was awarded a patent for method of preparation of controlled release nefedipine formulations (U.S. Patent No. 5,902,632). The Company is the beneficial owner of these patents, and these patents have been transferred by Dr. Mehta to the Company. On November 18, 1998, Dr. Mehta with two co-inventors was awarded a patent for the pulsed-release delivery system for methylphenidate (U.S. Patent No. 5,837,284). This latter patent was assigned to Celgene Corporation. This patent has subsequently been licensed by Celgene Corporation to Novartis. The Company owns certain manufacturing rights for methylphenidate. The Company licensed from Celgene Corporation rights for the pulsed-release technology with regard to all non-methylphenidate drugs.

The Company has filed applications for two U.S. patents relating to formulations designed for chrono delivery and formulations for delayed and sustained release of drugs.



The Company intends to apply for patents for other products in the future; however, there can be no assurance that these or any future patents will be granted. The Company believes that future patent protection of its technologies and processes and of its products may be important to its operations. The success of the Company's products may depend, in part, upon the Company's ability to obtain strong patent protection. There can be no assurance, however, that these patents, if issued, or any additional patents will prevent other companies from developing similar or functionally equivalent dosage forms of products. Furthermore, there can be no assurance that (i) any additional patents will be issued to the Company in any or all appropriate jurisdictions, (ii) the Company's patents will not be successfully challenged in the future, (iii) the Company's processes or products do not infringe upon the patents of third parties or (iv) the scope and validity of the Company's patents will prevent third parties from developing similar products. Although a patent has a statutory presumption of validity in the United States, there can be no assurance that patents issued covering the Company's technologies will not be infringed or successfully avoided through design innovation or by the challenge of that presumption of validity. Finally, there can be no assurance that products utilizing the Company's technologies, if and when issued, will not infringe patents or other rights of third parties. It is also possible that third parties will obtain patents or other proprietary rights that might be necessary or useful to the Company. In cases where third parties are first to invent a particular product or technology, it is possible that those parties will obtain patents that will be sufficiently broad so as to prevent the Company from using such technology or from marketing such products.

Patents and other proprietary rights are important to the Company's business. It is the Company's policy to seek patent protection for its inventions, and also to rely upon trade secrets, know-how, continuing technological innovations, and licensing opportunities to develop and maintain its competitive position. In addition, the Company consistently enters into confidentiality agreements with its employees and business partners.

Prior to the enactment in the United States of new laws adopting certain changes mandated by the General Agreement on Tariffs and Trade ("GATT"), the exclusive rights afforded by a U.S. Patent were for a period of 17 years measured from the date of grant. Under these new laws, the term of any U.S. Patent granted on an application filed subsequent to June 8, 1995, would terminate 20 years from the date on which the patent application was filed in the United States or the first priority date, whichever occurs first. Future patents granted on an application filed before June 8, 1995, will have a term that terminates 20 years from such date, or 17 years from the date of grant, whichever date is later.

Under the Drug Price Competition and Patent Term Restoration Act of 1984, a U.S. Product patent or use patent may be extended for up to five years under certain circumstances to compensate the patent holder for the time required for FDA regulatory review of the product. The benefits of this act are available only to the first approved use of the active ingredient in the drug product and may be applied only to one patent

per drug product. There can be no assurance that the Company will be able to take advantage of this law.

The Company's success will depend, in part, on its ability to obtain and enforce patents, protect trade secrets, obtain licenses to technology owned by third parties when necessary, and conduct its business without infringing the proprietary rights of others. The patent positions of pharmaceutical and biotechnology firms, including the Company, can be uncertain and involve complex legal and factual questions. In addition, the coverage sought in a patent application can be significantly reduced before the patent is issued.

Consequently, the Company does not know whether any of its pending applications will result in the issuance of patents or, if any patents are issued, whether they will provide significant proprietary protection or commercial advantage, or will be circumvented by others. Since patent applications in the United States are maintained in secrecy until patents issue, and since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, the Company cannot be certain that it was the first to make the inventions covered by each of its pending patent applications, or that it was the first to file patent applications for such inventions. In the event a third party has also filed a patent for any of its inventions, the Company may have to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of invention, which could result in the loss of any opportunity to secure patent protection for the invention and the loss of any right to use the invention, and even if the eventual outcome is favorable to the Company, such interference proceedings could result in substantial cost to the Company. Protection of patent applications and litigation to establish the validity and scope of patents, to assert patent infringement claims against others and to defend against patent infringement claims by others can be expensive and time-consuming. There can be no assurance that in the event that any claims with respect to any of the Company's patents, if issued, are challenged by one or more third parties, that any court or patent authority ruling on such challenge will determine that such patent claims are valid and enforceable. An adverse outcome in such litigation could cause the Company to lose exclusivity relating to such patent claims. If a third party is found to have rights covering products or processes used by the Company, then the Company could be forced to cease using the technologies covered by the disputed rights, could be subject to significant liabilities to such third party, and could be required to license technologies from such third party.

Also, different countries have different procedures for obtaining patents, and patents issued by different countries provide different degrees of protection against the use of a patented invention by others. There can be no assurance, therefore, that the issuance to the Company in one country of a patent covering an invention will be followed by the issuance in other countries of patents covering the same invention, or that any judicial interpretation of the validity, enforceability, or scope of the claims in a patent issued in one country will be similar to the judicial interpretation given to a corresponding patent issued in another country. Furthermore, even if the Company's patents are determined to be valid, enforceable, and broad in scope, there can be no



assurance that competitors will not be able to design around such patents and compete with the Company using the resulting alternative technology.

The Company also relies upon unpatented proprietary and trade secret technology that it seeks to protect, in part, by confidentiality agreements with its collaborative partners, employees, consultants, outside scientific collaborators, sponsored researchers, and other advisors. There can be no assurance that these agreements provide meaningful protection or that they will not be breached, that the Company would have adequate remedies for any such breach, or that the Company's trade secrets, proprietary know-how, and technological advances will not otherwise become known to others. In addition, there can be no assurance that, despite precautions taken by the Company, others have not and will not obtain access to the Company's proprietary technology.

Government Regulation and Approval

The design, development and marketing of pharmaceutical compounds, on which the Company's success depends, are intensely regulated by governmental regulatory agencies, including the Food and Drug Administration (the “FDA”). Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product seizures, injunction actions and criminal prosecution based on products or manufacturing practices that violate statutory requirements. In addition, administrative remedies can involve voluntary withdrawal of products, as well as the refusal of the Government to enter into supply contracts or to approve abbreviated new drug applications (“ANDAs”) and new drug applications (“NDAs”). The FDA also has the authority to withdraw approval of drugs in accordance with statutory due process procedures.

Before a drug may be marketed, it must be approved by the FDA. FDA approval procedure for an ANDA relies on bio-equivalency tests which compare the applicant's drug with an already approved reference drug, rather than with clinical studies. Because ELI has concentrated, during the first few years of its business operations, on developing products which are intended to be bio-equivalent to existing controlled-release formulations, the Company expects that such drug products will require ANDA filings.

The FDA approval procedure for an NDA is generally a two-step process. During the Initial Product Development stage, an investigational new drug (“IND”) for each product is filed with the FDA. A 30-day waiting period after the filing of each IND is required by the FDA prior to the commencement of initial (Phase I) clinical testing in healthy subjects. If the FDA does not comment on or question the IND within such 30-day period, initial clinical studies may begin. If, however, the FDA has comments or questions, the questions must be answered to the satisfaction of the FDA before initial clinical testing can begin. In some instances this process could result in substantial delay and expense. Phase I studies are intended to demonstrate the functional characteristics and safety of a product.

After Phase I testing, extensive efficacy and safety studies in patients must be conducted. After completion of the required clinical testing, an NDA is filed, and its approval, which is required for marketing in the United States, involves an extensive review process by the FDA. The NDA itself is a complicated and detailed document and must include the results of extensive clinical and other testing, the cost of which is substantial. However, the NDA filings contemplated by the Company would be made under Sections 505 (b)(1) or 505 (b)(2), which do not require certain studies that would otherwise be necessary; accordingly, the development timetable would be shorter. While the FDA is required to review applications within 180 days of their filing, in the process of reviewing applications, the FDA frequently requests that additional information be submitted and starts the 180-day regulatory review period anew when the requested additional information is submitted. The effect of such request and subsequent submission can significantly extend the time for the NDA review process. Until an NDA is actually approved, there can be no assurance that the information requested and submitted will be considered adequate by the FDA to justify approval. The packaging and labeling of all Company developed products are also subject to FDA regulation. It is impossible to anticipate the amount of time that will be needed to obtain FDA approval to market any product. The time to obtain FDA approval may range from approximately 12 to 24 months.

Whether or not FDA approval has been obtained, approval of the product by comparable regulatory authorities in any foreign country must be obtained prior to the commencement of marketing of the product in that country. All marketing in territories other than the United States shall be conducted through other pharmaceutical companies based in those countries. The approval procedure varies from country to country, can involve additional testing, and the time required may differ from that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general each country has its own procedures and requirements, many of which are time consuming and expensive. Thus, there can be substantial delays in obtaining required approvals from both the FDA and foreign regulatory authorities after the relevant applications are filed. After such approvals are obtained, further delays may be encountered before the products become commercially available.

All facilities and manufacturing techniques used for the manufacture of products for clinical use or for sale must be operated in conformity with Good Manufacturing Practice ("GMP") regulations issued by the FDA. In the event the Company shall engage in manufacturing, it will be required to operate its facilities in accordance with GMP regulations. If the Company shall hire another company to perform contract manufacturing for it, it must take steps to ensure that its contractor's facilities conform to GMP regulations.

Under the Generic Drug Enforcement Act, ANDA applicants (including officers, directors and employees) who are convicted of a crime involving dishonest or fraudulent activity (even outside the FDA regulatory context) are subject to debarment. Debarment is disqualification from submitting or participating in the submission of future ANDAs for a period of years or permanently. The Generic Drug Enforcement Act also authorizes the FDA to refuse to accept ANDAs from any company which employs or



uses the services of a debarred individual. The Company does not believe that it receives any services from any debarred person.

The Company is governed by federal, state, and local laws of general applicability, such as laws relating to working conditions and environmental protection. The Company estimates that it spends approximately $3,000.00 per year in order to comply with applicable environmental laws. The Company is also licensed by, registered with, and subject to periodic inspection and regulation by the DEA and New Jersey state agencies, pursuant to federal and state legislation relating to drugs and narcotics. Certain drugs that the Company may develop in the future may be subject to regulation under the Controlled Substances Act and related Statutes. At such time as the Company begins manufacturing products, it may become subject to the Prescription Drug Marketing Act, which regulates wholesale distributors of prescription drugs.

Sources and Availability of Raw Materials

The Company is not yet in the manufacturing phase of any product and therefore does not have a requirement for significant amounts of raw materials. It currently obtains what limited raw materials it needs from over twenty suppliers.

Dependence on One or a Few Major Customers

Each year, the Company has had some customers which have accounted for a large percentage of its sales. It is the intention of the Company to expand its business to service a greater number of customers at one time.

Employees

As of May 22, 2002, the Company had fourteen full-time employees and two part-time employees. Both full-time and part-time employees are engaged in administration, research and development. The Company believes its employee relations to be satisfactory. It is not a party to any labor agreements and none of its employees are represented by a labor union.

Research and Development Activities

During each of the last two fiscal years, substantially all of the time of the Company has been spent on research and development activities. As previously stated, none of the products undergoing research and development have yet been approved by the FDA and, therefore, are not yet being marketed to customers.

Compliance with Environmental Laws

The Company believes it is currently in substantial compliance with all federal, state and local environmental laws. The costs and effects of compliance with such laws is not material.

ITEM 2. PROPERTIES

The Company owns real property and improvements, suitable for use as a laboratory and offices, located at 165 Ludlow Avenue, Northvale, New Jersey. It is intended that the property will be used for manufacturing in the future. The Company's operations are not dependent on any specific location. The real property and improvements of the Company are encumbered by a mortgage in favor of the New Jersey Economic Development Authority (NJEDA) as security for a loan through tax exempt bonds from the NJEDA to the Company. The mortgage document contains the customary provisions including, without limitation, the right of the mortgagee to foreclose upon default.

ITEM 3. LEGAL PROCEEDINGS

No disclosure required.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2002.

## PART II

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

Market Information

The common stock of the Company first began public trading on July 23, 1998. The stock was traded on the NASDAQ over-the-counter bulletin board under the symbol “ELIP.” On February 24, 2000, 13,912,856 shares of the Company's common stock (consisting of 8,560,355 shares issued and outstanding, 2,387,714 shares issuable upon exercise of options pursuant to the Company's 1997 Incentive Stock Option Plan, and 2,964,787 shares issuable upon exercise of warrants) were listed on



the American Stock Exchange. The Company's shares are now traded on that exchange under the symbol “ELI.”

The Company's Class A warrants are listed on the NASDAQ over-the-counter bulletin board under the symbol “ELIPZ.” The Company first began trading these warrants on September 11, 1998.

The common stock of EPI's predecessor, Prologica, was listed in the pink sheets, but no active trading occurred in those securities.

For each quarter within the two most recent fiscal years the high and low sales prices of the Company's common stock and the high and low bid for the Company's Class A warrants are as follows:

Fiscal Year Ended March 31, 2001

| | Common Stock | | Warrants | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $ 11.385 | $ 6.125 | $ 10.00 | $ 1.50 |
| Second Quarter | $ 12.188 | $ 6.875 | $ 6.50 | $ 2.25 |
| Third Quarter | $ 13.25 | $ 6.00 | $ 7.00 | $ 1.50 |
| Fourth Quarter | $ 8.625 | $ 6.063 | $ 4.00 | $ 1.375 |

Fiscal Year Ended March 31, 2002

| | Common Stock | | Warrants | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $ 11.45 | $ 4.85 | $ 6.00 | $ 2.00 |
| Second Quarter | $ 11.50 | $ 5.10 | $ 6.21 | $ 1.40 |
| Third Quarter | $ 7.75 | $ 5.90 | $ 2.50 | $ 1.20 |
| Fourth Quarter | $ 8.30 | $ 5.60 | $ 2.25 | $ 0.86 |

This information was obtained from Merrill Lynch & Co. The information reflects inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Holders

As of May 22 , 2002, there were 82 holders of record of the Company's common stock, 23 holders of record of the Company's Class A warrants and 23 holders of record of the Company's Class B warrants. 6,471,033 (66.5%) of such shares and 1,188,430 (71.8%) of the Class A warrants are held by Cede & Company as nominee for the Depository Trust Company, and the Company believes such shares are held for the account of numerous other persons.

Dividends

The Company has never declared or paid any cash dividends on its common stock. The Company currently intends to retain any future earnings for funding growth and does not anticipate paying any cash dividends on its common stock in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

The table below includes information as of the end of the most recently completed fiscal year of the Company for each category of equity compensation plan, as applicable.

Equity Compensation Plan Information



| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | $363,100 | $7.17 | $886,900 |
| Equity compensation plans not approved by security holders Total | None | None | None |
| Total | $363,100 | $7.17 | $886,900 |

The Company's Incentive Stock Option Plan (“Plan”), adopted in 1997, provides that 1,250,000 shares of the Company's common stock are subject to options to be granted under the Plan. If options granted under the Plan lapse without being exercised, other options may be granted covering the shares not purchased under such lapsed options. Options may be granted pursuant to the Plan to employees and officers of EPI or

ELI. Members of the Board of Directors of the Company who are not officers of employees of the Company are not eligible to receive options under the Plan. The granting of options under the Plan shall be entirely discretionary. The exercise price of an option pursuant to the Plan shall not be less than 100% of the fair market value (to be determined by the board of directors of the Company in good faith) of the common stock at the time the option was granted; provided, an option granted to a person who, with his affiliates, directly or through other entities, owns more than 10% of the voting power of the Company's common voting stock ("a Substantial Shareholder") shall have a exercise price not less than 110% of the fair market value of the Company's common stock at the time the option was granted. For any person, "Affiliates" shall mean that person's siblings, spouse, ancestors and lineal descendants. No person to whom options are granted pursuant to the Plan shall receive options first exercisable during any single calendar year for shares, the fair market value of which exceeds $100,000 (determined at the time the options are granted). Options issued pursuant to the Plan expire ten years from the date granted, except that options granted pursuant to the Plan to Substantial Shareholders expire five years from the date of grant (in either case, the "Expiration Date"). If, prior to the Expiration Date, (i) the employees employment with the Company ends for reasons other than death or retirement, any options shall terminate; (ii) the employees retire at normal retirement age or, with the consent of the Company, earlier on account of disability, the option shall expire at the end of three months after such retirement; (iii) the employee dies, his estate shall have six months to exercise the option, provided that the exercise period shall never extend beyond the Expiration Date.



ITEM 6. SELECTED FINANCIAL DATA

Following is selected financial data of the Company.

Selected Annual Financial Data

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| Net Revenues | $ 1,197,507 | $ 95,246 | $ 10,315 | $ 150,412 | $ 51,958 |
| Net (loss) | (1,774,527) | (13,964,981) | (2,976,392) | (1,661,881) | (788,591) |
| Net (loss) per common share | (0.19) | (1.53) | (0.35) | (0.23) | (0.13) |
| Total Assets | 12,724,498 | 12,350,301 | 9,162,383 | 3,076,582 | 5,179,119 |
| Long-term obligations | 3,788,148 | 2,765,000 | 2,885,000 | --- | --- |
| Weighted average number of shares outstanding | 9,561,299 | 9,135,369 | 8,287,648 | 7,237,613 | 5,858,238 |

Selected Quarterly Financial Data

Fiscal Year Ended March 31, 2002

| | 3-31-02 | 12-31-01 | 9-30-01 | 6-30-01 |
|---|---|---|---|---|
| Net Revenues | $ 260,949 | $ 473,597 | $ 387,163 | $ 75,798 |
| Net (loss) | $ (715,162) | $ (340,210) | $ (272,173) | $ (446,982) |
| Net (loss) per common share | $ (0.08) | $ (0.03) | $ (0.03) | $ (0.05) |



| | | | | |
|---|---|---|---|---|
| Weighted average shares Outstanding | 9,662,001 | 9,631,601 | 9,543,526 | 9,408,593 |

Fiscal Year Ended March 31, 2001

| | 3-31-01 | 12-31-00 | 9-30-00 | 6-30-00 |
|---|---|---|---|---|
| Net Revenues | $ 86,465 | $ 8,781 | --- | --- |
| Net (loss) | $ (616,034) | $ (193,052) | $ (12,566,324) | $ (589,571) |
| Net (loss) per common share | $ (0.06) | $ (0.02) | $ (1.41) | $ (0.07) |

| | | | | |
|---|---|---|---|---|
| Weighted average shares outstanding | 9,373,426 | 9,353,017 | 8,915,054 | 8,902,623 |

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

(a) The Company

Introduction

The Company has been developing over 15 oral controlled release pharmaceutical products which are at the varying stages of the development process and testing.

Elite Labs has also conducted several research and development projects on behalf of several large pharmaceuticals companies. These activities have generated only limited revenue for Elite Labs to date.

The Company has established a manufacturing facility in Northvale, NJ which is both FDA and DEA registered. This facility will allow the Company to make batches in sizes sufficient to file for FDA approval.

In October 2000, Elite entered into a joint development and operating agreement with Elan Corporation, plc, and Elan International Services, Ltd. (together "Elan") to develop products using drug delivery technologies and expertise of both companies. This joint venture, Elite Research, Ltd. ("ERL"), a Bermuda corporation, is initially owned 80.1% by Elite and 19.9% by Elan. ERL will fund its research through capital contributions from its partners based on the partners' ownership percentage. ERL will subcontract research and development efforts to Elite, Elan and others. The in-vivo (pilot



bioavailability) has been completed on the first product formulated by Elite Labs. Elite has begun to develop formulations for the two additional products.

In June 2001, the Company entered into two separate and distinct development and license agreements with another U.S. pharmaceutical company to develop two products in exchange for development fees, certain payments, royalties and manufacturing rights. Elite has undertaken formulation development for these two products and has earned the development fees paid to date .

In September 2000, Elite received approval of its application to sell $4,872,267 in New Jersey Net Operating Tax Losses under the New Jersey Economic Development Agency's Technology Business Tax Certificate Program. The Company received $368,343 of proceeds from this sale.

In November 2001, Elite received approval of its application to sell an additional $1,822,929 in New Jersey Net Operating Tax Losses under the New Jersey Economic Development Agency's Technology Business Tax Certificate Program. The Company expects to receive $137,818. $71,741 was received during the quarter ending December 31, 2001.

In October 2001, the Company authorized the purchase of up to 100,000 shares of its common stock in the open market at the then prevailing market price on or before March 31, 2002. There has been no repurchases of any common stock during this period.

The Company plans to focus its efforts on the following areas: (i) to receive FDA approval for one or all of the oral controlled release pharmaceutical products already developed, either directly or through other companies; (ii) to commercially exploit these drugs either by licensure and the collection of royalties, or through the manufacturing of tablets and capsules using the formulations developed by the Company, and (iii) to continue the development of new products and the expansion of its licensing agreements with other pharmaceutical companies including contract research and development projects, joint ventures and other collaborations.

The Company has been issued three patents to date and has filed for two more patents. One of the patents has been assigned to Celgene who has now licensed it to Novartis.

Critical Accounting Policies and Estimates

Management's discussion addresses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the



reporting period. On an ongoing basis, management evaluates its estimates and judgment, including those related to bad debts, intangible assets, income taxes, workers compensation, and contingencies and litigation. Management bases its estimates and judgments on historical experience

and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. The Company's most critical accounting policies include the recognition of revenue upon completion of certain phases of projects under research and development contracts. The Company also assesses a need for an allowance for doubtful accounts and determines a need for valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. The Company assesses the recoverability of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company assesses its exposure to current commitments and contingencies. It should be noted that actual results may differ from these estimates under different assumptions or conditions.

Rules of Consolidated Operations

Year Ended March 31, 2002 vs. Year Ended March 31, 2001

Elite's revenues for the year ended March 31, 2002 were $1,197,507, an increase of $1,102,261, or approximately 1157%, over the comparable period of the prior year. Net revenues include research and development fees totaling $593,000 of which $550,000 was earned in conjunction with two separate and distinct development and licensing agreements with another pharmaceutical company, product formulation fees of $600,940 earned in conjunction with the Company's joint venture in ERL and $3,450 of consulting and testing fees. Comparable prior period revenues were $0, $80,931, and $14,314, respectively, for the above components that comprise total revenues.

General and administrative expenses for the year ended March 31, 2002 were $763,687, a decrease of $13,431, or approximately 1.7%, from the comparable period of the prior year. The decrease in general and administrative expenses was substantially due to a decrease in consulting fees. General and administrative expenses expressed as a percentage of revenues were approximately 64% for the year ended March 31, 2002 as compared to 816% for the comparable period of the prior year.

Research and development costs for the year ended March 31, 2002 were $1,609,108, an increase of $133,621, or approximately 9%, from the comparable period of the prior year. Research and development costs have increased as the Company has



undertaken certain biostudies that were not undertaken in the prior year. Research and development expenses expressed, as a percentage of revenues were 134% and 1549%, respectively, for the years ended March 31, 2002 and March 31, 2001. Elite's net loss for the year ended March 31, 2002 was $(1,774,527), as compared to $(13,964,981) for the comparable period of the prior year. The decrease in the net loss was primarily due to the decrease of $11,572,187 in equity loss of its 80.1% owned joint venture, which included a one time charge of $12,015,000 in the prior comparable period for the Company's share of the $15,000,000 payment to Elan for a technology license.

Year Ended March 31, 2001 vs. Year Ended March 31, 2000

Elite's revenues for the year ended March 31, 2001 were $95,246, an increase of $84,931, or approximately 823%, over the comparable period of the prior year. Net revenues consisted of product formulation fees of $80,931 earned in conjunction with the Company's joint venture in ERL and $14,314 of consulting and test fees (compared with $10,312 of consulting and test fees for the comparable period of the prior year).

General and administrative expenses for the year ended March 31, 2001 were $777,118, a decrease of $207,618, or approximately 21% from the comparable period of the prior year. The decrease in general and administrative expenses was substantially due to a decrease in consulting fees. General and administrative expenses expressed as a percentage of revenues were approximately 816% for the year ended March 31, 2001 as compared to 9546% for the comparable period of the prior year.

Research and development costs for the year ended March 31, 2001, were $1,475,487, a decrease of $513,162, or approximately 26%, from the comparable period of the prior year. Research and development costs have declined, as the Company has not undertaken the kind of biostudies that were undertaken in the prior year.

Elite's net loss for year ended March 31, 2001 was $13,964,981, as compared to $2,976,392 for the comparable period of the prior year. The increase in the net loss was primarily due to $12,079,827 of equity in the loss of its 80.1% owned joint venture, ERL, partially offset by the $368,343 of income recognized in connection with the sale of New Jersey net operating tax losses. The $12,079,827 equity in the loss of ERL includes a one time charge of $12,015,000 for the Company's 80.1% share of the $15,000,000 payment to Elan for a technology license fee.

Liquidity and Capital Resources

The Company's working capital (total current assets less total current liabilities), which was $7,373,673 as of March 31, 2001 decreased to $7,054,961 as of March 31, 2002. The Company's net loss from operations, increases in restricted cash, and purchases and deposits on property and equipment was offset by proceeds from the issuance of common stock and warrants and the bank note.

For the year ended March 31, 2002, the Company experienced negative cash flows from operations of $1,568,887 primarily due to the Company's net loss from operations of $1,442,207. For the year ended March 31, 2001, the Company experienced negative cash flows from operations of $1,905,984 primarily due to the Company's net loss from operations of $2,351,397.

(b) Elite Research, Ltd.

Elite Research, Ltd. (ERL), a Bermuda corporation, was incorporated in October 2000. ERL, which is initially owned by Elite Pharmaceuticals, Inc. (80.1%) and by Elan Corporation, plc. and Elan International Services, Ltd. (19.9%), was organized to develop products using drug delivery technologies and expertise of both companies. ERL will fund its research through capital contributions based on the partners ownership percentages and will subcontract research development efforts to Elite, Elan, and others.

Results of Operations -

Year Ended March ,31 2002 vs. Year Ended March 31, 2001

To date, there have been no revenues recognized by Elite Research, Ltd.

Research and development costs for the year ended March 31, 2002 of $600,940, were incurred on contracts with EPI. These costs increased by $520,009 or approximately 643% from the comparable period of the prior year. This is the result of ERL incurring costs associated with the later stages of formulation, development and testing of three products in the current period compared to one product in the previous comparable period.

General and administrative costs for the year ended March 31, 2002 were $13,997 compared to $0 for the comparable period of the prior year. This was the result of administrative expenses and the payment of a franchise tax imposed by Bermuda.

Licensing fees decreased in the current year. In the year ended March 31, 2001, ERL incurred a one time $15,000,000 payment to Elan for a technology license.

Liquidity and Capital Resources

The working capital (total current assets less total current liabilities) of ERL, which was ($80,931) as of March 31, 2001 decreased to ($543,524) as of March 31, 2002. Capital contributions for research and development activities were more than offset by ERL's net loss from operations. In April 2002, additional contributions were funded by Elite and Elan in the amount of $254,000 and $78,791, respectively.



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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not invest in or own any market risk sensitive instruments entered into for trading purposes or for purposes other than trading purposes. All loans to the Company have been made at fixed interest rates; accordingly, the market risk to the Company prior to maturity is very minimal.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information for this item is contained as an exhibit attached to this report.

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

No disclosure required.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors and Executive Officers

The directors and executive officers of the Company are:

| Name | Age | Position |
|---|---|---|
| Atul M. Mehta | 53 | President, Chief Executive Officer and Director |
| Donald S. Pearson | 66 | Director |
| Harmon Aronson | 59 | Director |
| Eric L. Sichel, M.D. | 43 | Director |
| Mark I. Gittelman | 42 | Secretary and Treasurer |

There are no arrangements between any director or executive officer and any other person, pursuant to which the director or officer is to be selected as such. There is no family relationship between the directors, executive officers, or persons nominated or chosen by the Company to

become directors or executive officers.

Atul M. Mehta, Ph.D., the founder of ELI, has been a director of ELI since its inception in 1990 and a director of EPI since 1997. He has been employed as the President of ELI since 1990 and President of EPI since 1997. Prior to that, he was Vice President at Nortec Development Associates, a company specializing in the development of food, pharmaceutical and chemical specialty products, from 1984 to 1989. From 1981 to 1984, he was associated with Ayerst Laboratories, a division of American Home Products Corporation in the solids formulation section as Group Leader. His responsibilities included development of formulations of ethical drugs for conventional and controlled-release dosage forms for both USA and international



markets. He received his B.S. degree in Pharmacy with honors from Shivaji University, Kolhapur, India, and a BS, MS, and a Doctorate of Philosophy in Pharmaceutics from the University of Maryland in 1981. Other than ELI, no company with which Dr. Mehta was affiliated in the past was a parent, subsidiary or other affiliate of the Company.

Donald S. Pearson, a director since 1999, has been employed since 1997 as the President of Pearson & Associates, Inc., a company that provides consulting services to the pharmaceutical industry. Prior to starting Pearson & Associates, Mr. Pearson served for five years as the Director of Licensing at Elan Pharmaceuticals, and prior to that he was employed by Warner-Lambert for thirty years in various marketing, business development and licensing capacities. Mr. Pearson holds a B.S. in Chemistry from the University of Arkansas and studied steroid chemistry at St. John's University. He has served on the informal advisory board of ELI for several years; other than ELI, no company with which he was affiliated in the past was a parent, subsidiary or other affiliate of the Company.

Harmon Aronson, Ph.D., a director since 1999, has been employed since 1997 as the President of Aronson Kaufman Associates, Inc., a New Jersey-based consulting firm that provides manufacturing, FDA regulatory and compliance services to the pharmaceutical and biotechnology companies. Its clients include United States and international firms manufacturing bulk drugs and finished pharmaceutical dosage products who are seeking FDA approval for their products for the US Market. Prior to that, Dr. Aronson was employed by Biocraft Laboratories, a leading generic drug manufacturer, most recently in the position of Vice President of Quality Management; prior to that he held the position of Vice President of Non-Antibiotic Operations, where he was responsible for the manufacturing of all the firm's non-antibiotic products. Dr. Aronson holds a Ph.D. in Physics from the University of Chicago. Other than ELI, no company with which Dr. Aronson was affiliated in the past was a parent, subsidiary or other affiliate of the Company.

Eric L. Sichel, M.D., a director since August 2, 2001, is President of Sichel Medical Ventures, Inc., Englewood, NJ, which company provides biotechnology company assessments and investment banking services. Dr. Sichel has been the owner and President of Sichel Medical Ventures, Inc. since 1997. From 1995 through 1996, Dr. Sichel was a senior analyst in the biotechnology field for Alex. Brown & Sons, Inc. of New York, NY. Prior to that, Dr. Sichel was affiliated with Sandoz Pharmaceuticals Corp. of East Hanover, NJ, in various capacities, including associate director of transplantation/immunology. Dr. Sichel is licensed to practice medicine in the State of New York.

Mark I. Gittelman is the President of Gittelman & Co., P.C., an accounting firm in Clifton, NJ. Prior to forming Gittelman & Co., P.C. in 1984, he worked as a certified public accountant with the international accounting firm of KPMG Peat Marwick, LLP. Mr. Gittelman holds a B.S. in accounting from New York University and a Masters of Science in Taxation from Farleigh Dickinson University. He is a Certified Public Accountant licensed in New Jersey and New York, and is a member of the American Institute of Certified Public Accountants ("AICPA"), the Securities and Exchange Practice Section of the AICPA, and the New Jersey State and New York States



Societies of CPAs. Other than ELI, no company with which Mr. Gittelman was affiliated in the past was a parent, subsidiary or other affiliate of the Company.

Election of Directors

Each director holds office (subject to the By-Laws of EPI) until the next annual meeting of shareholders and until such director's successor has been elected and qualified. All executive officers of the Company are serving until the next annual meeting of directors and until their successors have been duly elected and qualified. There are no family relationships between any of the directors and executive officers of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

To the knowledge of the Company, there was no person who, at any time during the fiscal year ended March 31, 2002, was a director, officer, beneficial owner of more than 10% of any class of equity securities of the Company registered pursuant to Section 12 of the Securities Exchange Act of 1934, failed to file on a timely basis the reports required by Section 16(a) of the Securities Exchange Act of 1934 during the most recent fiscal year. The Company became a reporting company, and reports to the Securities and Exchange Commission on Form 3, Form 4 and Form 5 became obligatory as of August 14, 1998. None of the officers, directors or holders of 10% or more of securities of the Company made a timely filing of Form 3. To the knowledge of the Company, all required reports on Form 3 have now been filed. To the knowledge of the Company, all required reports on Form 4 were filed late but have now been filed. To the knowledge of the Company, all filings for prior fiscal years required under Section 16(a) of said Act have been filed.

ITEM 11. EXECUTIVE COMPENSATION

The following table provides information on the compensation of Dr. Atul M. Mehta, the chief executive officer of EPI for the last three fiscal years. No other executive officer of the Company received salary and bonus exceeding $100,000 during those periods.



Summary Compensation Table

| | | Annual Compensation | | | Long Term Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) |
| Name and principal position | Fiscal Year | Salary | Bonus | Other Annual Compensation | Restricted Stock Awards | Securities Underlying options | LTIP payouts | All other compensation |
| Atul M. | 2001-02 | $ 272,855 | $ 30,000 | $ 83,896 | -- | 50,000 | -- | -- |
| Mehta | 2000-01 | $ 248,050 | $ 45,000 | $ 3,040 | -- | 425,000(1)(2) | -- | -- |
| President | 1999-00 | $ 227,030 | $ 25,000 | $ 3,040 | -- | 500,000 | -- | -- |

(1) On December 15, 2000, Dr. Mehta surrendered options for 425,000 shares of the Company's common stock (exercisable at $7.00 per share) and in return received options for 425,000 shares of the Company's common stock exercisable on January 2, 2001 and expiring January 1, 2006. The exercise price is 110% of the opening price of the Company's common stock on January 2, 2001 adjusted upward to the nearest half dollar of $7.00. On January 2, 2001, the stock of the Company opened at $6.25 per share, therefore the exercise price for the stock subject to these options is $7.00 per share.

(2) By action on February 21, 2002, the Board corrected a clerical error in options for 425,000 shares of class A common stock of the Company previously granted to Dr. Mehta. This correction did not result in any additional shares being subject to options held by Dr. Mehta, any change in the exercise price or a change in any other material terms.

The Company's fiscal year begins April 1 and ends March 31. The information is provided for each fiscal year beginning April 1.

Other Annual Compensation represents use of a company car and premiums paid by the Company for life insurance on Dr. Mehta's life for the benefit of his wife paid by the Company.

Reported below in this report is the purchase by the Company of options from Dr. Mehta. The purchase price for those options of $80,896 is included above in "Other Annual Compensation."

Option Grants in Last Fiscal Year

During the fiscal year, the Board of the Company authorized issuance to Dr. Mehta of options to acquire 50,000 shares of the common stock of the Company, vesting over a period of five years at the rate of 10,000 shares per year beginning February 21, 2003, exercisable at a price equal to 110% of the closing price of the stock on February 21, 2002 ($8.25 per share).

By action on January 25, 2001, the Board purchased options held by Dr. Mehta for 20,214 shares of the class A common stock of the Company at a price of $4.00 per share. The options carried an exercise price of $2.00 per share. The then current market price for the stock was in excess of $7.50. Dr. Mehta had intended to exercise the option for these shares and then sell the shares. The purchase price for the option



arrived at by the Board took into account the amount which would be necessary to purchase the options and cover taxes due Dr. Mehta on the transaction.

Option/SAR Grants Table in Last Fiscal Year

| | Individual Grants | | | |
|---|---|---|---|---|
| (a) Name | (b) Number of Securities Underlying Options Granted | (c) % Grant Represents of Options to Employees | (d) Exercise or Base Price ($/sh) | (e) Expiration Date |
| Atul M. Mehta | 50,000 | 2.8% | $8.25 | 2-20-07 |

Aggregated Option Exercises and Fiscal Year End Option Value Table

| a | b | c | d | e |
|---|---|---|---|---|
| | | | No. of Securities Underlying Unexercised Options at FY-End | Value of Unexercised In-the-Money Options/ at FY-End |
| Name | Shares Acquired on Exercise | Value Realized | Exercisable/Unexcercisable | Exercisable/Unexercisable |
| Atul M. Mehta | None | $0 | 1,025,000/450,000 | $2,120,000/0 |

These options and the shares underlying them are unregistered, and their market value is unknown and incalculable. However, the registered common stock of the Company was trading for $6.15 per share as of the close of business on May 21, 2002. It is on this hypothetical value that the figures in column (e) are calculated. These figures may have no relation to the actual value of the unexercised options.

Options for 500,000 shares which were granted to Dr. Mehta during the fiscal year ended March 31, 2000 vest at the rate of 100,000 shares per year on each December 31 beginning December 31, 2001. The options expire on the earlier of (a) one year after Dr. Mehta ceases to be employed by EPI or to serve as an officer or director of EPI or (b) March 31, 2010. Notwithstanding, the options shall become fully vested and exercisable if Dr. Mehta's employment agreement or his position as an officer and director is terminated by the Company for any reason or if it expires as a result of the Company giving notice of nonrenewal. If the board of directors of the Company votes to approve the acquisition of more than 50% of the stock of the Company by any person or entity, the Company may require Dr. Mehta to exercise or sell the options. In addition to the above stated options, by board action on September 22, 2000, Dr. Mehta was granted a preemptive right to acquire shares of the Company



in a sufficient number to maintain his percentage ownership of the shares outstanding. Under this preemptive right, upon issuance by the Company of shares of common stock for any reason, or of securities convertible into common stock upon demand, Dr. Mehta shall be permitted to purchase shares of common stock of the Company sufficient to maintain the greater of his percentage ownership of outstanding common stock of the Company determined on an absolute basis and upon a fully diluted basis as existed prior to the stock issuance. The price which Dr. Mehta shall pay for such stock shall be the lower of (a) the then current market price (discounted 15% if the shares are not registered) or (b) the price to be paid by the party in the transaction triggering the preemptive right. The right shall be exercised and the price shall be paid within 120 days of the issuance of the stock triggering the preemptive right.

Compensation of Directors

Each non-affiliated director receives $2,000 as compensation for each meeting attended.

Employment Agreement

The only employment agreement which the Company has with an executive officer is the Amended and Restated Employment Agreement entered into March 31, 2000 between the Company and Dr. Atul Mehta (the "Agreement"). The Agreement provides that the Company will employ Mehta for a period of five years ending December 31, 2005 (unless sooner terminated pursuant to provisions of the Agreement). At the end of said period of five years, the Agreement will be automatically renewed for an additional five year term unless either party gives written notice of nonrenewal by December 31, 2004. Subsequent to December 31, 2005, the Agreement is automatically extended for periods of one year unless either party gives notice of nonrenewal at least one year prior to the date of expiration. The Agreement provides for an annual salary of $242,000, which amount is to be increased by the board of directors not less than 10% annually beginning January 1, 2001. The Agreement further provides that Dr. Mehta will receive 5% of the net profit each fiscal year, health insurance to cover Dr. Mehta and his dependents, insurance on the life of Dr. Mehta for the benefit of his spouse or his estate in an amount of at least $300,000 and such bonus as the board in its discretion may award Dr. Mehta from time to time. In addition, the Agreement provides that Dr. Mehta will receive options to purchase the common stock of Elite at a price of $10.00 per share in a total amount of 500,000 shares, exercisable in increments of 100,000 shares annually beginning December 31, 2001. The options shall be exercisable from the date of vesting until one year after Mehta ceases to be employed by the Company or to serve as an officer and director of the Company or March 31, 2010, whichever is earlier. The options are exercisable by Dr. Mehta if the Agreement or Dr. Mehta's position as an officer and director is terminated by the Company for any reason or if the Agreement is not renewed by the Company. The Agreement further provides that if the board of directors votes to



approve the acquisition of more than 50% of the stock by any person or entity, the Company may require Dr. Mehta to elect to exercise the options or to sell the options at a price equal to the difference between the exercise price and an amount which is 110% of the then fair market value of the stock. Dr. Mehta's compensation subsequent to December 31, 2005, the agreement provides that the parties shall determine Dr. Mehta's compensation after said period; and, such compensation shall be on terms no less favorable to Dr. Mehta then the terms of compensation for the first five years and shall be no less than 110% of his annual salary for the year ended December 31, 2005. The Agreement shall terminate upon (a) Mehta's death, (b) election of either party if Mehta is unable to perform his duties on account of disability for a total period of 120 days or more during any consecutive period of twelve months, by Elite upon "severe cause" and (d) by Mehta upon the

occurrence of certain events. If the Agreement is terminated due to Dr. Mehta's death, his surviving spouse, or his estate if his spouse does not survive, shall receive Dr. Mehta's salary, incentive commissions, benefits and any deferred compensation accrued through the last day of the third calendar month following the month in which termination occurred; in addition, one-half of his salary would be paid for an additional period of three years. If the Agreement is terminated by the Company because of Dr. Mehta's disability or upon "severe cause", Dr. Mehta will receive his salary, incentive commissions, benefits and any deferred compensation through the last day of the calendar month in which the termination occurs. If the Agreement is terminated by Dr. Mehta upon the occurrence of one of the events specified which would permit him to so terminate, Dr. Mehta shall then receive all accrued salary, incentive commissions, benefits and any deferred compensation through the later of May 22, 2006 or the third anniversary of such termination.

The board of the Company does not have a Compensation Committee. Dr. Mehta's compensation and employment agreement have been unanimously approved by the board, with Dr. Mehta abstaining.

The board of the Company has an Audit Committee which is comprised of the board members other than Dr. Mehta.

Comparative Shareholder Return

The graph which follows compares the yearly percentage change in the Company's cumulative shareholder return on its common stock with the cumulative total return of (1) all United States companies traded on the American Stock Exchange (where the Company's common stock is now traded) and (2) 51 companies traded on the American Stock Exchange which carry the Standard Industrial Classification (SIC) code 283 Pharmaceuticals). The graph was prepared by the Center for Research in Security Prices at the University of Chicago Graduate School of Business, Chicago, IL.

The stock of the Company was traded on the NASDAQ over-the-counter bulletin board from July 23, 1998 until February 24, 2000. The stock of the Company began trading on the American Stock Exchange on February 24, 2000. The period covered by the Comparison begins September 1998 because no trading data was available for



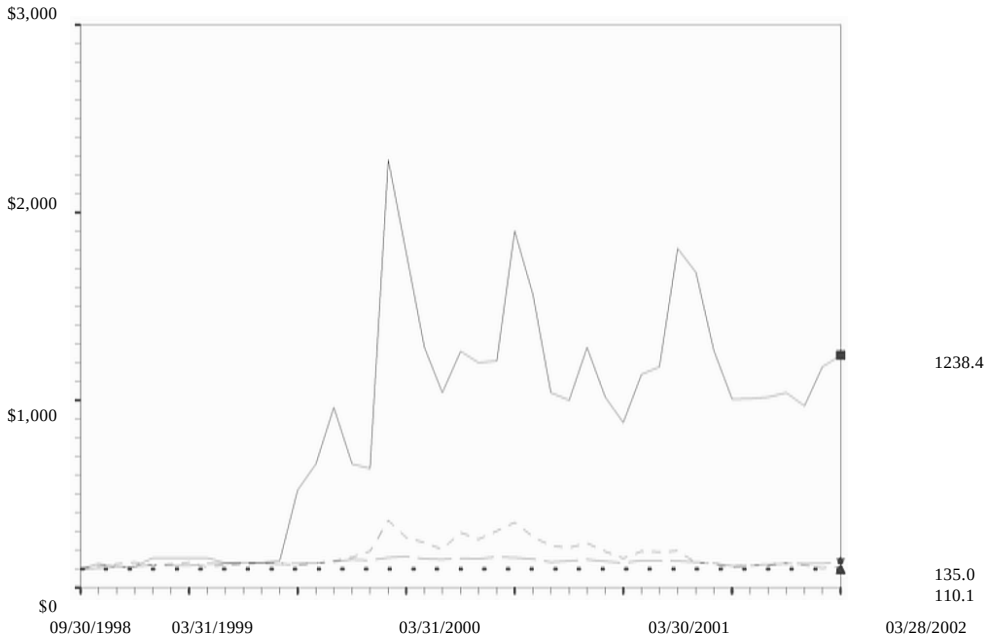
the period from July 23, 1998 through August 31, 1998. The Company's fiscal year ends on March 31.



## Comparison of Five-Year Cumulative Total Returns

**Performance Graph for**
**Elite Pharmaceuticals, Inc.**

**Produced on 05/29/2002 including data to 03/28/2002**



## Legend

| Symbol | CRSP Total Returns Index for: | 09/1998 | 03/1999 | 03/2000 | 03/2001 | 03/2002 |
|---|---|---|---|---|---|---|
| ——— | Elite Pharmaceuticals, Inc. | 100.0 | 158.4 | 1780.0 | 880.0 | 1238.4 |
| — — | AMEX Stock Market (US Companies) | 100.0 | 117.5 | 166.6 | 132.9 | 135.0 |
| — | AMEX Stocks (SIC 2830 - 2839 US Companies) Drugs | 100.0 | 136.2 | 267.8 | 156.3 | 110.1 |

**Notes:**

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
C. If the monthlly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
D. The index level for all series was set to $100.0 on 09/30/1998.
E. Data for Elite Pharmaceuticals, Inc. from 09/1996 to 01/2000 was provided by the client.





ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the security ownership of the Company's voting stock by certain beneficial owners and management as of May 22, 2002. Listed is (i) each person known by the Company to be the beneficial owner of more than 5% of the Company's common stock; (ii) each director of the Company; (iii) each executive officer of the Company; and (iv) the officers and directors of the Company as a group.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Common | Atul M. Mehta, Director/Officer<br>165 Ludlow Avenue<br>Northvale NJ 07647 | 2,912,700(1)<br>Direct and Indirect | 26.5% |
| Common | Jerome Belson<br>495 Broadway<br>New York, NY 10012 | 916,000(2)<br>Direct and Indirect | 9.2% |
| Common | John de Neufville and Mely Rahn, Trustees<br>Margaret de Neufville Revocable Trusts<br>197 Meister Avenue<br>North Branch, NJ 08876 | 768,900(3)<br>Direct and Indirect | 7.9% |
| Common | Bakul and Dilip Mehta<br>P.O. Box 438<br>Muscat, Sultanate of Oman | 630,000<br>Direct | 6.5% |
| Common | Bridge Ventures, Inc.<br>575 Lexington Avenue, Ste. 410<br>New York, NY 10022 | 635,604(4)<br>Direct and Indirect | 6.4% |
| Common | Donald S. Pearson, Director<br>1305 Peabody Avenue<br>Memphis, TN 38104 | 78,750(5)<br>Direct | 0.8% |
| Common | Harmon Aronson, Director<br>26 Monterey Drive<br>Wayne, NJ 07470 | 60,000(6)<br>Direct | 0.6% |
| Common | Eric L. Sichel, Director<br>411 Highview Road<br>Englewood, NJ 07631 | 30,000(7)<br>Direct | 0.3% |



| | | | |
|---|---|---|---|
| Common | Mark I. Gittelman, Treasurer/Sec'y<br>300 Colfax Avenue<br>Clifton, NJ 07013 | 10,000(8)<br>Direct | 0.1% |
| Common | Officers and Directors as a Group | 3,141,450<br>Direct and Indirect | 27.7% |

(1) Includes (i) 6,300 shares held by Dr. and Mrs. Mehta as custodians for Amar Mehta; (ii) 6,300 shares held by Dr. and Mrs. Mehta as custodians for Anand Mehta; and (iii) options to purchase 1,475,000 shares of common stock held by Dr. Mehta (including options for 400,000 shares which do not begin vesting until December 31, 2002 and then vest 100,000 shares on that date and 100,000 shares annually thereafter for three years and options for 50,000 shares which do begin vesting until December 31, 2002 and then vest 10,000 shares on that date and 10,000 shares annually thereafter for four years).

(2) Includes (i) 25,000 shares held by Maxine Belson, wife of Jerome Belson; (ii) 50,000 shares by the Jerome Belson Foundation; and (iii) 35,000 shares owned by the Grandchildren of Jerome Belson; and (iv) warrants for 255,000 shares.

(3) Represents (i) 333,900 shares held in trust for the benefit of John P. de Neufville; (ii) 410,000 shares held in trust for David T. de

Neufville; and (iii) options personally held by John P. de Neufville to purchase 25,000 shares.

(4) Includes (i) 56,334 shares owned by SMACS Holding Corp., an affiliate of Bridge Ventures, Inc.; (ii) warrants to purchase 206,250 shares held by Bridge Ventures, Inc.; (iii) warrants to purchase 75,000 shares held by SMACS Holding Corp.; and (iv) 47,500 shares owned by the Bridge Ventures, Inc. Employee Pension Plan.

(5) Includes options to purchase 60,000 shares. Options for 40,000 shares are vested. The remaining options vest in increments of 10,000 shares each on September 1, 2002 and January 2, 2003.

(6) Comprised of options to purchase 60,000 shares. Options for 40,000 shares are vested. The remaining options vest in increments of 10,000 shares each on September 1, 2002 and January 2, 2003.

(7) Comprised of options to purchase 30,000 shares. Options for 10,000 shares are vested. Options for the remaining shares vest in increments of 10,000 each on August 2, 2003 and August 2, 2004.

(8) Comprised of options to purchase 10,000 shares.

Information as to the stock ownership set out above was provided by the beneficial owners.



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The Company is informed and believes that as of May 21, 2002, Cede & Co. held 6,471,033 shares (66/5%) and Class A warrants for 1,188,430 shares (71.8%) of the Company as nominee for Depository Trust Company, 55 Water Street, New York, New York 10004, that Cede & Co. and Depository Trust Company both disclaim any beneficial ownership thereof, and that such shares are held for the account of numerous other persons, no one of whom is believed to beneficially own five percent or more of the common stock of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

ELI was a party to a three-year Consulting Agreement entered into with Bridge Ventures, Inc. ("Bridge") on August 1, 1997, under which Bridge provided the company with marketing and management consulting services. Under the terms of the Consulting Agreement, ELI paid Bridge the sum of $10,000 per month and reimbursed Bridge for all out-of-pocket expenses incurred on behalf of ELI. This agreement expired on December 31, 2001. Bridge is an owner of at least five percent of the Company's common stock.

ELI is a party to an agreement whereby fees are paid to Gittelman and Company, a company wholly owned by Mark Gittelman, the Company's Treasurer, in consideration for services rendered by Mr. Gittelman in his capacity as Treasurer. For the years ended March 31, 2002 and 2001, the fees paid to that company were $91,260 and $82,639, respectively.

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

(a) (1) Attached as an exhibit is the Report on Consolidated Financial Statements of the Company and subsidiary for the fiscal years ended March 31, 2002, 2001 and 2000.

(2) No financial statement schedules are required to be filed by Item 8 or by Item 14 (d).

(3) Exhibits required to be filed by Item 601 of Regulation S-K which are applicable are: (i) articles of incorporation - incorporated by reference having been previously filed with the SEC by the Company as a part of Form SB-2 on January 29, 1998; (ii) bylaws - incorporated by reference having been previously filed with the SEC by the Company as a part of Form SB-2 on January 29, 1998; (iii) subsidiaries of the registrant - an exhibit listing the subsidiaries of the Company is attached; (iv) consent of auditors - consent of Miller, Ellin & Co. is attached hereto as an exhibit with the financial statements referred to in paragraph 14 (a) (1) above.



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(b) The Company did not file any reports on Form 8-K during the last quarter of the fiscal year ended March 31, 2002.

(c) Attached as an exhibit is a list of the subsidiaries of registrant.

(d) Attached as an exhibit is the Report on Financial Statements of Elite Research, Ltd., a significant subsidiary of the Company, for the fiscal period ended March 31, 2002 and the consent of KPMG.



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**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.

ELITE PHARMACEUTICALS, INC.

By: s/ Atul M. Mehta
Atul M. Mehta
President
(Principal Executive Officer)
Date: June 24, 2002

By: s/ Mark I. Gittleman
Mark I. Gittleman
Treasurer
(Principal Accounting Officer)
Date: June 25, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons, constituting a majority of the board of directors of the registrant, on behalf of the registrant and in the capacities and on the dates indicated.

s/ Atul M. Mehta
Atul M. Mehta
Director
Date: June 24, 2002

s/ Harmon Aronson
Harmon Aronson
Director
Date: June 24, 2002

s/ Eric L. Sichel
Eric L. Sichel
Director
Date: June 24, 2002



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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2002, 2001 AND 2000

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2002, 2001 AND 2000

CONTENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Elite Pharmaceuticals, Inc.
Northvale, New Jersey

We have audited the accompanying consolidated balance sheets of Elite Pharmaceuticals, Inc. and Subsidiary as of March 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended March 31, 2002, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 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 financial position of Elite Pharmaceuticals, Inc. and Subsidiary as of March 31, 2002 and 2001 and the results of their operations and their cash flows for the years ended March 31, 2002, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

MILLER ELLIN & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
May 10, 2002



ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2002 AND 2001

ASSETS

| | 2002 | 2001 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 6,852,434 | $ 7,296,702 |
| Short-term investments | 100,000 | --- |
| Accounts receivable | 39,988 | 13,314 |
| Restricted cash | 213,664 | 306,040 |
| Due from Joint Venture | 525,259 | 80,932 |
| Prepaid expenses and other current assets | 106,082 | 81,732 |
| Total current assets | 7,837,427 | 7,778,720 |
| PROPERTY AND EQUIPMENT- net of accumulated depreciation and amortization | 3,865,771 | 3,891,308 |
| INTANGIBLE ASSETS - net of accumulated amortization | 54,669 | 57,173 |
| OTHER ASSETS: | | |
| Deposit on Equipment | 123,396 | --- |

| | | |
|---|---|---|
| Investment in Joint Venture | 63,381 | --- |
| Amount receivable from sale of state tax losses | 66,077 | 146,132 |
| Restricted cash - Debt Service Reserve | 300,000 | 300,000 |
| Restricted cash - Note payable | 250,000 | --- |
| EDA bond offering costs, net of accumulated amortization of $34,076 and $20,885, respectively. | 163,777 | 176,968 |
| Total other assets | 966,631 | 632,100 |
| | $ 12,724,498 | $ 12,350,301 |

The accompanying notes are an integral part of the consolidated financial statements.



ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(CONTINUED)

MARCH 31, 2002 AND 2001

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 2002 | 2001 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion - Note payable | $ 75,000 | $ --- |
| Current portion of EDA bonds | 130,000 | 120,000 |
| Accounts payable and accrued expenses | 141,712 | 220,220 |
| Due to Joint Venture | 435,754 | 64,827 |
| Total current liabilities | 782,466 | 405,047 |
| LONG TERM LIABILITIES: | | |
| Dividends payable - Preferred Series A | 853,148 | --- |
| Note payable - net of current portion | 300,000 | --- |
| EDA bonds - net of current portion | 2,635,000 | 2,765,000 |
| Total long-term liabilities | 3,788,148 | 2,765,000 |
| Total liabilities | 4,570,614 | 3,170,047 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock at liquidating value of $1,000 per share- $1.00 par value; 20,000 shares authorized; Series A convertible exchangeable preferred stock; 12,015 issued and outstanding in 2002 and 2001 | 12,015,000 | 12,015,000 |
| Preferred stock - $1.00 par value; 7,250,000 shares authorized; Series B convertible preferred stock; 4,806,000 shares designated, and 200,000 shares issued and outstanding in 2002 | 200,000 | --- |
| Common stock - $.01 par value; Authorized - 25,000,000 shares Issued and outstanding - 9,710,840 and 9,376,389 in 2002 and 2001, respectively | 97,108 | 93,764 |
| Additional paid-in capital | 19,469,464 | 18,071,503 |
| Accumulated deficit | (23,627,688) | (21,000,013) |
| Total stockholders' equity | 8,153,884 | 9,180,254 |

| | | |
|---|---|---|
| Total liabilities and stockholders' equity | $ 12,724,498 | $ 12,350,301 |



ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEARS ENDED MARCH 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| REVENUES: | | | |
| Research and development | $ 593,000 | $ --- | $ --- |
| Product formulation fees | 601,057 | 80,932 | --- |
| Consulting and test fees | 3,450 | 14,314 | 10,315 |
| Total revenues | 1,197,507 | 95,246 | 10,315 |
| OPERATING EXPENSES: | | | |
| Research and development | 1,609,108 | 1,475,487 | 1,988,649 |
| General and administrative | 763,687 | 777,118 | 984,736 |
| Depreciation and amortization | 266,919 | 194,038 | 86,290 |
| | 2,639,714 | 2,446,643 | 3,059,675 |
| LOSS FROM OPERATIONS | (1,442,207) | (2,351,397) | (3,049,360) |
| OTHER INCOME (EXPENSES): | | | |
| Interest income | 260,055 | 329,583 | 210,877 |
| Interest expense | (220,123) | (227,301) | (137,709) |
| Equity in loss of Joint Venture | (507,640) | (12,079,827) | --- |
| | (467,708) | (11,977,545) | 73,168 |
| LOSS BEFORE PROVISION (CREDIT) FOR INCOME TAXES | (1,909,915) | (14,328,942) | (2,976,192) |
| PROVISION (CREDIT) FOR INCOME TAXES | (135,388) | (363,961) | 200 |
| NET LOSS | $(1,774,527) | $(13,964,981) | $(2,976,392) |
| BASIC AND DILUTED LOSS PER COMMON SHARE | $ (0.19) | $ (1.53) | $ (0.35) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 9,561,299 | 9,135,369 | 8,287,648 |

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | SERIES A PREFERRED STOCK | | SERIES B PREFERRED STOCK | | COMMON STOCK | |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | SHARES | AMOUNT | SHARES | AMOUNT |
| BALANCE AT MARCH 31, 1999 | | | | | 7,237,613 | $ 72,376 |
| Sale of securities through private placement | - | - | - | - | 1,275,002 | 12,750 |
| Issuance of shares through exercise of options | - | - | - | - | 125,000 | 1,250 |
| Issuance of shares and warrants through exercise of Placement Agent warrants | - | - | - | - | 29,324 | 293 |
| Issuance of shares through exercise of warrants | - | - | - | - | 188,580 | 1,886 |
| Offering costs in connection with sale of securities | - | - | - | - | - | - |
| Offering costs in connection with registration of securities | - | - | - | - | - | - |
| Net loss for year ended March 31, 2000 | - | - | - | - | - | - |
| BALANCE AT MARCH 31, 2000 | 0 | $ 0 | 0 | $ 0 | 8,855,519 | $ 88,555 |
| Issuance of shares | - | - | - | - | 409,165 | 4,092 |
| Issuance of shares through exercise of warrants | - | - | - | - | 88,435 | 884 |
| Issuance of shares through exercise of options | - | - | - | - | 18,750 | 188 |
| Issuance of shares and warrants through exercise of Placement agent warrants | - | - | - | - | 4,520 | 45 |
| Issuance of Series A convertible exchangeable Preferred Stock | 12,015 | 12,015,000 | - | - | - | |
| Net loss for year ended March 31, 2001 | - | - | - | - | - | |
| BALANCE AT MARCH 31, 2001 | 12,015 | $ 12,015,000 | 0 | $ 0 | 9,376,389 | $ 93, |
| BALANCE AT MARCH 31, 2001 | 12,015 | $ 12,015,000 | 0 | $ 0 | 9,376,389 | $ 93, |
| Issuance of Shares through exercise of warrants | - | - | - | - | 298,179 | |
| Issuance of shares through exercise of options | - | - | - | - | 20,000 | |
| Issuance of shares and warrants through exercise of placement agent warrants | * | - | - | - | 16,272 | |
| Issuance of Series B convertible exchangeable Preferred Stock | - | - | 200,000 | 200,000 | - | |
| Dividends - Series A Preferred Stock | - | - | - | - | - | |
| Net loss for year ended March 31, 2002 | - | - | - | - | - | |
| BALANCE AT MARCH 31, 2002 | 12,015 | $ 12,015,000 | $ 200,000 | 200,000 | 9,710,840 | |

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEARS ENDED MARCH 31, | |
|---|---|---|
| | 2002 | 2001 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (1,774,527) | $ (13,964,981) |
| Adjustments to reconcile net loss to cash | | |

| | | |
|---|---|---|
| used in operating activities: | | |
| Write off of accounts receivable and patents | 5,057 | --- |
| Depreciation | 249,338 | 177,662 |
| Amortization | 17,581 | 16,376 |
| Equity in loss of Joint Venture | 507,640 | 12,079,827 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (26,674) | (13,314) |
| Prepaid expenses and other current assets | (24,350) | 256,938 |
| Due from Joint Venture | (444,444) | (80,932) |
| Accounts payable and accrued expenses | (78,508) | (377,560) |
| NET CASH USED IN OPERATING ACTIVITIES | (1,568,887) | (1,905,984) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of short-term investments | (100,000) | --- |
| Payments for patent and trademark filings | (6,920) | (30,788) |
| Restricted cash | (157,624) | 265,690 |
| Receivable from Sale of New Jersey Tax Losses | 80,055 | (146,132) |
| Payment of deposit for manufacturing equipment | (123,396) | - |
| Purchases of property and equipment | (223,801) | (273,933) |
| NET CASH USED IN INVESTING ACTIVITIES | (531,686) | (185,163) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Note - Bank | 375,000 | --- |
| Proceeds from issuance of NJ Economic Development Authority (EDA) Bonds | --- | --- |
| Payments of offering costs in connection with issuance of EDA Bonds | --- | --- |
| Principal payments on capital lease | --- | --- |
| Proceeds from issuance of common stock and warrants | 1,401,305 | 5,565,632 |
| Proceeds from issuance of common stock and warrants in connection with private placement | --- | --- |
| Payments of offering costs in connection with private placement | --- | --- |
| Payments of offering costs in connection with registration filing | --- | --- |
| Principal repayments of NJEDA Bonds | (120,000) | (115,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,656,305 | 5,450,632 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (444,268) | 3,359,485 |
| CASH AND CASH EQUIVALENTS - beginning | 7,296,702 | 3,937,217 |
| CASH AND CASH EQUIVALENTS - ending | $ 6,852,434 | $ 7,296,702 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | $ 218,938 | $ 228,044 |
| Cash paid for income taxes | 2,430 | 4,380 |
| SCHEDULES OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Utilization of equipment deposit towards purchase of equipment | $ --- | $1,315,710 |
| Preferred stock issuance in exchange for interest in joint venture | 200,000 | 12,015,000 |
| Paydown of Amounts Due to Joint Venture through issuance of common Stock | (136,619) | -- |
| Additional Investment in Joint Venture | (63,381) | -- |
| Dividends accrued on Preferred Stock - Series A | 853,148 | -- |

The accompanying notes are an integral part of the consolidated financial statements.



ELITE PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002, 2001 AND 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Elite Pharmaceuticals, Inc. and its Subsidiary, ("Company"), which is wholly-owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Business

Elite Pharmaceuticals, Inc. was incorporated on October 1, 1997 under the Laws of the State of Delaware, and its wholly-owned subsidiary Elite Laboratories, Inc. was incorporated on August 23, 1990 under the Laws of the State of Delaware, in order to engage in research and development activities for the purpose of obtaining Food and Drug Administration approval, and, thereafter, commercially exploiting generic and new controlled-release pharmaceutical products. The Company also engages in contract research and development on behalf of other pharmaceutical companies.

Merger Activities

Concurrent with its private placement offering, Elite Pharmaceuticals, Inc. merged with Prologica International, Inc. ("Prologica") a Pennsylvania Corporation, a publicly traded inactive corporation, with Elite Pharmaceuticals, Inc. surviving the merger. In addition, Elite Laboratories, Inc. merged with a wholly-owned subsidiary of Prologica, with the Company's subsidiary surviving this merger. The former shareholders of the Company's subsidiary exchanged all of their shares of Class A voting common stock for shares of the Company's voting common stock in a tax free reorganization under Internal Revenue Code Section 368. The result of the merger activity qualifies as a reverse acquisition. In connection with the reverse acquisition, options exercisable for shares of Class A voting and Class B nonvoting common stock of the Company's subsidiary were exchanged for options exercisable for shares of the Company's voting common stock.

Cash and Cash Equivalents

The Company considers highly liquid short-term investments purchased with initial maturities of three months or less to be cash equivalents.





NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the respective assets which range from five to thirty-nine years. For property and equipment financed with proceeds of the NJ EDA Bond issuance, depreciation is provided under the Alternative Depreciation System based on useful lives ranging from five to forty years. Major repairs or improvements are capitalized. Minor replacements and maintenance and repairs which do not improve or extend asset lives are expensed currently.

Upon retirement or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is recorded.

Research and Development

Research and development expenditures are charged to expense as incurred.

Patents and Trademarks

Costs incurred for the application of patents and trademarks are capitalized and amortized on the straight-line method, based on an estimated useful life of fifteen years, commencing upon approval of the patent and trademarks. These costs are charged to expense if the patent or trademark is unsuccessful.

Concentration of Credit Risk

The Company derives substantially all of its revenues from

contracts with other pharmaceutical companies, subject to licensing and research and development agreements.

The Company maintains cash balances in its bank which, at times, may exceed the limits of the Federal Deposit Insurance Corp.

The Company extends credit to its customers pursuant to contract terms in the normal course of business and performs ongoing credit evaluations. As of March 31, 2002 and 2001, no allowance for doubtful accounts was considered necessary.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.





NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company adopted SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method of accounting for income taxes. The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The resulting deferred tax assets or liabilities are adjusted to reflect changes in tax laws as they occur.

Loss Per Common Share

Net loss per common share is based on the weighted average number of shares outstanding during each period presented. The weighted average number of shares outstanding has been adjusted to reflect the recapitalization in connection with the private placement as if it had occurred as of the beginning of the period for which loss per share is presented as well as the effect of stock splits and reverse stock splits issued during the periods. Common stock equivalents have not been included as their effect would be antidilutive.

Revenue Recognition

Revenues are earned primarily by licensing certain pharmaceutical products developed by the Company as well as performing research and development services under fixed price contracts. Such revenues are recorded as certain projected goals are attained, as defined in the individual contract. The Company follows SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenues in the financial statements.

Investments

Short-term investments consist of certificates of deposit at a bank with initial maturities of one year. At March 31, 2002, $100,000 was classified as held-to-maturity, bearing interest at 4.07% and maturing on September 13, 2002.

The equity method of accounting is used to account for the Company's investment in its joint venture with Elan International Services, Inc. Under the equity method, the Company recognizes its share in the net earnings or losses of the joint venture as

they occur.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements No. 141, Business Combinations, No. 142, Goodwill and Other Intangible Assets, and No. 143, Accounting for Asset Retirement Obligations. In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. FASB Statement No. 141 eliminated the pooling method of accounting for business combinations after June 30, 2001. FASB Statement No. 142 eliminated the amortization of goodwill and requires periodic testing for impairment of goodwill and other intangibles, effective for the Company beginning April 1, 2002. FASB Statement No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset, and is effective for the Company beginning April 1,2003. FASB No. 144 describes the accounting for the impairment or disposal of long-lived assets, and is effective for the Company beginning April 1, 2002. These standards are not expected to have a material effect on the financial position or results of operations of the Company.

Stock-Based Compensation

Under various qualified and non-qualified plans, the Company may grant stock options to officers, selected employees, as well as members of the board of directors and advisory board members. The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Fair Value of Financial Instruments

The carrying amounts of current assets and liabilities approximate fair value due to the short-term nature of these instruments. The carrying amounts of noncurrent assets are reasonable estimates of their fair values based on management's evaluation of future cash flows. The long-term liabilities are carried at amounts that approximate fair value based on borrowing rates available to the Company for obligations with similar terms.



NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2002 and 2001 consists of the following:

| | 2002 |
|---|---|
| Laboratory manufacturing, and warehouse equipment | $ 2,337,120 |
| Office equipment | 32,981 |
| Furniture and fixtures | 51,781 |

| | |
|---|---|
| Land, building and improvements | 2,097,668 |
| Equipment under capital lease | 168,179 |
| | 4,687,729 |
| Less: Accumulated depreciation and amortization | 821,958 |
| | $ 3,865,771 |

Depreciation and amortization expense amounted to $249,338, $177,662 and $76,784 for the years ended March 31, 2002, 2001 and 2000, respectively.

NOTE 3 - INTANGIBLE ASSETS

Intangible assets at March 31, 2002 and 2001, consists of the following:

| | 2002 | |
|---|---|---|
| Patents | $ 59,617 | $ |
| Trademarks | 8,120 | |
| | 67,737 | |
| Less: Accumulated amortization | 13,068 | |
| | $ 54,669 | $ |

Amortization amounted to $4,390, $3,179 and $1,811 for the years ended March 31, 2002, 2001 and 2000, respectively.





NOTE 4 - NOTE PAYABLE

On January 25, 2002, the Company closed on a Bank Loan totaling $375,000 to finance the purchase and installation of machinery equipment. Interest is fixed at 5.70% per annum calculated on a 360 day year. The loan is due in 60 equal monthly installments of $6,250 plus interest and is secured by the machinery/equipment purchased under this facility and a Certificate of Deposit in the amount of $250,000 held as collateral. This Certificate of Deposit has been classified as noncurrent restricted cash.

| | |
|---|---|
| Bank note payable | $ 375,000 |
| Current portion | (75,000) |
| Long-term portion, net of current maturities | $ 300,000 |

Principal Maturities under this loan are as follows:

| | |
|---|---|
| Year Ending March 31, | |
| 2003 | $ 75,000 |
| 2004 | 75,000 |
| 2005 | 75,000 |
| 2006 | 75,000 |
| 2007 | 75,000 |
| | $ 375,000 |

NOTE 5 - BOND FINANCING OFFERING

On September 2, 1999, the Company completed the issuance of tax exempt bonds by the New Jersey Economic Development Authority. The aggregate principal proceeds of the fifteen year term bonds were $3,000.000. Interest on the bonds accrues at 7.75% per annum. The proceeds, net of offering costs of $60,000, are being used by the Company to refinance the land and building it currently owns, and for the purchase of certain manufacturing equipment and related building improvements.

Offering costs in connection with the bond issuance totaled $197,860, including the $60,000 mentioned above which were paid from bond proceeds. Offering costs included underwriter fees equal to $90,000 (three percent (3%) of the par amount of the bonds).

The bonds are collateralized by a first lien on the building which includes property and equipment.

Several restricted cash accounts are maintained in connection with the issuance of these bonds. These include amounts restricted for payment of bond principal and interest, for the refinancing of the land and building the Company currently owns, for the purchase of certain manufacturing equipment and related building improvements as well as the maintenance of a $300,000 Debt Service Reserve.





NOTE 5 - BOND FINANCING OFFERING (CONTINUED)

All restricted accounts other than the $300,000 Debt Service Reserve are expected to be expended within twelve months and are therefore categorized as current assets.

| | 2002 | 2001 |
|---|---|---|
| EDA Bonds | $ 2,765,000 | $ 2,88 |
| Current Portion | (130,000) | (126 |
| Long term portion, net of current maturities | $ 2,635,000 | $ 2,76 |

Principal maturities required under the bond agreement are as follows:

| Years Ended March 31, | |
|---|---|
| 2003 | 130,000 |
| 2004 | 140,000 |
| 2005 | 150,000 |
| 2006 | 165,000 |
| 2007 | 175,000 |
| Thereafter | 2,005,000 |
| | $ 2,765,000 |

NOTE 6 - JOINT VENTURE ACTIVITIES

In October 2000, Elite entered into a joint development and operating agreement with Elan Corporation, plc, and Elan International Services, Ltd. (together "Elan") to develop products using drug delivery technologies and expertise of both

companies. This joint venture, Elite Research, Ltd. ("ERL"), a Bermuda corporation, is initially owned 80.1% by Elite and 19.9% by Elan. ERL will fund its research through capital contributions from its partners based on the partners' ownership percentage. In the ordinary course of business, ERL will subcontract research and development efforts to Elite, Elan and others. It is anticipated that Elite will likely provide most of the formulation and development work. Elite has commenced work for two products. As of March 31, 2002 and 2001, Elite has charged $601,057 and $80,932, respectively, to this joint venture which is reflected in product formulation fees.

While the Company owns 80.1% of the outstanding common stock of ERL, Elan and its subsidiaries have retained significant minority investor rights that are considered "participating rights" as defined in the Emerging Issues Task Force Consensus No. 96-16. Accordingly, the Company will not consolidate the financial statements of ERL, but will instead account for its investment in ERL under the equity method of accounting.



NOTE 6 - JOINT VENTURE ACTIVITIES (CONTINUED)

For the year ended March 31, 2001 ERL recognized a net loss of $15,080,931. The net loss includes a $15,000,000 payment to Elan for a technology license fee as well as $80,931 due to Elite for services rendered to ERL. Elite recognized 80.1% of ERL's loss, or $12,079,827 for the year ended March 31, 2001. For the year ended March 31, 2002 ERL recognized a net loss of $633,642. Elite recognized 80.1% of ERL's loss, or $507,640 for the year ended March 31, 2002. To date, ERL has not recognized any revenue.

In December 2000, the joint venture had its first organizational meeting and approved one product for development. In March 2001, the management committee of ERL met to finalize it's budget and business plan and to complete a preliminary formulation of the drug product. As of March 31, 2002, ERL completed in-vivo (pilot clinical trial) on the first product and began formulation and development of two additional products.

As of March 31, 2002 and 2001, the Company owed ERL $435,754 and $64,827, respectively, representing its 80.1% contribution to ERL to cover ERL's expenses for the years ending March 31, 2002, and March 31, 2001, respectively.

NOTE 7 - INCOME TAXES

The components of provision (credit) for income taxes by taxing jurisdiction are as follows:

| | 2002 | 2001 | |
|---|---|---|---|
| Federal: | | | |
| Current | $ - | $ - | $ |
| Deferred | - | - | |
| | - | - | |
| State: | | | |
| Current | 2,430 | 4,382 | |
| Deferred | - | - | |
| Sale of New Jersey net operating losses | (137,818) | (368,343) | |
| | (135,388) | (363,961) | |
| | $(135,388) | $ (363,961) | |

In the year ended March 31, 2001, the Company received approval for the sale of $4,872,267 of New Jersey net operating losses under the Technology Tax Certificate Transfer Program sponsored by the New Jersey Economic

Development Authority (NJEDA). The total tax benefit receivable by the Company was $368,343 of which $222,211 and $146,132 was received in 2001 and in 2002, respectively.

During the current year, the Company received approval for the sale of an additional $1,822,989 of New Jersey net-operating losses under the Technology Tax Certificate Transfer Program sponsored by the New Jersey Economic Development Authority (NJEDA). The total tax benefit receivable by the Company as of March 31, 2002 is $137,818, of which $71,741 was received in November 2001. The remaining balance of $66,077 will be received pending the NJEDA's authorization. Such amounts are classified as non-current assets on the accompanying consolidated balance sheet.



NOTE 7 - INCOME TAXES (CONTINUED)

The major components of deferred tax assets at March 31, 2002 and 2001 are as follows:

| | 2002 |
|---|---|
| Net operating loss carry forward | $ 3,128,375 |
| Valuation allowance | (3,128,375) |
| | $ 0 |

At March 31, 2002, a 100% valuation allowance is provided as it is uncertain if the deferred tax assets will be utilized.

At March 31, 2002, for federal income tax purposes, the Company has unused net operating loss carryforwards of approximately $10,129,135 expiring in 2007 through 2015. For state tax purposes, the Company has $3,244,988 of unused net operating losses, which are net of the $6,695,616 of New Jersey net operating losses sold, as discussed above.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Employment Agreement

On March 31, 2000, the Company amended and restated an employment agreement with its President/CEO. The following is the minimum annual commitment payable under the agreement:

| Year Ending March 31, | |
|---|---|
| 2003 | $ 300,141 |
| 2004 | 330,155 |
| 2005 | 363,170 |
| 2006 | 399,487 |
| 2007 | 439,435 |
| Thereafter | 2,070,748 |
| | $ 3,903,136 |

On December 31, 2005, this agreement will be automatically renewed for an additional five years, unless written notice is given by December 31, 2004. Annual compensation under the renewed agreement shall be equal to no less than one hundred and ten percent (110%) of the previous year's base salary.

The agreement also provides for the following:

a. Incentive commissions equal to five percent (5%) of net profit, as defined, for each fiscal year.

b. Options to purchase 520,214 shares of common stock at a price of $2.00 per share. The options were initially to vest at the rate of 100,000 shares per year each year from 1996 through 2001; however, upon completion of the private placement

undertaken by the Company in 1997, they became 100% vested. Such options are exercisable from the date that they are granted through either one year after termination of employment or ten years from the date of grant.





NOTE 8 - COMMITMENTS AND CONTINGENCIES

Employment Agreement (Continued)

c. Options to purchase 500,000 shares of common stock at a price of $10 per share. Options to purchase 100,000 shares will vest each year beginning December 31, 2001 and ending December 31, 2005.

d. Certain additional compensation on termination as a result of a change in control of the Company.

Compensation expense under this agreement amounted to $335,964, $293,050 and $252,030 for the years ended March 31, 2002, 2001 and 2000, respectively.

On January 2, 2001, under two separate agreements, the Company granted its President/CEO incentive stock options to purchase 300,000 and 125,000 shares, respectively, of common stock at an exercise price of $7. These options were granted in exchange for 300,000 options dated December 31, 1998 and 125,000 options dated September 1, 1997. These options vest immediately and expire no later than January 1, 2006.

On January 25, 2001, the Board of Directors voted to purchase 20,214 of certain options of the President/CEO for $4.00 per option. These options were purchased in March of 2002 and $80,856 was included in officer's compensation expense.

Consulting Agreements

On August 1, 1997, the Company entered into agreements with two corporations, one of which is an owner of at least 5% of the Company's common stock, to provide various consulting services for a period of three years. Terms of the agreements include the following:

a. Combined monthly fees of $15,000.

b. The issuance of 350,000 warrants to purchase common stock at an exercise price of $6.00 per share for a period of five (5) years.

Such agreements terminated on July 31, 2000. The Company entered into two new agreements with these Companies commencing on September 1, 2000 and terminating on December 31, 2000. Such agreements called for combined monthly fees of $7,500. One agreement was extended through December 31, 2001 and then terminated and the other agreement was subsequently extended until March 31, 2002, calling for payments of $5,000 per month.

Consulting expenses under these agreements amounted to $67,500, $97,500 and $180,000, for the years ended March 31, 2002, 2001 and 2000, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Consulting Agreements (Continued)

On August 1, 1998, the Company entered into a consulting agreement with a company for the purpose of providing management, marketing and financial consulting services for an unspecified term. Terms of the agreement provide for a nonrefundable monthly fee of $2,000. This compensation will be applied against amounts due pursuant to a business referral agreement entered into on April 8, 1997.

Terms of the business referral agreement provide for payments by the Company based upon a formula, as defined, for an unspecified term. On November 14, 2000, the Company amended its referral agreement to provide certain consulting services for the period of November 1, 2000 through October 31, 2003. The Company previously advanced $20,000 under the April 8, 1997 agreement in addition to a payment of $50,000 made during the year ended March 31, 2001. The agreement calls for 25 monthly installments of $3,200 beginning on December 1, 2001.

Consulting expense under these agreements amounted to $12,800, $50,000 and $4,000 for the years ended March 31, 2002, 2001 and 2000, respectively.

Referral Agreement

On January 29, 2002, the Company entered into a Referral Agreement with an individual (Referring Party) whereby Elite will pay the Referring Party a fee based upon payments received by Elite from sales of products, development fees, licensing fees and royalties generated as a direct result of the Referring Party identifying customers for Elite. These amounts shall be reduced by the cost of goods sold directly incurred in the manufacturing or development of products as well as any direct expenses associated with these efforts. Elite will pay Referring Party a referral fee each year equal to:

| Percentage of Referral Base | From | To |
|---|---|---|
| 5% | $ 0 | $ 1,000,000 |
| 4% | 1,000,000 | 2,000,000 |
| 3% | 2,000,000 | 3,000,000 |
| 2% | 3,000,000 | 4,000,000 |
| 1% | 4,000,000 | 5,000,000 |

Collaborative Agreements

On June 27, 2001, the Company entered into two separate and distinct development and license agreements with another pharmaceutical company ("partner"). The Company will develop two drug compounds for the partner in exchange for certain payments and royalties. Elite also reserves the right to manufacture the compounds. The Company received $250,000 and $300,000, respectively, on these two agreements. These amounts have been earned as of March 31, 2002 and are reflected in the consolidated statement of operations.



NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

Elite is the plaintiff in a civil action brought in the Superior Court of New Jersey on November 20, 2000 against three parties to recover damages in an unspecified amount based on the alleged failure of the defendants to properly perform and complete certain pharmaceutical tests and studies for which Elite paid approximately $950,000.

The defendants have brought a counterclaim of approximately

$418,000 allegedly due for services rendered to Elite by the defendants. Elite will vigorously contest the counterclaim.

The action and counterclaim are proceeding in pretrial discovery under a Case Management Order entered by the court. If such action or counterclaim is in favor of defendants, the recovery, if any, would not have a material effect on the Company's financial condition or results of operations. Legal counsel is unable to predict the outcome of these actions. Accordingly, no provisions for liability, if any, has been provided in the accompanying consolidated financial statements.

NOTE 9 - STOCKHOLDERS' EQUITY

Public Offering

In July 1998 the Company successfully filed a registration statement on Form SB-2 under the Securities Act of 1933, as amended, for the purpose of registering securities previously sold to and held by various corporations and individuals. The Company did not receive any proceeds upon filing of Form SB-2. The securities registered consisted of 3,725,000 shares of the Company's $.01 par value common stock, including 1,525,000 redeemable common stock purchase warrants.

In March 2000, the Company successfully filed a registration statement on Form SB-2 under the Securities Act of 1933, as amended, for the purpose of registering securities previously sold to and held by various corporations and individuals. The Company did not receive any proceeds upon filing of Form SB-2. The securities registered consisted of 3,297,539 shares of the Company's $.01 par value common stock, 2,022,537 underlying Class A and Class B common stock purchase warrants, and 317,250 Class A common stock purchase warrants.

For the years ended March 31, 2002, 2001, and 2000 the Company incurred legal fees and other costs amounting to $0, $0, and $7,878, respectively, in connection with its public filing, which has been charged to additional paid-in capital.

Private Placement Offering

In a private placement offering dated May 17, 1999, the Company raised $4,462,500 from the sale of 12.75 units of its securities; each unit consisting of 100,000 shares of common stock of the Company and 50,000 warrants, each warrant entitling the holder to purchase one share of common stock at an exercise price of $5.00 per share during the five year period commencing with the date of closing of the private placement memorandum (June 16, 1999). The price per unit was $350,000. This resulted in the issuance of 1,275,000 shares of common stock and 637,500 warrants to purchase common stock, at an exercise price of $5.00 per share.





NOTE 9 - STOCKHOLDERS' EQUITY (CONTINUED)

Private Placement Offering (Continued)

The Company received net proceeds of $4,452,500 from the private placement after legal fees of $10,000.

Placement Agent Agreement

On August 8, 1997, in connection with its private placement offering, the Company entered into a placement agent agreement with its underwriter. Terms of this one year agreement include the following:

a. Placement fees equal to ten percent (10%) of the gross proceeds.

b. Consulting fees in the amount of $3,000 per month.

c. The issuance of ten placement agent warrants, each made up of 20,000 shares of common stock and 10,000 warrants to purchase

common stock, at an exercise price of $6.00 per share, for a price of $72,000 per unit. Such warrants are exercisable for a period of five years from the date of issuance.

For the years ended March 31, 2002 and 2001, no placement agent fees have been charged to additional paid-in capital.

Joint Venture Subscription Offering

On September 21, 2000, 409,165 shares of the Company's common stock and 12,015 shares of a newly created Elite Series A convertible exchangeable preferred stock ("Series A Preferred Stock") were issued to Elan International Services, Ltd. ("EIS") for consideration of $5,000,000 and $12,015,000, respectively. Proceeds from the sale of the Series A Preferred Stock were used to fund the Company's 80.1% share of Elite Research, Ltd. ("ERL"), a joint venture with EIS.

The Series A Preferred Stock accrues a dividend of 7% per annum, compounded annually and payable in shares of Series A Preferred Stock. Dividends shall be accrued and compounded annually beginning on October 16, 2001. The Series A Preferred Stock is convertible at anytime after two years, at EIS's option, into the Company's common stock at a price of $18.00 per share and has a term of six years. At the end of the sixth year, at the option of Elite, the Series A Preferred Stock shall either be redeemed in cash or in shares of Elite common stock at a fair market value equal to the aggregate outstanding Series A liquidation preference and accrued dividends. As of March 31, 2002, the Company has accrued dividends on the Series A Preferred Stock, totaling $853,148.

The Series A Preferred Stock is exchangeable at the option of EIS at any time during the term of the agreement for that amount of the preferred shares of ERL which will allow EIS to own a total of 50% of the issued and outstanding common and preferred shares of ERL.

For a period of one year after the issuance of the above securities, EIS shall have the right to require registration under the Securities Act of all or part of these securities. All registration expenses will be borne by EIS. EIS also has the right to piggyback registration if at any time the Company shall propose to register shares of common stock under the Securities Act.





NOTE 9 - STOCKHOLDERS' EQUITY (CONTINUED)

Joint Venture Subscription Offering (Continued)

On October 17, 2000, the Company also authorized 7,250,000 shares of newly created Elite Series B Preferred Stock of which 4,806,000 has been designated for issuance to EIS for a total consideration of $4,806,000. These shares can be issued upon demand by Elite in increments of $100,000 and shall be used to fund Elite's 80.10% portion of the future capital contributions to ERL and for subsequent funding of the research and development activities for ERL.

Series B Preferred Stock shall be entitled to receive a mandatory dividend equal to 7% per year of the original issue price. Such dividend shall be accrued and compounded on each succeeding twelve month anniversary of the first issuance and is payable solely by the issuance of additional Series B Preferred Stock, at a price per share equal to the original issue price and not in cash. Dividends shall be compounded commencing one year after issuance. Additionally, Class B Preferred Stock shall have a senior liquidation preference of $1 per share (original issue price) plus any accrued and unpaid dividends. As of March 31, 2002, the Company has accrued no dividends on Series B Preferred Stock.

Additionally, Series B Stock shall be exchangeable, at the option of EIS, at any time after two years from the date of issuance, into shares of the Company's common stock using an exchange price of $14.84 per share and has a term of six years from the date of first issuance.

At the end of the sixth year, at the option of Elite, Series B Stock can be redeemed in cash or by the issuance of shares of Elite common stock at a fair market value equal to the Series B liquidation preference and accrued dividends.

In addition to the offering above, on October 17, 2000 the Company issued EIS 100,000 warrants to purchase common stock of Elite Pharmaceuticals at the exercise price of $18 per share. The warrants are exercisable at any time on or before October 17, 2005.

As of March 31, 2002, a $200,000 capital contribution was made on behalf of ERL and financed through the issuance of 200,000 shares of Series B Preferred Stock.

Warrants

The Company authorized the issuance of common stock purchase warrants, with terms of five to six years, to various corporations and individuals, in connection with the sale of securities, loan agreements and consulting agreements. Exercise prices range from $2.00 to $18.00 per warrant. The warrants expire at various times from August 1, 2001 to October 17, 2005.





NOTE 9 - STOCKHOLDERS' EQUITY (CONTINUED)

Warrants (Continued)

A summary of warrant activity for the periods indicated were are follows:

| | 2002 | 2001 |
|---|---|---|
| Beginning balance | 2,983,928 | 3,020,869 |
| Warrants issued | | 100,000 |
| Warrants issued pursuant to Placement Agent Agreement | 8,136 | 2,260 |
| Placement Agent Warrants Exercised | (24,408) | (50,766) |
| Warrants exercised or expired | (298,179) | (88,435) |
| Ending balance | 2,669,477 | 2,983,928 |

NOTE 10 - STOCK OPTION PLANS

Under various qualified and non-qualified plans, the Company may grant stock options to officers, selected employees, as well as members of the board of directors and advisory board members. All options have generally been granted at a price equal to or greater than the fair market value of the Company's common stock at the date of grant. Generally, options are granted with a vesting period of up to three years and expire ten years from the date of grant. Transactions under the various stock option and incentive plans for the periods indicated were as follows:

| Years Ended March 31, | 2002 | | 2001 | | |
|---|---|---|---|---|---|
| | Shares | Average Weighted Exercise Price | Shares | Average Weighted Exercise Price | Shares |
| Outstanding at beginning of the Year | 2,009,064 | $ 5.64 | 1,935,714 | $ 5.56 | 1,472,7 |
| Granted | 63,000 | 10.00 | 518,100 | 6.94 | 663,0 |
| Exercised | (20,000) | 6.00 | (18,750) | 2.00 | (125,00 |
| Expired | (25,000) | 7.80 | (426,000) | 7.00 | (75,00 |
| Purchased by the Company for retirement | (20,214) | 4.00 | - | - | |
| Outstanding at end of year | 2,006,850 | $ 5.78 | 2,009,064 | $ 5.64 | 1,935,7 |





NOTE 10 - STOCK OPTION PLANS (CONTINUED)

The following table summarizes information about stock options outstanding at March 31, 2002:

| Range of Exercise price | Shares Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Shares Exercisable | Weighted Average Exercisab Price |
|---|---|---|---|---|---|
| $ 2.00 | 718,750 | 3.76 | $2.00 | 718,750 | $2.00 |
| 6.00 - 7.00 | 725,100 | 4.93 | 6.26 | 625,700 | 6.23 |
| 9.00 - 10.00 | 563,000 | 8.17 | 10.00 | 110,000 | 10.00 |
| $2.00 - 10.00 | 2,006,850 | 5.42 | $5.78 | 1,454,450 | $4.43 |

The per share weighted-average fair value of each option granted during fiscal 2002, 2001 and 2000 was $8.38, $6.12 and $7.49, respectively, on the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions used for grants; no dividend yield; expected volatility of 76.69%, 87.29% and 119.72% for fiscal 2002, 2001 and 2000, respectively; risk-free interest rate ranging from 4.55% to 4.875% in 2002, 5.12% to 6.20% in 2001, and 5.05% to 6.79% in 2000; and expected lives of approximately five years. Weighted-averages are used because of varying assumed exercise dates.

The Company applies APB Opinion 25 and related interpretations in accounting for stock options; accordingly, no compensation cost has been recognized for any employees, officers and directors. Had compensation cost been determined based upon the fair value of the stock options at grant date consistent with the method in SFAS Statement 123, the Company's net (loss) and (loss) per share would have been increased to the pro forma amounts indicated below:

| | 2002 | 2001 | 2 |
|---|---|---|---|
| Net loss as reported | $ (1,774,527) | $ (13,964,981) | $ |
| Pro forma loss | (3,553,865) | (15,796,850) | |
| Basic and diluted loss per share as reported | (0.19) | (1.53) | |
| Pro forma basic and diluted loss per share | (0.38) | (1.73) | |

NOTE 11 - CONSULTING AGREEMENTS

Collaborative Agreements

On June 1, 2000, the Company entered into a Memorandum of Understanding (MOU) with Inabata America Corporation ("Inabata"), an international trading company which markets specialty chemicals throughout the world in several industry segments including the pharmaceutical industry. The purpose of the Memorandum was to agree that the two parties would explore the possibility of entering into a joint venture for the purpose of marketing Elite products in Japan through the efforts of Inabata. The parties will review each other's capabilities and obtain information concerning regulatory procedures, price restrictions and marketing information for the Japanese markets. The parties will perform other due diligence investigations and analyses. Although Elite declined to extend the term of the (MOU) after its initial term of six months expired, both Inabata and the Company continued in good faith to explore opportunities. On October 8, 2001, Inabata acknowledged that the Memorandum of Understanding would not be extended. Both parties later agreed to devise a more definitive collaboration agreement.

Consulting Agreement

On October 1, 1998, the Company entered into a consulting agreement with an investment-banking firm ("Consultant"). The terms of the agreement provide for the consultant to render various services to the Company relating to financial and investment activities for a term of twenty-four months.

As compensation for the consultant's services, the Company shall grant warrants to purchase 300,000 shares of the Company's common stock at an exercise price of $6 per share. The warrants shall vest at the rate of 50,000 warrants every ninety days after the commencement of the agreement.

On June 30, 1999, this consulting agreement was amended to provide for payment of a monthly consulting fee of $5,000, commencing on July 1, 1999 and was terminated on December 1, 2000. Consulting fees under this agreement amounted to $45,000 for the years ended March 31, 2001 and 2000.

NOTE 12 - MAJOR CUSTOMERS

For the years ended March 31, revenues from major customers are as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Customer A | 50.19% | 84.90% | 58.10% |
| Customer B | -- | 13.90% | 32.90% |
| Customer C | 49.52% | -- | -- |

NOTE 13 - SUBSEQUENT EVENTS

The consulting agreement originally entered into on August 1, 1997 and which expired on March 31, 2002 was extended through June 30, 2002 at a monthly fee of $5,000.

As of April 4, 2002, a $254,000 capital contribution was made on behalf of ERL and financed through the issuance of 254,000 shares of Series B Preferred Stock. Amounts due from ERL for research and development activities totaling $379,310 and amounts due to joint venture for Elite's shares of these expenses totaling $317,149 were simultaneously satisfied.



CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Elite Pharmaceuticals, Inc. and Subsidiary
Northvale, New Jersey

We hereby consent to the incorporation by reference in the Annual Report of Elite Pharmaceuticals, Inc. and .Subsidiary (the "Company") on Form 10-K of our report dated May 10, 2002, appearing in the Company's Form 10-K for the years ended March 31, 2002, 2001 and 2000.

MILLER, ELLIN & COMPANY, LLP

June 25, 2002

EXHIBIT ATTACHED TO FORM 10-K FOR
THE FISCAL YEAR ENDING MARCH 13, 2002
OF ELITE PHARMACEUTICALS, INC.

Subsidiaries of the Company:

Elite Laboratories, Inc., a Delaware corporation

Elite Research, Ltd., a Bermuda corporation

ELITE RESEARCH, LTD.

Financial Statements
(With Independent Auditors' Report Thereon)
March 31, 2002

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
Elite Research, Ltd.

We have audited the accompanying balance sheet of Elite Research, Ltd. as at March 31, 2002 and the related statement of operations, changes in shareholders' equity and cash flows for the year ended March 31, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elite Research, Ltd. as at March 31, 2002, and the results of its operations and its cash flows for the year ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG

Chartered Accountants
Hamilton, Bermuda
June 11, 2002

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ELITE RESEARCH, LTD.

Balance Sheet

March 31, 2002
(Expressed in United States Dollars)

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| | 2002 | 2001 (Unaudited) |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 63,478 | $ - |
| Total assets | $ 63,478 | $ - |
| Liabilities | | |
| Deferred capital contributions | $ 62,990 | $ - |
| Accounts payable to related parties (Note 3) | 544,012 | 80,931 |
| Total liabilities | 607,002 | 80,931 |
| Shareholders' equity | | |
| Share capital (Note 5) | 12,000 | 12,000 |
| Share premium (Note 6) | 14,988,000 | 14,988,000 |

| | | |
|---|---|---|
| Contributed surplus (Note 7) | 171,049 | - |
| Retained deficit | (15,714,573) | (15,080,931) |
| Total shareholders' equity | (543,524) | (80,931) |
| Total liabilities and shareholders' equity | $ 63,478 | $ - |

See accompanying notes to financial statements

Signed on behalf of the Board

_____ Director

_____ Director

ELITE RESEARCH, LTD.

Statement of Operations

Year Ended March 31, 2002
(Expressed in United States Dollars)

| | 2002 | 2001 (Unaudited) |
|---|---|---|
| Income | | |
| Interest income | $ 48 | $ - |
| Total income | 48 | - |
| Expenses | | |
| Research and development (Note 3) | 619,693 | 80,931 |
| General and administrative | 13,997 | - |
| License fee (Note 4) | - | 15,000,000 |
| Total operating expenses | 633,690 | 15,080,931 |
| Net (loss) | $ (633,642) | $ (15,080,931) |

See accompanying notes to financial statements

ELITE RESEARCH, LTD.

Statement of Changes in Shareholders' Equity

For the Year Ended March 31, 2002
(Expressed in United States Dollars)

| | 2002 | 2001 (Unaudited) |
|---|---|---|
| Share Capital | | |
| Balance at beginning of period (Note 5) | $ 12,000 | $ - |
| Shares issued during the period | - | 12,000 |
| Balance at end of period | 12,000 | 12,000 |
| Share premium | | |
| Balance at beginning of period | 14,988,000 | - |
| Share premium during the period (Note 6) | - | 14,988,000 |

| | | |
|---|---|---|
| Balance at end of period | 14,988,000 | 14,988,000 |
| Contributed surplus | | |
| Balance at beginning of period | - | - |
| Contributed surplus during the period (Note 7) | 171,049 | - |
| Balance at end of period | 171,049 | - |
| Deficit | | |
| Balance at beginning of period | (15,080,931) | - |
| Net loss for the period | (633,642) | (15,080,931) |
| Balance at end of period | (15,714,573) | (15,080,931) |
| Total shareholders' deficit | $ (543,524) | $ (80,931) |

See accompanying notes to financial statements

ELITE RESEARCH, LTD.

Statement of Cash Flows

For the Year Ended March 31, 2002
(Expressed in United States Dollars)

| | 2002 | 2001 (Unaudited) |
|---|---|---|
| Cash flows from operating activities | | |
| Net (loss) | $ (633,642) | $ (15,080,931) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Due to related parties | 463,081 | 80,931 |
| Cash used in operating activities | (170,561) | (15,000,000) |
| Cash flows from financing activities | | |
| Contributed surplus | 234,039 | - |
| Proceeds from issuance of common stock | - | 7,500,000 |
| Proceeds from issuance of non-voting convertible preferred shares | - | 7,500,000 |
| Cash provided by financing activities | 234,039 | 15,000,000 |
| Net change in cash and cash equivalents | 63,478 | - |
| Cash and cash equivalents at beginning of period | - | - |
| Cash and cash equivalents at end of period | $ 63,478 | $ - |

See accompanying notes to financial statements

ELITE RESEARCH, LTD.

Notes to Financial Statements

March 31, 2002

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1. General

Elite Research, Ltd. (the "Company") ("ERL") was incorporated on October 6, 2000 under the Laws of Bermuda, in order to engage in research and development activities for the purpose of obtaining Food and Drug Administration approval, and, thereafter, commercially exploiting generic and new controlled-release pharmaceutical products using the technologies of the joint venture partners of the Company.

The Company is owned by Elite Pharmaceuticals, Inc. ("Elite") and Elan International Services Ltd. ("EIS"), a wholly owned subsidiary of Elan Corporation plc, holding 80.1% and 19.9% (non-voting shares) of the shares respectively.

The Company is subject to the terms and conditions of a joint development and operating agreement between Elite Laboratories, Inc. ("Elite Labs"), a wholly owned subsidiary of Elite, and Elan to develope products using drug delivery technologies and expertise of both Elite and Elan. The Company funds its research through capital contributions from its partners based on the partner's ownership percentage. The Company subcontracts research and development efforts to Elite Labs and Elan. Elite Labs provides most of the formulation and development work. Elite Labs has completed in-vivo (pilot clinical trial) on the first product the Company has formulated and began formulation and development of two additional products as of March 31, 2002.

The Company was initially capitalized with $15,000,000 which included the issuance of 6,000 Voting Common Shares and 6,000 Non-Voting Convertible Preferred Shares. The proceeds of $15,000,000 were used to pay a licensing fee to Elan, under the terms of a license agreement entered into between Elan and the Company as fully described in Note 4.

As at March 31, 2002, the Company has a deficit of $15,714,573. The Company is currently in the research and development stage, and hence is not yet generating revenue. As more fully described in Note 7, the Company's shareholders have, by way of a Joint Development and Operating Agreement, agreed to provide additional funding.

2. Significant accounting policy

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. The following are the significant accounting policies adopted by the Company:

(a) Cash and cash equivalents

The Company considers highly liquid short-term investments purchased with initial maturities of three months or less to be cash equivalents.



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2. Significant accounting policy (continued)

(b) Research and development costs

Research costs are charged as an expense of the period in which they are incurred.

(c) Revenue recognition

To date, the Company has not generated revenues, however, it expects that future revenues, if any, will be earned primarily by licensing certain pharmaceutical products. Such revenues will be recorded as certain projected goals are attained, as defined in the individual contact.

(d) Fair value of financial instruments

The carrying amounts of cash, accounts payable and accrued expenses approximate fair value due to the short term maturity of these items.

3. Related party transactions

For the year ended March 31, 2002 and for the period of October 6, 2000 (date of incorporation) through March 31, 2001 ERL recognized net losses of $633,642 and $15,080,931, respectively. The net loss for the year ended March 31, 2002 includes research and development services rendered by Elite Labs and Elan in the amounts of $600,940 and $18,753, respectively. The net loss for the period ended March 31, 2001 includes a $15,000,000 payment to Elan for a technology license fee, as well as $80,931 due to Elite Labs for services rendered to ERL.

As of March 31, 2002 and 2001, the Company had outstanding accounts payable to Elite Labs for research and development services in the amounts of $525,259 and $80,931, respectively.

As of March 31, 2002, the Company had outstanding accounts payable to Elan for research and development services in the amount of $18,753.

4. License agreement

In October 2000, the Company entered into a license agreement with Elan Corporation, plc ("Elan") whereby Elan licensed certain patents and intellectual property to the Company in consideration of a non-refundable license fee of $15 million. The fee was not subject to future performance obligations of Elan to the Company and was taken as a charge to operations in the period ended March 31, 2001.



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5. Share capital

| | |
|---|---|
| Voting common shares, of par value US $1.00 per share<br>6,000 shares authorised;<br>6,000 shares issued and outstanding | $ 6,000 |
| Non-voting convertible preferred shares, of par value US$1.00 per share<br>6,000 shares authorised;<br>6,000 shares issued and outstanding | 6,000 |
| | $ 12,000 |

The Preferred shares may be converted at the option of the holders on a one-for-one basis into common shares of the Company at any time after two years from the date of issuance of the preferred stock. The Preferred shares are non-voting, do not bear a dividend and shall have a liquidation preference equal to their original issue price.

6. Share premium

Share premium represents amounts contributed by shareholders in excess of the par value of the shares subscribed for.

7. Contributed surplus

Contributed surplus represents amounts contributed by shareholders in addition to their subscription to the issued share capital. These amounts were provided to fund the operations of the Company as agreed by the shareholders on a pro rata basis based on their equity participation. In addition, within three years from the date of incorporation, the shareholders may provide the Company, on a pro rata basis in accordance with the shareholders' respective percentage ownership of capital, up to an aggregate maximum of $6,000,000, as agreed upon by the shareholders, by way of contributed surplus or loans. During the year shareholders contributed an additional $234,039.

8. Taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of such taxes being imposed, the Company will be exempted from taxation until the year 2016.

The Board of Directors
Elite Research Ltd.

We hereby consent to the inclusion in the Annual Report on Form 10-K of Elite Pharmaceuticals, Inc. to be filed with the U.S. Securities and Exchange Commission of our Report dated June 11, 2002 on the Financial Statements of Elite Research Ltd. for the period ended March 31, 2002.

s/ KPMG
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Hamilton, Bermuda
June 26, 2002