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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(MARK ONE)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED - MARCH 31, 2004

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 NUMBER 333-45241

ELITE PHARMACEUTICALS, INC.
(Exact name of registrant as specified 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, including area code: (201) 750-2646

Securities registered pursuant to Section 12(b) of the Act:	Common Stock - $.01 par value The Common Stock is listed on the American Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports) and (2) has been subject to such filing requirements for at least the past 90 days. Yes |X| No |_|

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 3, 2004 was approximately $26,137,608 based upon the closing price of the registrant's common stock on the American Stock Exchange, as of June 3, 2004. (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders and their respective affiliates have been deemed affiliates).

Registrant had 12,104,423 shares of common stock, par value $0.01 per share, outstanding as of June 1, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

There are no documents incorporated by reference into the Annual Report or any part of the report.

<PAGE>

FORWARD LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K CONTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY, OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS ANNUAL REPORT, STATEMENTS THAT ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE FOREGOING, THE WORDS "PLAN", "INTEND", "MAY," "WILL," "EXPECT," "BELIEVE", "COULD," "ANTICIPATE," "ESTIMATE," OR "CONTINUE" OR SIMILAR EXPRESSIONS OR OTHER VARIATIONS OR COMPARABLE TERMINOLOGY ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF. EXCEPT AS REQUIRED BY LAW, THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

<PAGE>

TABLE OF CONTENTS

Form 10-K Index

PART I

<PAGE>

PART I

ITEM 1. BUSINESS

Elite Pharmaceuticals, Inc. ("Elite Pharmaceuticals") was incorporated on October 1, 1997 under the laws of the State of Delaware, and our wholly-owned subsidiaries, Elite Laboratories, Inc. ("Elite Labs") and Elite Research, Inc. ("Elite Research") were incorporated on August 23, 1990 and December 20, 2002, respectively, under the laws of the State of Delaware. Elite Pharmaceuticals, Elite Labs and Elite Research are referred to herein, collectively, as "Elite", "we", "us", "our" or the "Company".

On October 24, 1997, Elite Pharmaceuticals merged with and into our

predecessor company, Prologica International, Inc. ("Prologica") an inactive publicly held corporation formed under the laws of the State of Pennsylvania. At the same time, Elite Labs merged with a wholly-owned subsidiary of Prologica. Following these mergers, Elite Pharmaceuticals survived as the parent to its wholly owned subsidiary, Elite Labs.

On September 30, 2002, we acquired from Elan Corporation, plc and Elan International Services, Ltd. (together "Elan") Elan's 19.9% interest in Elite Research, Ltd. ("ERL"), a joint venture formed between Elite and Elan in which our initial interest was 80.1% of the outstanding capital stock (100% of the outstanding common stock). As a result of the termination of the joint venture, we owned 100% of ERL's capital stock. On December 31, 2002, ERL (a Bermuda Corporation) was merged into Elite Research, our wholly owned subsidiary.

See "Proposed Acquisition" for possible acquisition of Nostrum Pharmaceuticals Inc.

The address of our principal executive offices and our telephone and facsimile numbers at that address are:

Elite Pharmaceuticals, Inc., 165 Ludlow Avenue, Northvale, New Jersey 07647; Phone No.: (201) 750-2646; Facsimile No.: (201) 750-2755.

We file registration statements, periodic and current reports, proxy statements and other materials with the Securities and Exchange Commission. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including our filings.

<PAGE>

BUSINESS OVERVIEW AND STRATEGY

Elite engages primarily in researching, developing and licensing proprietary controlled release drug delivery systems and products. We are also equipped to manufacture controlled release products on a contract basis for third parties and for ourselves if, and when, our products are approved. Controlled release 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. The 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.

We have concentrated on developing orally administered controlled release products. These products include drugs that cover therapeutic areas for pain, angina, hypertension, allergy and infection. The Food and Drug Administration (FDA) has not yet approved any of our products and, therefore, currently we do not market any products. Our products are at various stages of development.

We are focusing our efforts on the following areas: (i) obtaining FDA approval for one or more of six oral controlled release pharmaceutical products already in development, either directly or through other companies; (ii) commercial exploitation of these products either by license and the collection of royalties, or through the manufacture of tablets and capsules using our formulations, and (iii) development of new products and the expansion of our licensing agreements with other pharmaceutical companies, including contract research and development projects, joint ventures and other collaborations.

In an effort to reduce costs and improve focus and enhance efficiency, we reduced the number of products that we are actively developing from fifteen to six. The six products that continue in development were deemed by us to be the most suitable for continued development given our limited resources.

We are focusing on the development of both branded drug products (which require new drug applications ("NDA")) and generic drug products (which require abbreviated new drug applications ("ANDA")).

We intend to continue to collaborate in the development of products with our current partners. We also plan to seek additional collaborations to develop more products.

We believe that our business strategy enables us to reduce our risk by

o having a diverse product portfolio that includes both branded and generic products in various therapeutic categories; and

<PAGE>

o building collaborations and establishing licensing agreements with companies with greater resources thereby allowing us to share costs of development and to improve cash-flow.

PROPOSED ACQUISITION

Our Board of Directors authorized in August 2003 the negotiation of an agreement to acquire Nostrum Pharmaceuticals Inc., a privately held corporation engaged in the development of drug delivery products and systems ("Nostrum"), by means of a merger with our wholly-owned subsidiary.

If the merger is effected on the terms as initially proposed, the outstanding shares of Nostrum will be converted into (i) shares of our Common Stock which will represent in the aggregate 75% of the shares of our Common Stock to be outstanding immediately after such merger and (ii) options to purchase a substantial number of additional shares of our Common Stock exercisable upon satisfaction of certain conditions. No assurance can be given that the merger will be consummated or if consummated will be effected on materially the same terms. If an agreement is executed, it is to contain several conditions to the consummation of the merger, including approval by our stockholders and that the Company will have immediately prior to effectiveness of the merger liquid assets of at least $8,000,000. No assurance can be given that the Agreement will be executed or if executed that the foregoing terms will not be materially changed adversely to the Company or that it will be approved by the Company's stockholders.

Nostrum is a specialty pharmaceutical company engaged in the formulation and commercialization of controlled-release orally-administered generic drugs utilizing Nostrum's proprietary drug delivery technologies.

RESEARCH AND DEVELOPMENT

During each of the last three fiscal years, we have focused on research and development activities. We spent $ 2,075,074 in the fiscal year ended March 31, 2004, $2,013,579 in the fiscal year ended March 31, 2003 and $1,609,108 in the fiscal year ended March 31, 2002 on research and development activities.

It is our general policy not to disclose products in our development pipeline or the status of such products until a product reaches a stage that we determine, for competitive reasons, in our discretion, to be appropriate for disclosure and because the disclosure of such information might suggest the occurrence of future matters or events that may not occur. In this instance, we believe that disclosure of the information in the following table is helpful for the description of 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. We may or may not disclose such information in the future based on competitive reasons and/or

<PAGE>

contractual obligations. We believe that the information is helpful on a one-time basis for the purpose described above.

The following table provides information concerning the controlled release products that we are developing and to which we are devoting substantial resources and attention. None of these products has been approved by the FDA and all are in development ("N/A" means not applicable because there is no branded product on the market).

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	PRODUCT	BRANDED PRODUCT(A)	APPROX. U.S. BRAND SALES (2003) $MM(B)	APPROX. GROWTH (%)(C)	NDA/ ANDA	INDICATIC
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1	Oxycodone CR Once a day	OxyContin(R) twice a day	$1,800+	10%	NDA	Pain
2	Abuse Resistance Product for use with	N/A	N/A	N/A	NDA	Pain

	Oxycodone (or other opioids)						
3	Diltiazem	Cardizem CD(R)	$80+	-30%	ANDA	Cardiovascula	
	Once a day						
4	Undisclosed product with a partner	N/A	N/A	N/A	Undisclosed	Allergy	
5	Undisclosed product with partner	N/A	N/A	N/A	Undisclosed	Allergy	
6	Undisclosed	Undisclosed	$150+	10%	ANDA	Infection	
	Twice a day						

</TABLE>

(a) The name of our competitor's branded product.

(b) Indicates the approximate amount of sales of our competitor's product and not the sales of any of our products.

(c) Indicates the approximate historical growth rate of sales of our competitor's product and not the growth rate of sales of any of our products.

The following table presents information with respect to the development stage of our principal products under development. We intend to make NDA filings under Sections 505(b)(1) or 505(b)(2) of the Drug Price Competition and Patent Term Restoration Act of 1984 (the "Drug Price Act"). Accordingly, we anticipate that the development timetable for the products for which such NDA filings are made would be shorter and less expensive. Completion of development of products by us depends on

<PAGE>

a number of factors, however, 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.

In the table below, preclinical testing refers to studies done before initiation of any human studies. Pilot Phase I studies for the NDA products are generally preliminary studies done in healthy human subjects to assess the tolerance/safety and pharmacokinetics of the product. Additional larger studies in humans will be required prior to submission of this product to the FDA for review. Pilot bioequivalence studies are initial studies done in humans for generic products and are used to assess the likelihood of achieving bioequivalence for generic products. Larger pivotal bioequivalence studies will be required prior to submission of the product to the FDA for review. Our prelaunch activity indicates that the final activities are being conducted prior to the product launch.

DEVELOPMENT STAGE	NUMBER OF PRODUCTS	NDA/ANDA
Preclinical	1	--
Preclinical	1	Undisclosed
Pilot Phase I study	1	NDA
Pilot bioequivalence study	2	ANDA
Prelaunch	1	Undisclosed

MANUFACTURING AND DEVELOPMENT CONTRACTS

In September 1999 Elite entered into an agreement with an undisclosed partner to co-develop a chrono diltiazem product. A pilot pharmacokinetic study has been conducted and we and our partner are seeking a license for the product prior to performing further clinical studies.

In June 2001, we entered into two development contracts with an undisclosed company pursuant to which it agreed to develop two products in exchange for development fees, certain payments, royalties and manufacturing rights. We have manufactured validation batches for one of the products and are

awaiting its launch.

The payments under both agreements for the year ended March 31, 2004 were not material.

In May 2004 we entered into an agreement with Purdue Pharma LP granting Purdue the exclusive right to evaluate certain of our abuse resistance technology and an exclusive option to negotiate a license to develop and commercialize oxycodone products under the technology.

JOINT VENTURE WITH ELAN

In October 2000, we entered into a joint venture with Elan to develop products using drug delivery technologies and expertise of both companies. This joint venture,

ERL, was initially owned 80.1% by us and 19.9% by Elan. ERL funded its research through capital contributions from its partners based on the partners' respective ownership percentage.

On September 30, 2002, we entered into an agreement with Elan to terminate the joint venture (the "Termination Agreement"). Pursuant to the Termination Agreement, we terminated the joint venture and acquired from Elan its entire interest in ERL. As a result of the Termination Agreement, the joint venture terminated and we owned 100 percent of ERL's capital stock. On December 31, 2002, ERL was merged into a new Delaware corporation, Elite Research, our wholly owned subsidiary.

Under the Termination Agreement, we acquired all proprietary, development and commercial rights for the worldwide markets for the products developed by the joint venture. In exchange for this assignment, we agreed to pay Elan a royalty on certain revenues that may be realized in the future from the once-a-day Oxycodone product that was in development by the joint venture, if and when FDA approval is obtained. In the future, we will be solely responsible for funding product development, which funding we anticipate will be derived from internal resources or through loans or investment by third parties. The joint venture had completed the initial Phase I study for its first product, the once-a-day Oxycodone formulation. Currently there is no once-a-day formulation for this compound.

The joint venture had also performed work on a second, related product in the central nervous system therapeutic area. Initial formulation work on a third product combining Oxycodone with a narcotic antagonist has been performed. We have the exclusive rights to the proprietary, development and commercial exploitation for the worldwide markets for these two products developed by ERL. We will not have to pay Elan royalties on revenues that may be realized from these products.

Under the joint venture, Elan had received 409,165 shares of our common stock; warrants exercisable at $18.00 per share for 100,000 shares of our common stock; and Series A and Series B preferred stock of Elite Labs, which were convertible into 764,221 shares and 52,089 shares, respectively, of our common stock. Under the Termination Agreement, Elan and its transferees retained the securities, and the shares of Series A and Series B preferred stock were converted into our common stock under the preexisting terms for conversion. We did not pay, nor did Elan receive, any cash consideration under the Termination Agreement.

PATENTS

We have secured five United States patents and have pending applications for five United States patents and seven foreign patents. Two of the United States issued patents have been assigned for a fee to Colgene Corporation for the pulsed release delivery of methylphenidate.

The pending patent applications relate to four different control release pharmaceutical products on which we are working. Included among these patent

applications are applications for U.S. patents relating to formulations for delayed and sustained release of drugs. In addition, an application for a U.S. patent for a narcotic antagonist product that we are developing to be used with Oxycodone and other narcotics to minimize the abuse potential for the narcotics was filed. We intend to apply for patents for other products in the future;

however, there can be no assurance that any of the pending applications or other application which we may file will be granted.

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, terminates 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 Act, 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 we will be able to take advantage of this law.

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 us 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 our 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 us using the resulting alternative technology.

We also rely upon unpatented proprietary and trade secret technology that we seek to protect, in part, by confidentiality agreements with our 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 we will have adequate remedies for any such breach, or that our 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 us, others have not and will not obtain access to our proprietary technology.

TRADEMARKS

We have 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. However, since we currently plan to license our products to marketing partners and not to sell under our brand name, we do not currently intend to register or maintain any trademarks.

GOVERNMENT REGULATION AND APPROVAL

The design, development and marketing of pharmaceutical compounds, on which our success depends, are intensely regulated by governmental regulatory agencies, including 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 FDA to approve ANDAs and 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. The FDA approval procedure for an ANDA relies on bioequivalency tests which compare the applicant's drug with an already approved reference drug, rather than with clinical studies. Because we concentrated, during our first few years of business operations, on developing products which are intended to be bioequivalent to existing controlled-release formulations, we expect that such drug products will require ANDA filings and not clinical efficacy and safety studies, which are generally more expensive and time-consuming.

The FDA approval procedure for an NDA is generally a two-step process. During the Initial Product Development stage, an investigational new drug application ("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 clinical testing. 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. These initial clinical studies generally constitute Phase I of the NDA process and are conducted to demonstrate the product tolerance/safety and pharmacokinetic in healthy subjects.

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 application and must include the results of extensive clinical and other testing, the cost of which is substantial. However, the NDA filings contemplated by us on already marketed drugs would be made under Sections 505 (b)(1) or 505 (b)(2) of the Drug Price Act, 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 a certain timeframe in the review process, the FDA frequently requests that additional information be 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 our 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.

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 will 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 engages in manufacturing on a commercial basis for distribution of products, it will be required to operate its facilities in accordance with GMP regulations. If we hire another company to perform contract manufacturing for us, we must ensure that our 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. We do not believe that we receive any services from any debarred person.

We are also subject to federal, state, and local laws of general applicability, such as laws relating to working conditions. We are 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 we may develop in the future may be subject to regulations under the Controlled Substances Act and related statutes. At such time as we begin manufacturing products, we may become subject to the Prescription Drug Marketing Act, which regulates wholesale distributors of prescription drugs.

<PAGE>

COMPLIANCE WITH ENVIRONMENTAL LAWS

We are subject to comprehensive federal, state and local environmental laws and regulations that govern, among other things, air polluting emissions, waste water discharges, solid and hazardous waste disposal, and the remediation of contamination associated with current or past generation handling and disposal activities, including the past practices of corporations as to which we are the successor. We do not expect that compliance with such environmental laws will have a material effect on our capital expenditures, earnings or competitive position in the foreseeable future. There can be no assurance, however, that future changes in environmental laws or regulations, administrative actions or enforcement actions, or remediation obligations arising under environmental laws will not have a material adverse effect on our capital expenditures, earnings or competitive position.

COMPETITION

We compete in two related but distinct areas: we perform contract research and development work regarding controlled-release drug technology for other pharmaceutical companies, and we seek to develop and market (either on our own or by license to other companies) proprietary controlled-release pharmaceutical products. In both areas, our competition consists of those companies which develop controlled-release drugs and alternative drug delivery systems.

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. We expect 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 we do in commercializing pharmaceutical products. Certain companies have a track record of success in developing controlled-release drugs. Significant among these are Alpharma, Inc., Andrx Corporation, Elan Corporation Plc, Biovail Corporation, Ethypharm S.A., Eurand, Impax Laboratories, Inc., K-V Pharmaceutical Company, Penwest Pharmaceuticals Company and Skyepharma Plc. Each of these companies has 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 we can. In addition, almost all of our competitors have vastly greater resources than we do. While our product development capabilities and patent protection may help us to maintain our 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 our patents, if any, or that even if patent protection is obtained, such patents will not be successfully challenged in the future.

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SOURCES AND AVAILABILITY OF RAW MATERIALS; MANUFACTURING

We are not currently in the manufacturing phase of any product and therefore we do not require significant amounts of raw materials. We currently obtain the raw materials that we need from over twenty suppliers.

We have acquired pharmaceutical manufacturing equipment with the intention of manufacturing products that we develop and, on a contract basis, products developed by other pharmaceutical companies. In anticipation of this manufacturing, we have registered our facilities with the FDA and the Drug Enforcement Agency (DEA).

DEPENDENCE ON ONE OR A FEW MAJOR CUSTOMERS

Each year we have had some customers that have accounted for a large percentage of our sales. If our contracts with these customers terminate or expire, we will lose substantially all of our revenues. We are constantly working to develop new relationships with existing or new customers, but despite these efforts we may not, at the time that any of our current contracts expire, have other contracts in place generating similar revenue.

EMPLOYEES

As of June 25, 2004, we had 15 full-time employees and three part-time

employees. Both full-time and part-time employees are engaged in administration, research and development. None of our employees is represented by a labor union and we have never experienced a work stoppage. We believe our relationship with our employees to be good. However, our ability to achieve our financial and operational objectives depends in large part upon our continuing ability to attract, integrate, retain and motivate highly qualified personnel, and upon the continued service of our senior management and key personnel.

RISK FACTORS

In addition to the other information contained in this report, the following risk factors should be considered carefully in evaluating an investment in Elite and in analyzing our forward-looking statements.

OUR CONTINUING LOSSES ENDANGER OUR VIABILITY AS A GOING-CONCERN AND HAVE CAUSED OUR AUDITORS TO ISSUE A "GOING CONCERN" ANNUAL AUDIT REPORT.

We reported net losses of $6,514,217, $4,061,422, $1,774,527 and $13,964,981 for the fiscal years ended March 31, 2004, 2003, 2002 and 2001, respectively. At March 31, 2004, we had an accumulated deficit of approximately $35.1 million, consolidated assets of approximately $7.9 million, stockholders' equity of approximately

$4.0 million, and working capital of approximately $1.3 million. Our products are in the development and early deployment stage and have not generated any significant revenue to date. Our independent auditors have issued a "going concern" audit report for our financial statements for each of the fiscal years ended March 31, 2004 and March 31, 2003.

WE HAVE A RELATIVELY LIMITED OPERATING HISTORY, WHICH MAKES IT DIFFICULT TO EVALUATE OUR FUTURE PROSPECTS.

Although we have been in operation since 1990, we have a relatively short operating history and limited financial data upon which you may evaluate our business and prospects. In addition, our business model is likely to continue to evolve as we attempt to expand our product offerings and enter new markets. As a result, our potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies that are attempting to move into new markets and continuing to innovate with new and unproven technologies. Some of these risks relate to our potential inability to:

- develop new products;
- obtain regulatory approval of our products;
- manage our growth, control expenditures and align costs with revenues;
- attract, retain and motivate qualified personnel; and
- respond to competitive developments.

If we do not effectively address the risks we face, our business model may become unworkable and we may not achieve or sustain profitability or successfully develop any products.

WE HAVE NOT BEEN PROFITABLE AND EXPECT FUTURE LOSSES.

To date, we have not been profitable, and since our inception in 1990, we have not generated any significant revenues. We may never be profitable or, if we become profitable, we may be unable to sustain profitability. We have sustained losses in each year since our incorporation in 1990. We incurred net losses of $6,514,217, $4,061,422, $1,774,527 and $13,964,981 for the years ended March 31, 2004, 2003, 2002 and 2001, respectively. We expect to realize significant losses for the current year of operation. We expect to continue to incur losses until we are able to generate sufficient revenues to support our operations and offset operating costs.

OUR FOUNDER AND FORMER PRESIDENT AND CHIEF EXECUTIVE OFFICER RESIGNED IN JUNE 2003 ALL OF HIS POSITIONS WITH ELITE, WHICH MAY HAVE A MATERIAL ADVERSE EFFECT ON US.

On June 3, 2003, Dr. Atul M. Mehta, our founder and former President and Chief Executive Officer resigned from all of his positions with Elite. In the past, we have been reliant on Dr. Mehta's scientific expertise in developing our products. There can be no assurance that we will successfully replace Dr. Mehta's expertise. In addition, the loss of Dr. Mehta's services may adversely affect our relationships with our contract partners.

Under the settlement of a litigation initiated by Dr. Mehta in July 2003 for alleged breach of his employment agreement we paid Dr. Mehta $400,000 and certain expense reimbursements, and the Company received a short term option for it or its designees to acquire all of the shares of Common Stock owned by Dr. Mehta and his affiliate at $2.00 per share. As part of the settlement the Company also extended the expiration date of options to purchase 770,000 shares of Common Stock held by Dr. Mehta and he relinquished any rights to the Company's intellectual property and agreed to certain non-disclosure and non-competition covenants. The Company also provided him with certain "piggyback" registration rights with respect to the 770,000 shares issuable upon exercise of the foregoing options granted by the Company.

WE HAVE NOT YET SUCCESSFULLY DEVELOPED A PRODUCT FOR COMMERCIAL USE, AND IF WE ARE UNABLE TO DO SO OUR BUSINESS MAY NOT CONTINUE.

We have not yet developed a product to the stage of generating commercial sales. Our research activities are characterized by the inherent risk that the research will not yield results that will receive FDA approval or otherwise be suitable for commercial exploitation. Of the products currently under development and on which we are devoting substantial attention, we have had one product in prelaunch state, one product in pilot Phase I study, one product in bioequivalence stage and two additional products in preclinical testing. Additional studies including either pivotal bioequivalence or efficacy studies will be required before commercialization.

Successful completion of pivotal biostudies is required for us to file an ANDA with the FDA, and successful completion of pivotal clinical trials is required for us to file a NDA with the FDA. ANDAs are filed with respect to generic versions of existing FDA approved products while NDAs are filed with respect to new products. In order for any of our products to be commercialized, FDA approval is required.

IF WE NEED ADDITIONAL FINANCING IN ORDER TO SATISFY OUR SIGNIFICANT CAPITAL REQUIREMENTS, AND ARE UNABLE TO OBTAIN ADDITIONAL FINANCING, IT WOULD IMPAIR OUR ABILITY TO CONTINUE TO DO BUSINESS.

We completed a private placement in December 2003 of 1,645,000 shares of our common stock yielding gross proceeds of $3,290,000 before commissions and expenses. We anticipate, based on our assumptions relating to our operations, and assuming the consummation of a financing and refinancing of equipment purchases currently being negotiated and consummation of a private placement of shares of our common stock which is the subject of a non-binding agreement in principle with a broker-dealer, that we have sufficient capital to satisfy our contemplated cash requirements through March 31, 2005. After that time, we may require additional financing. In particular, we expect to make substantial expenditures as we further develop and seek to commercialize our products. We also expect that our rate of spending will accelerate as the result of increased costs and expenses associated with seeking regulatory approval and commercialization of products now in development. One of the conditions to consummation of a proposed acquisition (see "Proposed Acquisition") as currently proposed is that we have liquid assets of approximately $8,000,000. We have no current arrangements; however, (i) we are currently negotiating an equipment purchase financing agreement, which we anticipate closing in the reasonably forseeable future, (ii) we have entered into a non-binding agreement in principle with a broker-dealer to effect a private placement of shares of our Common Stock and (iii) there is the potential exercise of options and warrants that are currently outstanding. We have no way of knowing whether any of the options or warrants will be exercised. We do not currently have commitments for other financing, and so do not know whether additional financing would be available to us on favorable terms, or at all. Our inability to obtain additional financing when needed would impair our ability to continue our business and to consummate the proposed acquisition on the terms proposed. If any future financing involves the sale of our securities, our then-existing stockholders' equity could be substantially diluted. On the other hand, if we incurred debt, we would be subject to risks associated with indebtedness, including the risk that interest rates might fluctuate and cash flow would be insufficient to pay principal and interest on such indebtedness. If our plans change, or our assumptions change or prove to be inaccurate, or our cash flow proves to be insufficient to fund our operations due to unanticipated expenses or problems, we would be required to seek additional financing sooner than

anticipated.

IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS AND AVOID CLAIMS THAT WE INFRINGED ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, OUR ABILITY TO CONDUCT BUSINESS MAY BE IMPAIRED.

Our success, competitive position and amount of royalty income will depend in part on our ability to obtain patent protection in various jurisdictions related to our technologies, processes and products. We intend to file patent applications seeking such protection, but we cannot be certain that these applications will result in the issuance of patents. If patents are issued, third parties may sue us to challenge such patent protection, and although we know of no reason why they should prevail, it is possible that they could. It is likewise possible that our patents may not prevent third parties from developing similar or competing products. In addition, although we are not aware of any threatened or pending actions by third parties asserting that we have infringed on their patents, and are not aware of any actions we have taken that would lead to such a claim, it is possible that we might be sued for infringement. The cost involved in bringing suits against others for infringement of our patents, or in defending any suits brought against us, can be substantial. We may not possess sufficient funds to prosecute or defend such suits. If our products were found to infringe upon patents

issued to others, we would be prohibited from manufacturing or selling such products and we could be required to pay substantial damages.

In addition, we may be required to obtain licenses to patents, or other proprietary rights of third parties, in connection with the development and use of our products and technologies as they relate to other persons' technologies. At such time as we discover a need to obtain any such license, we will need to establish whether we will be able to obtain such a license on favorable terms. The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture or distribution of our products.

We also rely upon trade secrets and proprietary know-how. We seek to protect this know-how in part by confidentiality agreements. We consistently require our employees and potential business partners to execute confidentiality agreements prior to doing business with us. However, it is possible that an employee would disclose confidential information in violation of his or her agreement, or that our trade secrets would otherwise become known or be independently developed in such a manner that we will have no practical recourse.

We are not engaged in any litigation, nor contemplating any, with regard to a claim that someone has infringed one of our patents, revealed any of our trade secrets, or otherwise misused our confidential information.

See also the risk under the heading "OUR FOUNDER AND FORMER PRESIDENT AND CHIEF EXECUTIVE OFFICER RESIGNED IN JUNE 2003 ALL OF HIS POSITIONS WITH ELITE, WHICH MAY HAVE A MATERIAL ADVERSE EFFECT ON US".

THE PHARMACEUTICAL INDUSTRY IS SUBJECT TO EXTENSIVE FDA REGULATION AND FOREIGN REGULATION, WHICH PRESENTS NUMEROUS RISKS TO US.

The manufacturing and marketing of pharmaceutical products in the United States and abroad are subject to stringent governmental regulation. The sale of any of our products for use in humans in the United States will require the prior approval of the FDA. Similar approvals by comparable agencies are required in most foreign countries. The FDA has established mandatory procedures and safety standards that apply to the clinical testing, manufacture and marketing of pharmaceutical products. Obtaining FDA approval for a new therapeutic product may take several years and involve substantial expenditures. None of our products has been approved for sale or use in humans in the United States or elsewhere.

If we or our licensees fail to obtain or maintain requisite governmental approvals or fail to obtain or maintain approvals of the scope requested, it will delay or preclude us or our licensees or marketing partners from marketing our products. It could also limit the commercial use of our products.

THE PHARMACEUTICAL INDUSTRY IS HIGHLY COMPETITIVE AND SUBJECT TO RAPID AND SIGNIFICANT TECHNOLOGICAL CHANGE, WHICH COULD IMPAIR OUR ABILITY TO IMPLEMENT OUR BUSINESS MODEL.

The pharmaceutical industry is highly competitive, and we may be unable to compete effectively. In addition, it is undergoing rapid and significant technological change, and we expect competition to intensify as technical advances in each field are made and become more widely known. An increasing number of pharmaceutical companies have been or are becoming interested in the development and commercialization of products incorporating advanced or novel drug delivery systems. We expect that competition in the field of drug delivery will increase in the future as other specialized research and development companies begin 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 our competitors have longer operating histories and greater financial, research and development, marketing and other resources than we do. Such companies may develop new formulations and products, or may improve existing ones, more efficiently than we can. Our success, if any, will depend in part on our ability to keep pace with the changing technology in the fields in which we operate.

IF OTHER KEY PERSONNEL WERE TO LEAVE ELITE OR IF WE ARE UNSUCCESSFUL IN ATTRACTING QUALIFIED PERSONNEL, OUR ABILITY TO DEVELOP PRODUCTS COULD BE MATERIALLY HARMED.

Our success depends in large part on our ability to attract and retain highly qualified scientific, technical and business personnel experienced in the development, manufacture and marketing of controlled release drug delivery systems and products. Our business and financial results could be materially harmed by the inability to attract or retain qualified personnel.

WE HAVE BEEN DEPENDENT ON CONTRACTS WITH A FEW MAJOR CUSTOMERS FOR SUBSTANTIALLY ALL OF OUR REVENUES, AND IF THOSE CONTRACTS TERMINATE OR EXPIRE, WE WILL BE WITHOUT THE STREAMS OF REVENUE THAT THEY HAVE REPRESENTED, UNLESS WE ARE ABLE TO NEGOTIATE OTHER CONTRACTS WITH OTHER CUSTOMERS THAT GENERATE SIMILAR REVENUES.

Each year we had some customers that accounted for a large percentage of our sales. If our contracts with these customers terminate or expire, we will lose substantially all of our revenues. As a result of inadequate funds to conduct research and development we were unable to generate material revenues under existing contracts for the year ended March 31, 2004, we had only $258,250 of revenues, of which $108,250 were research and development fees earned in conjunction with our distinct development, license and manufacture agreements. There can be no assurance that at the time that any of our current contracts expire, other contracts will be in place generating similar revenue.

IF WE WERE SUED ON A PRODUCT LIABILITY CLAIM, AN AWARD COULD EXCEED OUR INSURANCE COVERAGE AND COST US SIGNIFICANTLY.

The design, development and manufacture of our products involve an inherent risk of product liability claims. We have procured product liability insurance having a maximum limit of $1,000,000; however, a successful claim against us in excess of the policy limits could be very expensive to us, damaging our financial position. Our insurance coverage may be materially below the coverage maintained by many of the other companies engaged in similar activities. To the best of our knowledge, no product liability claim has been made against us as of May 31, 2004.

OUR STOCK PRICE HAS BEEN VOLATILE AND MAY FLUCTUATE IN THE FUTURE.

There has been significant volatility in the market prices for publicly traded shares of pharmaceutical companies, including ours. For the twelve months ended March 31, 2004, the closing sale price on the American Stock Exchange of our common stock fluctuated from a high of $3.80 per share to a low of $1.34 per share. The per share price of our Common Stock may not remain at or exceed current levels. The market price for our Common Stock, an and for the stock of pharmaceutical companies generally, has been highly volatile. The market price of our Common Stock may be affected by:

- Results of our clinical trials;
- Approval or disapproval of abbreviated new drug applications or new drug applications;
- Announcements of innovations, new products or new patents by us or by our competitors;
- Governmental regulation;

- Patent or proprietary rights developments;

- Proxy contests or litigation;

- News regarding the efficacy of, safety of or demand for drugs or drug technologies;

- Economic and market conditions, generally and related to the pharmaceutical industry;

- Healthcare legislation;

- Changes in third-party reimbursement policies for drugs; and

- Fluctuations in our operating results.

IF ADDITIONAL AUTHORIZED SHARES OF OUR COMMON STOCK AVAILABLE FOR ISSUANCE OR SHARES ELIGIBLE FOR FUTURE SALE WERE INTRODUCED INTO THE MARKET, IT COULD HURT OUR STOCK PRICE AND MAKE A CHANGE OF CONTROL MORE DIFFICULT TO ACHIEVE.

As of June 22, 2004, there were 25,000,000 shares of our Common Stock authorized of which 12,104,423 shares of our Common Stock were issued and outstanding. In addition, as of that date there were 5,071,289 shares eligible for issuance upon exercise of currently outstanding options and warrants, although options for 790,000 of those shares of stock had not yet vested. If every warrant and option holder exercised his or her rights, once all the currently unvested options vested, there would be 17,175,712 shares of Common Stock outstanding. An amendment to our Certificate of Incorporation which would increase the authorized shares of capital stock from 25,000,000 shares of Common Stock to 65,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock is being considered by our stockholders for approval at the adjourned Annual Meeting of Stockholders scheduled to be held on July 19, 2004.

Currently, more than 11,030,000 outstanding shares are eligible for resale and 150,000 shares are registered for resale upon exercise of certain outstanding warrants and options. We are unable to estimate the amount, timing or nature of future sales of outstanding Common Stock. Sales of substantial amounts of the Common Stock in the public market by these holders or perceptions that such sales may take place may lower the Common Stock's market price.

The authorized but unissued shares of the Company's Common Stock or if the proposed amendment to our Certificate of Incorporation is approved by stockholders the issuance of one or more series of Preferred Shares could be used to make a change of control of the Company more difficult and expensive. Under certain circumstances, such shares could be used to create impediments to or frustrate persons seeking to cause a takeover or to gain control of the Company. Such shares could be sold to purchasers who might side with the Board in opposing a takeover bid that the Board determines not to be in the best interests of its stockholders. The Amendment, if approved, might also have the effect of discouraging an attempt by another person or entity, through the acquisition of a substantial number of shares of the Company's Common Stock to acquire control of the Company with a view to consummating a merger, sale of all or part of the Company's assets, or a similar transaction, since the issuance of new shares could be used to dilute the stock ownership of such person or entity.

IF PENNY STOCK REGULATIONS BECOME APPLICABLE TO OUR COMMON STOCK THEY WILL IMPOSE RESTRICTIONS ON THE MARKETABILITY OF OUR COMMON STOCK, THE ABILITY OF OUR STOCKHOLDERS TO SELL SHARES OF OUR STOCK COULD BE IMPAIRED.

The SEC has adopted regulations that generally define a "penny stock" to be an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share subject to certain exceptions. Exceptions include equity securities issued by an issuer that has (i) net tangible assets of at least $2,000,000, if such issuer has been in continuous operation for more than three years, or (ii) net tangible assets of at least $5,000,000, if such issuer has been in continuous operation for less than three years, or (iii) average revenue of at least $6,000,000 for the preceding three years. Unless an exception is available, the regulations require that prior to any transaction involving a penny stock, a risk of disclosure schedule must be delivered to the buyer explaining the penny stock market and its risks. Our Common Stock is currently trading at under $5.00 per share. Although we currently fall under one of the exceptions, if at a later time we fail to meet

one of the exceptions, tour Common Stock will be considered a penny stock. As such the market liquidity for our Common Stock will be limited to the ability of broker-dealers to sell it in compliance with the above-mentioned disclosure requirements.

You should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers;
- "Boiler room" practices involving high-pressure sales tactics;
- Manipulation of prices through prearranged matching of purchases and sales;
- The release of misleading information;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- Dumping of securities by broker-dealers after prices have been manipulated to a desired level, which hurts the price of the stock and causes investors to suffer loss.

We are aware of the abuses that have occurred in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, we will strive within the confines of practical limitations to prevent such abuses with respect to our Common Stock.

SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW MAY DETER A THIRD PARTY FROM ACQUIRING US.

Section 203 of the Delaware General Corporation Law prohibits a merger with a 15% shareholder within three years of the date such shareholder acquired 15%, unless the merger meets one of several exceptions. The exceptions include, for example, approval by the holders of two-thirds of the outstanding shares (not counting the 15%

shareholder), or approval by the Board prior to the 15% shareholder acquiring its 15% ownership. This provision makes it difficult for a potential acquirer to force a merger with or takeover of the Company, and could thus limit the price that certain investors might be willing to pay in the future for shares of our Common Stock.

ITEM 2. PROPERTIES

Our facility, which we own, is located at 165 Ludlow Avenue, Northvale, New Jersey, and contains approximately 20,000 square feet of floor space. This real property and the improvements thereon 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 Elite. The mortgage document contains certain customary provisions including, without limitation, the right of NJEDA to foreclose upon a default by Elite.

We are currently using our facilities as a laboratory and office space and intend to use it in the future for manufacturing, as well. Properties used in our operations are considered suitable for the purposes for which they are used and are believed to be adequate to meet our needs for the reasonably foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we may be party to litigation from time to time.

We had an employment agreement ("Employment Agreement") with our former President and Chief Executive Officer, Dr. Atul M. Mehta.

On June 3, 2003, Dr. Mehta resigned from all positions, including as a director, that he held with us, while reserving his rights under his Employment Agreement and under common law. On July 3, 2003, Dr. Mehta instituted litigation against the Company and one of our directors, Mr. Moore, in the Superior Court of New Jersey for, among other things, allegedly breaching his Employment Agreement and for defamation, and claims that he is entitled to receive his

salary through June 6, 2006. His salary would total approximately $1,000,000 through June 6, 2006.

Prior to Dr. Mehta's resignation, a majority of the members of the Company's Board of Directors had notified Dr. Mehta that they believed that sufficient grounds existed for the termination of his employment for "severe cause" pursuant to his Employment Agreement. We filed counterclaims against Dr. Mehta and a motion to dismiss Mehta's claims and, as part of that motion, sought to compel Mehta to assign and transfer to the Company all patents in Mehta's name which were developed during his employment with us. Mr. Moore's motion to dismiss Mehta's claim against him individually was granted.

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In November 2003, the parties settled the action. In April 2004, the parties closed upon the settlement. Under the settlement the Company paid to Mehta $400,000 and certain expense reimbursements and the Company received a short term option in favor of the Company or its designees to acquire all of Mehta's shares of common stock of the Company (including those held by his affiliates) at $2.00 per share. The Company paid $100,000 into escrow which shall be released to Mehta if the option to purchase the shares of common stock held by Mehta and his affiliates is not exercised within a specified time. As part of the settlement, the Company extended expiration dates of options to purchase 770,000 shares held by Mehta including options with respect to 70,000 shares which had expired and Mehta relinquished any rights to the Company's intellectual property, and Mehta agreed to certain non-disclosure and non-competition covenants. Under the settlement the Company also provided Mehta with certain "piggyback" registration rights with respect to shares not sold pursuant to the options granted to him by the Company.

We are not currently a party to any material legal proceedings.

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

No matter was submitted to a vote of stockholders during the fourth quarter of our fiscal year ended March 31, 2004. However at the Annual Meeting of Stockholders held on June 22, 2004 the stockholders (i) elected as its four Directors Messrs. Bernard Beck, Harmon Aronson, John A. Moore and Eric L. Sichel; (ii) approved our 2004 Stock Option Plan; (iii) ratified the actions of the Board of Director's amending certain outstanding options and warrants and (iv) approved our sale of an aggregate of 70,000 shares of Common Stock to a Director and an affiliate of a Director. The Meeting was adjourned to July 19, 2004 for additional time for the stockholders to consider the proposal to approve the Amendment to Article Fourth of the Certificate of Incorporation to increase the authorized capital stock from 25,000,000 shares of Common Stock, par value $.01 per share, to 65,000,000 shares of Common Stock, par value $.01 per share, and 5,000,000 shares of Preferred Stock, par value $.01 per share.

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PART II

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

Our common stock is quoted on the American Stock Exchange under the symbol "ELI". The following table shows, for the periods indicated, the high and low sales prices per share of our common stock as reported by the American Stock Exchange.

COMMON STOCK

QUARTER ENDED	HIGH	LOW
FISCAL YEAR ENDING MARCH 31, 2004:		
March 31, 2004	$3.80	$2.40
December 30, 2003	$3.30	$2.70
September 30, 2003	$3.49	$2.05
June 30, 2003	$3.49	$1.25
FISCAL YEAR ENDING MARCH 31, 2003:		
March 31, 2003	$2.20	$1.45
December 31, 2002	$3.15	$1.80
September 30, 2002	$5.25	$2.41
June 30, 2002	$7.75	$4.50

FISCAL YEAR ENDING MARCH 31, 2002:		
March 31, 2002	$8.30	$5.65
December 31, 2001	$7.75	$5.90
September 30, 2001	$11.50	$5.10
June 30, 2001	$11.45	$4.85

As of June 21, 2004, the last reported sale price of our common stock, as reported by the American Stock Exchange, was $2.34 per share.

As of June 23, 2004, there were approximately 130 holders of record and approximately 1600 beneficial owners of our common stock. We are informed and believe that as of April 20, 2004, Cede & Co. held 7,069,228 shares of our common stock as nominee for Depository Trust Company, 55 Water Street, New York, New York 10004. It is our understanding that Cede & Co. and Depository Trust Company both disclaim any beneficial ownership therein and that such shares are held for the account of numerous other persons.

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We have never paid cash dividends on our capital stock. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future.

We issued in 2003 nontransferable Class C Warrants to the record holders of our Class A Warrants on November 30,2002, their expiration date, on a one-for-one basis. The Class C Warrants are exercisable for the same number of shares of Common Stock as the Class A Warrants, have an exercise price of $5.00 per share (subject to adjustment in certain circumstances), expire November 30, 2005, and have substantially all of the same terms and conditions as the Class A Warrants. The issuance was exempt from registration under the Securities Act of 1933, as amended (the "Act") by virtue of the provisions of Section 3(a)(9).

On February 6, 2004 the Board of Directors authorized the extension of the expiration date from June 30, 2004 to November 30, 2005 of the outstanding Class B Warrants to purchase an aggregate of 681,002 shares of our Common Stock at a price of $5.00 per share. The Class B Warrants were originally issued as part of units of shares of Common Stock and Class B Warrants in a private placement to a group of investors. Included among the holders of the Class B Warrants are Richard A. Brown, then a Director, who holds, along with his son and an affiliated trust, an aggregate of 156,250 Class B Warrants and Bridge Ventures Inc., a consultant to the Company since December, 2003, which holds 25,000 Class B Warrants.

In December 2003, Elite completed a placement to a group of investors of 1,645,000 shares of Common Stock at a price of $2.00 per share for aggregate gross proceeds of $3,290,000. We paid Montauk Financial Group Inc., the Placement Agent cash commissions of $72,000 and granted the Placement Agent and its associates five year warrants to purchase an aggregate of 50,000 shares of our Common Stock at a price of $2.00 per share. The issuance of the shares and warrants was exempt from registration under the Act by virtue of the provisions of Section 4(2).

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance to employees or non-employees (such as directors and consultants), as of March 31, 2004:

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Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights* (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (c)
<S>	<C>	<C>	<C>
Equity compensation approved by security holders of a subsidiary	1,133,300	$2.68	70,700
Equity compensation plans not	1,283,750	$4.63	N/A

approved by security holders			
Total	2,417,050	$3.70	70,700

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* Exclusive of Class B and Class C Warrants.

Our stockholders approved on June 22,2004 the adoption by the Board of Directors of the 2004 Stock Option Plan which provides that 1,500,000 shares of our 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, officers, Directors of and consultants to Elite. The Plan permits the Company to grant both incentive stock options ("Incentive Stock Options" or "ISOs") within the meaning of Section 422 of the Code, and other options which do not qualify as Incentive Stock Options (the "Non-Qualified Options").

The aggregate number of shares of Common Stock reserved for issuance under the Plan is 1,500,000, of which incentive stock options with respect to 123,300 shares with an exercise price of $2.34 per share were granted on June 22, 2004 to employee holders of outstanding options previously granted by the Company having on the date of the grant a higher exercise price; such grants subject to the cancellation of the previously granted options. To the extent that stock options previously granted are not surrendered for cancellation then options exercisable for that same number of shares of Common Stock will be available for grant under the Plan. Such grants may be deemed repricing of the outstanding options and will result in charges to earnings of the Company equal to the difference between (i) the fair value of the vested portion of the new options granted, utilizing the Black-Scholes options pricing model on each grant date and (ii) the charges to earnings previously made as a result of the grants of the options being replaced, which will have a dilutive effect on the earnings per share and, as a result, will likely have an adverse effect on the market price of the Common Stock of the Company.

Options to purchase 30,000 shares of Common Stock were granted on June 22, 2004 to each of the Company's four Directors under the Pan exercisable at $2.34 per share.

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Unless earlier terminated by the Board of Directors, the Plan (but not outstanding options) terminates on March 1, 2014, after which no further awards may be granted under the Plan. The Plan is administered by the full Board of Directors or, at the Board's discretion, by a committee of the Board consisting of at least two persons who are "disinterested persons" defined under Rule 16b-2(c)(ii) under the Securities Exchange Act of 1934, as amended (the "Committee").

Recipients of options under the Plan ("Optionees") are selected by the Board or the Committee. The Board or Committee determines the terms of each option grant including (1) the purchase price of shares subject to options, (2) the dates on which options become exercisable and (3) the expiration date of each option (which may not exceed ten years from the date of grant). The minimum per share purchase price of options granted under the Plan for Incentive Stock Options is the fair market value (as defined in the Plan) or for Nonqualified Options is 85% of Fair Market Value of one share of the Common Stock on the date the option is granted.

Optionees will have no voting, dividend or other rights as stockholders with respect to shares of Common Stock covered by options prior to becoming the holders of record of such shares. The purchase price upon the exercise of options may be paid in cash, by certified bank or cashier's check, by tendering stock held by the Optionee, as well as by cashless exercise either through the surrender of other shares subject to the option or through a broker. The total number of shares of Common Stock available under the Plan, and the number of shares and per share exercise price under outstanding options will be appropriately adjusted in the event of any stock dividend, reorganization, merger or recapitalization of the Company or similar corporate event.

The Board of Directors may at any time terminate the Plan or from time to time make such modifications or amendments to the Plan as it may deem advisable and the Board or Committee may adjust, reduce, cancel and regrant an unexercised option if the fair market value declines below the exercise price except as may be required by any national stock exchange or national market association on which the Common Stock is then listed. In no event may the Board, without the approval of stockholders, amend the Plan to increase the maximum number of

shares of Common Stock for which options may be granted under the Plan or change the class of persons eligible to receive options under the Plan.

Subject to limitations set forth in the Plan, the terms of option agreements will be determined by the Board or Committee, and need not be uniform among Optionees.

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data, at the end of and for the last five fiscal years, should be read in conjunction with our Consolidated Financial Statements and related Notes thereto appearing elsewhere in this Annual Report on Form 10-K. The consolidated selected financial data are derived from our consolidated financial statements that have been audited by Miller, Ellin & Company, LLP, our independent auditors, as

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indicated in their report included herein. The selected financial data provided below is not necessarily indicative of our future results of operations or financial performance.

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	2004	2003	2002	2001	2000
<S>	<C>	<C>	<C>	<C>	<C>
Net Revenues	$ 258,250	$ 630,310	$ 1,197,507	$ 95,246	$ 10,315
Net (loss)	$ (6,514,217)	$ (4,061,422)	$ (1,774,527)	$(13,964,981)	$ (2,976,392)
Net (loss) per common share	$ (0.58)	$ (0.40)	$ (0.19)	$ (1.53)	$ (0.35)
Total Assets	$ 7,853,434	$ 8,696,222	$ 12,724,498	$ 12,350,301	$ 9,162,383
Long-term obligations	$ 2,495,000	$ 2,720,000	$ 3,788,148	$ 2,765,000	$ 2,885,000
Weighted average number of shares outstanding	11,168,618	10,069,991	9,561,299	9,135,369	8,287,648

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

GENERAL

The following discussion and analysis should be read with the financial statements and accompanying notes, included elsewhere in this Annual Report on Form 10-K. It is intended to assist the reader in understanding and evaluating our financial position.

OVERVIEW

We are involved in the development of controlled drug delivery systems and products. Our products are in varying stages of development and testing. We also conduct research and development, from time to time, on behalf of other pharmaceutical companies although these activities have generated only limited revenue to date.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion addresses our 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

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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. Our 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 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.

During the year ended March 31, 2003, we elected to prospectively recognize the fair value of stock options granted to employees and members of the Board of Directors, effective as of the beginning of the fiscal year, which resulted in our taking a charge of $20,550 and $1,166,601 during the years ended March 31, 2003 and 2004, respectively. The fair value of stock options held by employees and members of the Board of Directors which have been granted or repriced subsequent to March 31, 2004 is expected to continue to affect the results of operations of future periods, as we continue to grant or reprice stock options to reward our management team.

YEAR ENDED MARCH 31, 2004 VS. YEAR ENDED MARCH 31, 2003

Our Auditor's Report on the accompanying financial statements states that such financial statements have been prepared assuming that we will continue as a going concern. We have incurred a significant loss and negative cash flows during our fiscal year ended March 31, 2004 which have significantly decreased our working capital and increased our accumulated deficit. Our auditors have stated in their report that these conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of the assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Management believes that cost reductions already implemented will reduce losses in the future, and with our existing working capital levels, anticipate that we will be able to continue our operations at least through the end of our current fiscal year.

Our revenues for the year ended March 31, 2004 were $258,250, a decrease of $372,060 over the comparable prior year, or approximately 59% from the prior year. For the year ended March 31, 2003, revenues consisted of product formulation fees of $187,810 earned in conjunction with our joint venture in ERL which terminated on September 30, 2002. Of our revenues for the years ended March 31, 2004 and March 31, 2003, $108,500 and $442,500, respectively, were research and development and testing fees earned in conjunction with our distinct development, license and manufacturing agreements.

General and administrative expenses for the year ended March 31, 2004 were $2,549,846, an increase of $691,777, or approximately 37% from the prior year. The increase in general and administrative expenses was substantially due to increases in legal and consulting fees as well as approximately $550,000 in expenses including $400,000 as compensation, resulting from a settlement of litigation instituted by our former President with respect to the termination of his employment agreement.

Research and development costs for the year ended March 31, 2004, were $2,075,074, an increase of $61,495 or approximately 3% from the prior year, due primarily due to increased research and development wages, additional biostudies, laboratory supplies and raw materials used in our research and development processes. We expect our research and development costs to continue to increase in future periods as a result of the ERL joint venture termination as we will be solely responsible to fund product development, which we will do from internal resources or through loans or investment by third parties.

We are unable to provide a break-down of the specific costs associated with the research and development of each product on which we devoted resources because a significant portion of the costs are generally associated with salaries, laboratory supplies, laboratory and manufacturing expenses, utilities and similar expenses. We have not historically allocated these expenses to any particular product. In addition, we cannot estimate the additional costs and

expenses that may be incurred in order to potentially complete the development of any product, nor can we estimate the amount of time that might be involved in such development because of the uncertainties associated with the development of controlled release drug delivery products as described in this report.

Other expenses for the year ended March 31, 2004 were $1,813,711, an increase of $1,304,903, or approximately 256% from the prior year. The increase was primarily due to charges related to the modification of the warrant exchange offer, the issuance of stock options and warrants valued at $1,926,908 (an increase of $1,664,020) and the reduction in interest income due to lower rates and compensating balances in the amount of $72,927, partially offset by increases in sale of New Jersey Tax losses of $79,353 and the related settlement of vendor litigation for $150,000.

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Our net loss for the year ended March 31, 2004 was $6,514,217 as compared to $4,061,422 in the prior year, or an increase of approximately 60% from the prior year, primarily due to the decrease in net revenues, and increases in research and development and administrative expenses, including increased charges of $1,664,020 due to the issuance of stock options, warrants and the modification of warrant exchange offer.

YEAR ENDED MARCH 31, 2003 VS. YEAR ENDED MARCH 31, 2002

Revenues for the year ended March 31, 2003 were $630,310, a decrease of $567,197 over the comparable prior year, or approximately 47.4% from the prior year. For the years ended March 31, 2003 and 2002, revenues consisted of product formulation fees of $187,810 and $601,057, respectively, earned in conjunction with our joint venture in ERL. Revenues also consisted of research and development, and testing fees of $442,500 and $593,000, respectively, earned in conjunction with our distinct development, license and manufacturing agreements. ERL had no revenue after our acquisition of Elan's interest in it on September 30, 2002. Elan's obligation to make payments to us or to ERL terminated upon the termination of the joint venture with Elan. The absence of payments from Elan will affect revenues for periods subsequent to September 30, 2002.

General and administrative expenses for the year ended March 31, 2003 were $1,858,069, an increase of $1,094,382, or approximately 143% from the prior year. The increase in general and administrative expenses was substantially due to increases in legal and consulting fees as well as approximately $600,000 in expenses resulting from a consent solicitation and a proxy solicitation with regard to the election of our directors.

Research and development costs for the year ended March 31, 2003, were $2,013,579, an increase of $404,471 or approximately 25% from the prior year. Research and development costs have increased primarily from the result of increased research and development wages, additional biostudies, laboratory supplies and raw materials used in our research and development processes. We expect our research and development costs to increase in future periods as a result of the ERL joint venture termination as we will be solely responsible to fund product development, which we will do from internal resources or through loans or investment by third parties.

We are unable to provide a break-down of the specific costs associated with the research and development of each product on which we devoted resources because a significant portion of the costs are generally associated with salaries, laboratory supplies, laboratory and manufacturing expenses, utilities and similar expenses. We have not historically allocated these expenses to any particular product. In addition, we cannot estimate the additional costs and expenses that may be incurred in order to potentially complete the development of any product, nor can we estimate the amount of time that might be involved in such development because of the uncertainties

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associated with the development of controlled release drug delivery products as described in this report.

Other expenses for the year ended March 31, 2003 were $580,482, an increase of $112,774, or approximately 24% from the prior year. A decrease in equity loss in joint venture of $321,261 due to its termination was more than offset by charges related to the exchange of warrants and the issuance of stock options in the amount of $262,888 and the reduction in interest income due to lower rates and compensating balances in the amount of $163,363.

Our net loss for the year ended March 31, 2003 was $4,061,422 as compared

to $1,774,527 in the prior year, an increase of 129% over the prior year. The increase in the net loss was primarily due to the decrease in net revenues, and an increase in research and development and administrative expenses associated with the consent solicitation and proxy solicitation with regard to the election of our directors. Our net loss included our 80.1% equity loss in ERL, which was $186,379 and $507,640, respectively, for the years ended March 31, 2003 and 2002. ERL's net loss for the years ended March 31, 2003 and 2002 was $232,682 and $633,642, respectively.

MATERIAL CHANGES IN FINANCIAL CONDITION

Our working capital (total current assets less total current liabilities), which was $2,950,513 as of March 31, 2003, decreased to $1,289,764 as of March 31, 2004, or approximately 56% from the prior year. The decrease is primarily due to our net loss from operations and deposits on equipment, partially offset by net proceeds of $3,179,000 from the sale of common stock through a private placement and the receipt of $30,000 from the exercise of stock options.

We experienced negative cash flow from operations of $3,658,321 for the year ended March 31, 2004, primarily due to our net loss from operations of $6,514,217 offset by non-cash charges of $2,259,744. Non-cash charges included, but were not limited to $1,166,601 in connection with the issuance of stock options, a charge of $587,983 in connection with the issuance of warrants, and a charge related to modification of warrant exchange offer of $172,324.

The Company recently completed a Good Manufacturing Practices ("GMP") batch for a product currently licensed with a pharmaceutical company under a development and license agreement entered into June 2001. The Company received $30,000 under the Agreement and expects to complete two additional GMP batches in the near future under the terms of the licensing agreement. The Company expects to manufacture the product with revenues projected to be generated in the second quarter of fiscal year ended March 31, 2005. The Company projects earning additional milestone payments under the Agreement subject to completion of the GMP batches.

On May 10, 2004, Elite Labs entered into an agreement with Purdue Pharma, L.P. ("Purdue") through which Purdue was granted the exclusive right to evaluate

certain abuse resistance drug formulation technology of the Company and an exclusive option to negotiate a license to develop and commercialize Oxycodone products under the Company's technology pursuant to which the Company received $150,000 in the first quarter of fiscal year ended March 31, 2005. Should Purdue agree to proceed with licensing, the Company would receive significant upfront licensing fees. The Company estimates that the sales market for Oxycodone exceeds $2 billion annually.

The Company is also negotiating an agreement for the financing and refinancing of equipment purchases and has entered into a non-binding agreement in principle with a broker-dealer to effect a private placement of shares of its Common Stock.

No assurance can be given that the Company will consummate any of the transactions discussed above other than the foregoing $150,000 receipt or that any of the agreements will result in any material revenues.

LIQUIDITY AND CAPITAL RESOURCES

For our fiscal year ended March 31, 2004 our operations did not generate positive cash flow. We have financed our operations primarily through the private sale of our equity securities. We had working capital (current assets less current liabilities) of $1.3 million at March 31, 2004 compared with $3.0 million at March 31, 2003. Cash and cash equivalents at March 31, 2004 were $2.1 million, a decrease of $1.2 million from the $3.3 million at March 31, 2003.

Net cash used in operating activities was $3,658,000 during the year ended March 31, 2004, compared to $2,573,000 for the year ended March 31, 2003. Net cash used in operating activities during the year ended March 31, 2004 resulted primarily from our net loss of $6.5 million, offset in part by an increase in accounts payable and certain non-cash expenses. Net cash used in operating activities during the year ended March 31, 2003 resulted primarily from a net loss of $4.1 million, offset in part by a reduction in accounts receivable from joint venture and certain non-cash expenses.

Investing activities utilized net cash of $495,000 during the year ended March 31, 2004 and utilized net cash of $469,000 during the year ended March 31, 2003. Net cash used in investing activities during the year ended March 31, 2004 resulted primarily from equipment deposits, patent filings and an increase in

restricted cash. Net cash used in investing activities during the year ended March 31, 2003 resulted primarily from the acquisition of property and equipment, offset in part by a decrease in restricted cash and the maturity of short term investments.

Financing activities provided net cash of $2,994,000 during the year ended March 31, 2004 and utilized net cash of $546,000 during the year ended March 31, 2003. Net cash provided by financing activities during the year ended March 31, 2004 resulted primarily from the issuance of common stock through a private placement offset by the repayment of indebtedness. Net cash used in financing activities during the year ended March 31, 2003 resulted from the repurchase of stock and the repayment of indebtedness, offset in part by the sale of common stock and warrants.

Our capital expenditures aggregated $398,580 and $679,000 for the years ended March 31, 2004 and 2003, respectively. Such expenditures consisted primarily

of the acquisition of property and equipment necessary to support our existing operations and expected growth. The Company is in process of aggressively seeking financing for this equipment. As discussed below, in June 2004 we are negotiating an agreement with a financial institution for a partial financing and refinancing of our equipment purchases and we have entered into a non-binding agreement in principle with a broker-dealer to attempt a private placement of our shares of Common Stock. We anticipate that our capital expenditures in addition to the foregoing financing for our fiscal year ending March 31, 2005 will be limited to expenditures that can be funded entirely by development contracts that include provisions for such funding for these expenditures. These expenditures substantially would relate to the acquisition of property and equipment in connection with our operations.

As described in Note 6 to our consolidated financial statements, we have outstanding $2,495,000 in aggregate amount of bonds. The bonds bear interest at a rate of 7.75% per annum and are due on various dates between 2004 and thereafter. The bonds are secured by a first lien on our facility in Northvale, New Jersey. Pursuant to the terms of the bonds, several restricted cash accounts have been established for the payment of bond principal and interest. Bond proceeds were utilized for the refinancing of the land and building we currently own, for the purchase of certain manufacturing equipment and related building improvements and the maintenance of a $300,000 debt service reserve. All of the restricted cash, other than the debt service reserve, is expected to be expended within twelve months and is therefore categorized as a current asset on our consolidated balance sheet as of March 31, 2004. Pursuant to terms of the bond indenture agreement pursuant to which the bonds were issued, we are required to observe certain covenants, including covenants relating to the incurrence of additional indebtedness, the granting of liens and the maintenance of certain financial covenants. As of March 31, 2004, we were in compliance with the covenants contained in the bond indenture agreement.

In August 2003, our Board of Directors authorized the negotiation with Nostrum Pharmaceuticals Inc., a privately held corporation, of an agreement to acquire Nostrum through a merger with our wholly-owned subsidiary; such acquisition to be subject to several conditions including the approval by the stockholders of the Company and the Company's having liquid assets of at least $8,000,000. The agreement if consummated on the proposed terms will result in the issuance of three times the number of shares outstanding at the time of closing and options to purchase a substantial additional number of shares. No assurance can be given that any agreement will be executed, that the merger will be consummated or, if consummated, that it will be consummated of the foregoing terms.

As a result of the significant expenditures associated with potential mergers and acquisitions in our fiscal year ended March 31, 2004, and other legal, accounting and consulting expenses, quarterly cash expenses far exceeded our generated revenues in 2004. In order to conserve cash in fiscal year 2005, we intend to continue to limit the number of products under active development to six. The six products that continue in development were deemed by management to be the most suitable for continued development given the Company's limited resources. However, while we anticipate having adequate capital to support our operations

for the fiscal year ended March 31, 2005, we will need to raise capital and/or generate additional revenues in order to support our operations beyond that

time. To the extent that revenues do not meet expectations or our cost cutting measures do not become effective, we will need to raise additional capital sooner.

Elite Labs is currently negotiating with a financial institution an agreement in order to finance the purchase of certain machinery and equipment and to recast the outstanding balance due to a bank in the approximate amount of $212,000. Under the terms of the proposed agreement, Elite Labs will borrow $612,000 payable in 36 monthly installments of $20,917, including principal plus interest at 14% per annum. The loan is to be secured by two pieces of equipment and the guaranty of the Company. In addition, restricted cash currently held as collateral under the note payable in the amount of $225,000 will be released to the lender, of which $125,500 is to be utilized to prepay the first six monthly payments under the loan. The balance is to be held as a security deposit which will be released if the Company raises certain proceeds from the sale of its securities or other licensing fees. No assurance can be given that an agreement will be executed or that if executed it will provide for materially the same terms.

The Company has entered into a non-binding agreement in principle with a registered broker-dealer to attempt a private placement of shares of its Common Stock. Should Purdue Pharma decide to proceed with the terms of its licensing agreement with the Company, the terms of the agreement provide for the Company to receive significant milestone payments before March 31, 2005.

No assurance can be given that the Company will consummate any of the transactions discussed above or that any material funds will be derived therefrom.

We also, from time to time, consider potential strategic transactions including acquisitions, strategic alliances, joint ventures and licensing arrangements with other pharmaceutical companies. The Company retained an investment banking firm to assist with its efforts. There can be no assurance that any such transaction will be available or consummated in the future.

Reference is made to "Risk Factors" under "Item 1 -- Business" for a description of certain risks that may affect the achievement of our objectives and results discussed herein.

As of March 31, 2004, our principal source of liquidity was approximately $2,105,000 of cash and cash equivalents. Additionally, we may have access to funds of approximately $200,000 that may be generated from the potential sale of New Jersey tax losses. There can be no assurance that the sale of tax losses will be effected or be material.

The following table depicts our obligations and commitments to make future payments under existing contracts and contingent commitments.

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	Payments Due by Period				
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
<S>	<C>	<C>	<C>	<C>	<C>
Note payable	225,000	75,000	150,000	--	--
EDA Bonds payable	2,495,000	150,000	530,000	430,000	1,385,000

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do 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 us have been made at fixed interest rates and; accordingly, the market risk to us prior to maturity is minimal.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached hereto and filed as a part of this Annual Report on Form 10-K are our Consolidated Financial Statements, beginning on page F-1.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers, as of June 22, 2004, and their biographical information are set forth below:

NAME	AGE	POSITION
Bernard Berk	55	Chairman of the Board, Chief Executive Officer
John A. Moore	39	Director
Harmon Aronson	60	Director
Eric L. Sichel, M.D.	44	Director
Mark I. Gittelman	43	Chief Financial Officer, Secretary and Treasurer

The principal occupations and employment of each such person during the past five years is set forth below. In each instance in which dates are not provided in connection with the person's business experience, he has held the position indicated for at least the past five years.

Bernard Berk was appointed the Chief Executive Officer of the Company in June 2003, a Director in February 2004 and Chairman of the Board on May 12, 2004. Mr. Berk has been the President and Chief Executive Officer of Michael Andrews Corporation, a pharmaceutical management consultant firm, since 1996. Mr. Berk devotes and is to devote during his employment substantially all of his time to the operations of the Company. From 1994 until 1996, Mr. Berk was President and Chief Executive Officer of Nale Pharmaceutical Corporation. From 1989 until 1994, Mr. Berk was Senior Vice President of Sales, Marketing and Business Development of Par Pharmaceuticals, Inc. Mr. Berk holds a B.S. from New York University.

John A. Moore was Chairman of the Board from June 2003 until his resignation on May 12, 2004. He has been Chief Executive Officer and President of Edson Moore Healthcare Ventures, an investment entity, since July 2002. Mr. Moore had been Chief Executive Officer and President from 1994 through June 2001 and since 1994 a director of Optimer, Inc., a research based polymer development company. He is also a director and Chairman of ImaRx Therapeutics, Inc., a privately-held company engaged in medical technology development and a director of Medi-Hut Co., Inc., a publicly traded medical products company. Mr. Moore holds a B.A. in history from Rutgers University.

Harmon Aronson, Ph.D. 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 pharmaceutical and biotechnology companies. Its clients include United States and international firms

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manufacturing bulk drugs and finished pharmaceutical dosage products who are

seeking FDA approval for their products for the U.S. Market. Prior to 1997, Dr. Aronson was employed by Biocraft Laboratories, a leading generic drug manufacturer, rising to 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. He is also a director of Elite Research, Ltd. Other than Elite Research Ltd., 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. has been since 1997, owner and President of Sichel Medical Ventures, Inc., a company that provides biotechnology company assessments and investment banking services. From 1995 through 1996, Dr. Sichel was a senior analyst in the biotechnology field for Alex Brown & Sons, Inc. Prior to that, Dr. Sichel was affiliated with Sandoz Pharmaceuticals Corp. in various capacities, including associate director of transplantation/immunology. Dr. Sichel holds an M.B.A. from Columbia University and an M.D. from UMDNJ--New Jersey Medical School, and is licensed to practice medicine by the State of New York.

Mark I. Gittelman, CPA, our Chief Financial Officer, Secretary and Treasurer, is the President of Gittelman & Co., P.C., an accounting firm. 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") and the New Jersey and New York States Societies of CPAs.

Each director holds office (subject to our By-Laws) until the next annual meeting of shareholders and until such director's successor has been elected and qualified. All of our executive officers 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 our directors and executive officers.

AUDIT COMMITTEE

Our Board of Directors has an Audit Committee and, since March 2004, a Nominating Committee. The Board has no other standing committees. The Audit Committee members are John A. Moore, Harmon Aronson and Eric L. Sichel. The Audit Committee had two meetings during the fiscal year ended March 31, 2004. The Company's Board of Directors has adopted a written charter for the Audit Committee, a copy of which was included as an appendix to the Company's proxy statement sent to stockholders in connection with the annual meeting of stockholders held October 11, 2001.

Other than Mr. Moore, we deem the members of its Audit Committee to be independent as independence is defined in Section 121(A) of the American Stock

Exchange Listing Standards, as amended effective December 1, 2003. The Board determined that Mr. Sichel, an independent director, qualifies as the audit committee financial expert within the meaning of that term under the applicable regulations under the Securities Exchange Act of 1934.

Audit Committee Report: The following is the Audit Committee Report made by all its members.

The Audit Committee reviewed and discussed the audited financial statements with management. The Audit Committee discussed with the independent auditors of the Company the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380), as modified or supplemented. The Audit Committee received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as modified or supplemented. The Audit Committee discussed with the independent accountant the independent accountant's independence. Based upon the foregoing review and discussions, the Audit Committee recommended to the Board of Directors of the Company that the audited financial statements of the Company be included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004 as filed with the Commission.

HARMON ARONSON
JOHN A. MOORE
ERIC L. SICHEL

NOMINATING COMMITTEE

The Nominating Committee appointed, on June 22, 2004, is authorized to select the nominees of the Board of Directors for election as directors. The members are John A. Moore, Harmon Aronson and Bernard Berk. In selecting nominees the Committee identifies and evaluates the current Directors and their commitment to the policy of the Company and each individual's qualifications and availability. The Committee believes that a nominee for director of the Company should have an appropriate level of sophistication, knowledge and understanding of the Company and the industry, stockholder relations and finance and accounting for publicly held companies. The Committee also considers the need to select a nominee who has the appropriate experience and financial background who could qualify as an "audit committee financial expert" within the meaning of the rules under the Securities Exchange Act of 1934 and of the American Stock Exchange. The Company has not engaged any third party to assist in the process of identifying or evaluating candidates.

The Company currently does not have a process for considering candidates put forward by stockholders other than those who are directors of the Company. In view of the recent effectiveness of the requirements under the Securities Exchange Act of 1934 as to a policy with respect to the consideration of

candidates put forward by stockholders other than those who are directors of the Company, the adoption of such policy and the procedures for stockholders to submit candidates is under consideration by the recently elected Board.

MEETINGS

During the fiscal year ended March 31, 2004, our Board of Directors held nine meetings. Each director attended 75 percent or more of the aggregate number of meetings and committees of which he was a member that were held during the period of his service as a director.

The Company does not have a formal policy regarding attendance by members of the Board of Directors at the Company's annual meeting of stockholders, although it does encourage attendance by the directors. Historically, more than a majority of the directors have attended the annual meeting.

CODE OF CONDUCT

At the first meeting of the Board of Directors following the Annual Meeting of Stockholders held on June 22, 2004 it adopted a Code of Business Conduct and Ethics for its directors, officers and employees which it believes complies with the requirements for a company code of ethics for financial officers that were promulgated by the SEC pursuant to the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") as well as for the members of our Board of Directors. The directors will be surveyed annually regarding their compliance with the policies as set forth in the Code of Conduct for Directors. A copy of the Code of Business Conduct and Ethics may be obtained without charge by a written request addressed to the Treasurer, Elite Pharmaceuticals, Inc., 165 Ludlow Avenue, Northvale, New Jersey 07647. We intend to disclose any amendment to, or waiver of, a provision of the Business Conduct and Ethics for Directors in a report filed under the Securities Exchange Act of 1934 within five business days of the amendment or waiver.

STOCKHOLDER COMMUNICATIONS

Stockholders who wish to send communications to the Board of Directors should address their communication to Elite Pharmaceuticals Inc., 165 Ludlow Avenue, Northvale, New Jersey 07647, attention Mark I. Gittelman, Secretary. Mr. Gittelman has been instructed to collect and organize stockholder communications and forward copies to each of the Directors. If a communication relates to the Secretary, such communication should be sent to the same address, attention Bernard Berk, Chairman.

Typically, we do not forward to our directors communications from our stockholders or other communications which are of a personal nature or not related to the duties and responsibilities of the Board, including:

- Junk mail and mass mailings

- New product suggestions

- Resumes and other forms of job inquiries
- Opinion surveys and polls
- Business solicitations or advertisements

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities (collectively, "Reporting Persons") to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities of Elite. Reporting Persons are required by SEC regulation to furnish Elite with copies of all Section 16(a) forms that they file. To our knowledge, based solely on a review of the copies of such reports furnished to us, we believe that during fiscal year ended March 31, 2004 all Reporting Persons complied with all applicable filing requirements.

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE OFFICER COMPENSATION

The Company entered into a three-year employment agreement effective July 23, 2003 with Mr. Berk providing for (i) his full time employment as Chief Executive Officer at an annual base salary of $200,000, (ii) the grant to him of options which vest immediately to purchase 300,000 shares of Common Stock at a price of $2.01 per share, the closing share price on the American Stock Exchange on the date of grant and (iii) the grant of options to purchase an additional 300,000 shares at the $2.01 per share to vest on consummation of a "strategic transaction" while he is employed as Chief Executive Officer. The consummation of such transaction will result in the increase of his base annual salary to $310,140 effective with the consummation. A strategic transaction is defined as any one of the following transactions provided that the net value of the consideration to the Company or its stockholders determined in good faith by the Board of Directors is at least $10,000,000: (i) the sale of all or substantially all of the assets of the Company, (ii) a merger or consolidation or business combination, or (iii) the sale by the Company of debt or equity securities.

Either party upon notice may terminate Mr. Berk's employment except that a termination by the Company without cause or because of his permanent disability or a termination by him for cause will result in severance pay in the form of the continuation of his base salary for the balance of the term or two years, whichever is longer, less in the event of termination for permanent disability the amount of payments under a disability insurance policy maintained by the Company. The Company is also to

continue to pay during the foregoing period the premiums for life and disability insurance policies. Furthermore, in the event that Mr. Berk terminates his employment following a "change of control" event he is to receive, payable in 24 monthly installments, an amount which will depend on the fair value of the consideration determined in good faith by the Board of Directors received by the Company or stockholders from the "change of control" event less related expenses ("Net Fair Value") -- $500,000 if the Net Fair Value is $10 million or less; the greater of $500,000 or twice his then base annual salary, if the Net Fair Value is greater than $10 million but not more than $20 million, or $1,000,000 if the Net Fair Value is greater than $20 million. A "change of control" event is (i) a merger or consolidation in which securities possessing more than 50% of the voting power is issued to persons other than the holders of voting securities of the Company immediately prior to the event, (ii) the sale, transfer or disposition of all or substantially all the assets of the Company, or (iii) the sale by the Company of securities to a third party.

The agreement contains Mr. Berk's non-competition covenant for a period of one year from termination.

The Company is a party to an agreement dated February 26, 1998 whereby fees are paid to Gittelman & Co., P.C., a firm wholly-owned by Mark I. Gittelman, the Company's Chief Financial Officer, Secretary and Treasurer, in consideration for services rendered by the firm as internal accountant and financial and management consultant. The firm's services include the services rendered by Mr. Gittelman in his capacity as Chief Financial Officer, Secretary and Treasurer. For the fiscal years ended March 31, 2004, 2003 and 2002, the fees paid by the Company under the agreement were $168,750, $167,544 and $91,260, respectively. The services rendered by the firm to the Company averaged 128, 127 and 69 hours per month, respectively, of which an average of 30 hours

per month were services rendered by him in his capacity as an officer of the Company.

The following table sets forth the annual and long-term compensation for services in all capacities to the Company for the three years ended March 31, 2004, awarded or paid to, or earned by Bernard Berk, our President and Chief Executive Officer since June 2003 and our former President and Chief Executive Officer, Dr. Atul M. Mehta. Dr. Mehta resigned as an employee and as a director of Elite as of June 3, 2003. No other executive officer of the Company received compensation exceeding $100,000 during those periods.

<PAGE>

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

	Annual Compensation				Long Term Compensation			
(a) Name and Principal Position	(b) Fiscal Year(1)	(c) Salary	(d) Bonus	(e) Other Annual Compensa-tion(3)	(f) Restricted Stock Awards	(g) Securities Underlying Options	(h) LTIP Payouts	Al Co
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Bernard Berk, President and Chief Executive Officer	2003-04	$166,667	--	--	--	300,000(4)	--	
Atul M. Mehta, Ph.D. former President and Chief executive Officer(2)	2003-04	$ 53,684	--	$ 3,040	--	--(5)	--	
	2002-03	$330,140	--	$ 3,040	--	--	--	
	2001-02	$272,855	--	$ 83,856	--	50,000(6)	--	

</TABLE>

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

(2) Dr. Mehta resigned as an employee and as a director of Elite as of June 3, 2003.

(3) Other Annual Compensation represents use of a company car, premiums paid by the Company for life insurance on Dr. Mehta's life for the benefit of his wife and the purchase price of $80,856 for options acquired from Dr. Mehta.

(4) Does not include 300,000 options which are exercisable only upon occurrence of a "strategic transaction".

(5) See "Item 3 - Legal Proceedings" for settlement of a litigation providing for extension of expiration dates of options granted prior to April 1, 2001 to him to purchase 770,000 shares.

(6) By action on February 21, 2002, our Board of Directors corrected a clerical error in options for 425,000 shares of our common stock 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.

Option Grants to and Exercised by Executive Officers in Last Fiscal Year

Options granted to executive officers of the Company named in the Summary Compensation Table during the fiscal year ended March 31, 2004 were as follows:

<PAGE>

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>

	NUMBER OF

NAME	SHARES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE	EXPIRATION DATE	POTENTIAL REALIZED VALU ASSUMED ANNUAL RATES STOCK PRICE APPRECIATI FOR OPTION TERM	
					5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Bernard Berk	300,000(1)	41.4%	$2.01	6/2/13	$982,223	$1,564,
Atul M. Mehta(2)	--	--	--	--	--	

(1) Does not include options to purchase 300,000 shares at $2.01 per share which are exercisable only upon occurrence of a "strategic transaction". See "Executive Officers".

(2) See "Item 3 - Legal Proceedings" for settlement of litigation providing for extension of expiration dates of options to purchase 770,000 shares granted prior to year ended March 31, 2002 while he was an executive officer.

No options were exercised by executive officers during the fiscal year ended March 31, 2004.

<CAPTION>

NAME	SHARES EXERCISED	VALUE REALIZED	NUMBER OF SHARES UNDERLYING UNEXERCISED OPTIONS AT YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT YEAR-END (1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Atul M.	-0-	-0-	270,000	-0-	$0	--
Mehta(2)	-0-	-0-	100,000	-0-	$0	--
	-0-	-0-	100,000	-0-	$48,000	--
	-0-	-0-	100,000	-0-	$98,000	--
	-0-	-0-	100,000	-0-	$148,000	--
	-0-	-0-	100,000	-0-	$198,000	--
Bernard Berk (3)	-0-	-0-	300,000	300,000	$291,000	$291,000

(1) The dollar values are calculated by determining the difference between $2.98 per share, the fair market value of the common stock at March 31, 2004, and the exercise price of the respective options.

(2) Dr. Mehta resigned as an officer/employee and director as of June 3, 2003.

(3) Mr. Berk entered the employ of the Company in June 2003.

COMPENSATION OF DIRECTORS

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

On February 6, 2004, the Board of Directors authorized the payment of a fee of $125,000 per annum retroactive to January 1, 2004 to Mr. Moore as compensation for his services as Chairman of the Board. The fee is based on the substantial duties the Board has assigned to him, principally to assist the Chief Executive Officer in the management of the Company's operations, and the time required to perform such duties. Mr. Moore earned $46,875 under the authorization for the period through May 12, 2004, the date of his resignation as Chairman.

OPTIONS AND WARRANTS

In October 2003, the American Stock Exchange (the "Amex") amended its Rules to require stockholder approval of material amendments to a stock option plan or other equity compensation arrangements pursuant to which options or stock may be acquired by officers, director or employees, subject to certain limited exceptions.

Our stockholders approved at its meeting held on June 22, 2004 the following amendments by our Board of Directors of the provisions of outstanding options and warrants issued to officers, directors or employees of, or consultants to, the Company.

On June 6, 2003 our Board of Directors reduced the exercise price of options to purchase 30,000 shares of the Company's Common Stock granted on January 31, 2003 to each of the following persons, each of whom was then a

Director: Messrs. Harmon Aronson, Richard A. Brown, John P. deNeufville, John A. Moore, Donald S. Pearson and Eric L. Sichel from $6.50 to $2.21 per share, which was 110% of the closing per share sale price of the Common Stock on the American Stock Exchange on the date of the amendment. These options vest as follows: 10,000 shares on December 12, 2003, 10,000 shares on December 12, 2004 and 10,000 shares on December 12, 2005. The options expire at the earlier to occur of: (1) January 31, 2013; or (2) the date one year after the optionee ceases to be a director of or a consultant or advisor of the Company. On February 6, 2004, the Board of Directors authorized a further amendment to all the options held by Messrs. Brown (30,000 shares), deNeufville (55,000 shares) and Pearson (90,000 shares) to extend their expiration date to a date two years following the June 22, 2004 Annual Meeting. On March 8, 2004 our Board of Directors amended those options held by then Directors which contained an exercise price greater than $2.21 to reduce their exercise price to $2.21 per share.

<PAGE>

<TABLE>
<CAPTION>

Name	Shares Subject To Amended Options	Date of Grant	Original Exercise Price	Expiration Date
<S>	<C>	<C>	<C>	<C>
Donald Pearson	30,000	7/1/99	$6.00	6/22/06
	30,000	1/2/01	$6.50	6/22/06
Harmon Aronson	30,000	7/1/99	$6.00	9/1/09
	30,000	1/2/01	$6.50	1/1/11
Eric Sichel	30,000	8/2/01	$10.00	8/2/11

</TABLE>

On May 12, 2004 our Board of Director also authorized an amendment to the expiration dates of options to purchase 330,000 shares held by Mr. Moore, of which 30,000 options granted in January 2003 and exercisable at $2.21 have an expiration date of January 13, 2003 and 300,000 options granted in June 2003 and exercisable at $2.01 per share have an expiration date of June 13, 2013. Similar to the above amendment of the options held by Messrs Pearson, Aronson and Sichel, the options will terminate on the earlier of their current expiration date or a date two years after Mr. Moore ceases to be a director of the Company.

On March 8, 2004, the Board of Directors confirmed the reduction to $2.21 per share of the $3.31 per share exercise price of options of purchase 30,000 shares granted on June 13, 2003 to each of three employees. Such options vest in three equal annual installments commencing with the date of grant.

On February 6, 2004 the Board of Directors authorized the extension of the expiration date from June 30, 2004 to November 30, 2005 of the outstanding Class B Warrants to purchase an aggregate of 681,002 shares of our Common Stock at a price of $5.00 per share. The Class B Warrants were originally issued as part of units of shares of Common Stock and Class B Warrants in a private placement to a group of investors. Included among the holders of the Class B Warrants are Richard A. Brown, a Director at the time, who holds, along with his son and an affiliated trust, an aggregate of 156,250 Class B Warrants and Bridge Ventures Inc., a consultant to the Company since December, 2003, which holds 25,000 Class B Warrants.

The Board of Directors authorized the foregoing amendments for the purposes of hopefully generating additional funds through the exercise of the options or warrants, and restoring a principal purpose or purposes of the original grants of the options or warrants to officers, directors and employees, namely a reasonable opportunity for the holder to acquire or increase a proprietary interest in the Company and to restore a meaningful form of noncash compensation.

As described under "Item 3 - Legal Proceedings" a settlement of a litigation with Dr. Atul Mehta, includes provisions for the extension of the expiration dates to June 13, 2005 of options previously issued to Dr. Mehta to purchase 770,000 shares of Common Stock, including options with respect to 70,000 shares which had previously expired. The number and exercise prices are as follows:

<PAGE>

NUMBER OF OPTIONS	EXERCISE PRICE
270,000*	$10.00
100,000	3.00

100,000	2.50
100,000	2.00
100,000	1.50
100,000	1.00

---

* Includes the 70,000 which had expired

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding beneficial ownership of our common stock as of April 30, 2004 by (i) each director and named executive officer, (ii) all executive officers and current directors as a group and (iii) the persons known to us to own beneficially more than 5% of the outstanding shares of our Common Stock. On such date, we had 12,104,423 shares of common stock outstanding. Shares not outstanding but deemed beneficially owned by virtue of the right of any individual to acquire shares within 60 days are treated as outstanding only when determining the amount and percentage of common stock owned by such individual. Each person has sole voting and investment power with respect to the shares shown, except as noted. Unless otherwise indicated, the address of the person named is c/o Elite Pharmaceuticals, Inc., 165 Ludlow Avenue, Northvale, New Jersey 07647.

<TABLE>
<CAPTION>

NAME AND ADDRESS	NUMBER OF SHARES	PERCENTAGE OF CLASS
<S>	<C>	<C>
Bernard Berk, Chairman of the Board and Chief Executive Officer	300,000(1)	2.4%
Harmon Aronson, Director*	70,000(2)	**
Eric L. Sichel, Director*	60,000(3)	**
John A. Moore, Director*	1,224,218(4)	9.9%
Mark I. Gittelman, CFO, Treasurer and Secretary 300 Colfax Avenue Clifton, New Jersey 07013	10,000(5)	**
Dr. Atul Mehta c/o Andrew Giles Freda, Esq. Edwards & Caldwell LLC 1600 Route 208 North Hawthorne, NJ 07647	2,257,700(6)	17.5%
Edson Moore Healthcare Ventures, Inc. 403 Marsh Lane Wilmington, Delaware 19804	914,218(7)	7.5%

</TABLE>

<PAGE>

<TABLE>

<S>	<C>	<C>
Jerome Belson 495 Broadway New York, NY 10012	905,100(8)	7.5%
ALL DIRECTORS AND OFFICERS AS A GROUP	1,664,218(9)	13.0%

</TABLE>

* See "Item 10 - Directors and Executive Officers of the Registrant" for his address

** Less than 1% of outstanding shares

(1) Comprised of options to purchase 3000,000 shares.

(2) Comprised of options to purchase 70,000 shares.

(3) Represents options to purchase 40,000 shares and 20,000 shares owned as co-tenant with Dana Cernea.

(4) Represents (i) options personally held by Mr. Moore to purchase 310,000 shares and (ii) 914,218 shares of common stock beneficially owned by Edson Moore Healthcare Ventures, Inc. ("Edson Moore"), of which he is president and

principal stockholder. The 914,218 shares of common stock are comprised of (i) 764,218 shares of common stock issued to Edson Moore upon the exchange of 12,915 shares of Series A Preferred Stock, par value $1.00 per share, of Elite Laboratories, Inc., (ii) 100,000 shares issuable upon exercise of a warrant (exercisable through October 17, 2005) at an exercise price of $18.00 per share and (iii) 50,000 shares acquired in a recent private placement.

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

(6) Based on the terms of the settlement of a litigation with Dr. Mehta and includes options to purchase 770,000 shares (see "Item 3 - Legal Proceedings"), and 312, 600 shares owned by his wife, members of his family or an affiliate.

(7) See clause (ii) of note 4 above.

(8) Based on information contained in a Schedule 13D, as amended, filed by Jerome Belson on November 15, 2002. Includes (i) 535,200 shares held by Jerome Belson, (ii) 53,900 shares held by Maxine Belson, wife of Jerome Belson, (iii) 7,000 shares held by Brianne Goldstein, daughter of Jerome Belson, (iv) 28,000 shares held by Majorie Belson, daughter-in-law of Jerome Belson, (v) 25,000 shares owned by the grandchildren of Jerome Belson and (vi) warrants to purchase 256,000 shares of common stock.

(9) Includes options and warrants to purchase an aggregate of 730,000 shares.

Except as otherwise set forth, information on the stock ownership of each person was provided to the Company by such person.

Other than our 2004 Stock Option Plan, we do not have any compensation plans or arrangements benefiting employees or non-employees under which equity securities

of the Company are authorized for issuance in exchange for consideration in the form of goods or services.

The Company is informed and believes that as of April 20, 2004, Cede & Co. held 7,069,228 shares of the Company's common stock as nominee for Depository Trust Company, 55 Water Street, New York, New York 10004. It is our understanding that Cede & Co. and Depository Trust Company both disclaim any beneficial ownership therein 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.

We had a contractual relationship with Donald Pearson, a former Director, which expired on November 30, 2003, providing for Mr. Pearson to (i) refer potential customers who will license or collaborate in the development or purchase of the technology of the Company and (ii) render financial consulting services to the Company. Under the arrangement, Mr. Pearson received consulting fees aggregating $28,800, $38,400 and $12,800 for fiscal years ended March 31, 2004, 2003 and 2002, respectively. The referral fees were to be a percentage ranging from 5% to 1% of the first $5,000,000 of revenues generated by his referrals after deducting expenses and a credit for the consulting fees. No revenues were generated under the arrangement. The Company also has a similar customer referral arrangement with Mr. Harmon Aronson, a Director, to pay him a percentage of net revenues generated by customers referred by him. No fees have been earned under his arrangement.

See Item 10 "Directors and Executive Officer of Registrant" for information as to employment or engagement agreements with Bernard Berk and an affiliate of Mark I. Gittelman.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a description of the fees paid by the Company to Miller, Ellin & Co., LLP ("Miller Ellin") during the fiscal years ended March 31, 2004 and March 31, 2003:

Audit Fees: The Company paid fees of approximately $150,000 and $119,000 to Miller Ellin in connection with its audit of the Company's financial statements for the fiscal years ended March 31, 2004 and March 31, 2003, respectively, its review of the Company's interim financial statements included in the Company's Quarterly Reports on Form 10-Q during each of the fiscal years ended March 31, 2004 and March 31, 2003.

Financial Information Systems Design and Implementation Fees: The Company

did not engage Miller Ellin during either of the years ended March 31, 2004 and March 31, 2003 to provide advice to the Company regarding financial information systems design and implementation.

<PAGE>

Other fees: The Company did not pay any fee to Miller Ellin to perform non-audit services during either of the years ended March 31, 2004 and March 31, 2003.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report

(1) Financial Statements

See Financial Statements included after the signature page beginning at page F-1.

(2) Financial statement schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

(3) List of Exhibits

See Index to Exhibits in paragraph (c) below.

(b) REPORTS ON FORM 8-K. We filed the following Current Reports on Form 8-K with the Securities and Exchange Commission during the period from January 1, 2004 through May 31, 2004.

1. Report filed on January 8, 2004 reporting under Items 5 and 7 issuance of a press release announcing an agreement to utilize Elite's proprietary drug delivery technology for the development of a controlled release product.

2. Report filed on January 29, 2004 reporting under Items 5 and 7 issuance of a press release announcing the filing of a U.S. patent application.

3. Report filed on March 5, 2004 under Items 5 and 7 reporting issuance of a press release announcing completion of validation batches for once-a-day product which treat allergies and their symptoms.

4. Report filed on March 10, 2004 under Items 5 and 7 reporting issuance of a press release announcing extension by our Board of Directors of the expiration dates of our Class B Warrants from June 23, 2004 to November 30, 2005.

5. Report filed on April 2, 2004 under Items 5 and 7 reporting issuance of a press release disclosing the ruling by the Superior Court of New Jersey to enforce the

<PAGE>

settlement of the litigation between Elite and its former President and Chief Executive Officer.

6. Report filed on April 16, 2004 under Item 5 disclosing a change in scheduled date for Annual Meeting of Stockholders.

7. Report filed on May 4, 2004 under Items 5 and 7 reporting issuance of a press release announcing closing of the settlement of the litigation with Dr. Mehta.

8. Report filed on May 10, 2004 under Items 5 and 7 reporting issuance of a press release disclosing agreement granting Purdue Pharma L.P. exclusive rights to evaluate certain of our abuse resistance drug formulation technology and the option to negotiate a license to develop and commercialize oxycodone products under the technology.

9. Report filed on May 17, 2004 under Items 5 and 7 disclosing issuance of a press release announcing appointment of Mr. Berk as Chairman of the Board of Directors.

(c) EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-K. We will furnish to our stockholders a copy of any of the exhibits listed below upon payment of $.25 per

page to cover the costs of the Company of furnishing the exhibits.

Exhibit No.	Description
3.2	By-Laws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 (Reg. No. 333-90633) made effective on February 28, 2000 (the "Form SB-2").
4.1	Certificate of incorporation of the Company, together with all amendments thereto, as filed with the Secretary of State of the State of Delaware, incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 (Reg. No. 333-101686), filed with the SEC on December 6, 2002 (the "Form S-4").
4.1(a)	Form of specimen certificate for common stock of the Company, incorporated by reference to Exhibit 4.1 to the Form SB-2.
4.2	Form of Class C Common Stock Purchase Warrant Certificate. *
4.3	Form of Class B Common Stock Purchase Warrant Certificate. *
4.4	Registration Rights Agreement by and between Prologica International, Inc. and each of the persons, whose name appears on the signature pages attached thereto, incorporated by reference to Exhibit 4.4 to the Form SB-2.
10.1	Settlement Agreement, dated October 23, 2002, among Elite, Harris Freedman, Sharon Will, Michael H. Freedman and certain of their respective

<PAGE>

	affiliates, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 1, 2002 (the "November 2002 Form 8-K").
10.2	Commercial Lease made between Serex, Inc. and Elite executed September 7, 1993, incorporated by reference to Exhibit 10.4 to the Form SB-2.
10.3	2004 Employee Stock Option Plan approved by stockholders on June 22, 2004, incorporated by reference to Exhibit A to the Proxy Statement filed on Schedule 14A with respect to the Annual Meeting of Stockholders held on June 22, 2004.
10.4	Form of Confidentiality Agreement (corporate), incorporated by reference to Exhibit 10.7 to the Form SB-2.
10.5	Form of Confidentiality Agreement (employee), incorporated by reference to Exhibit 10.8 to the Form SB-2.
10.6	Employment Agreement dated as of July 23, 2003 between Bernard Berk and the Company incorporated by reference to Exhibit 10.6 to Report on Form 10-Q for three months ended June 30, 2003 (the "June 30, 2003 10Q Report")
10.7	Option Agreement between Bernard Berk and the Company dated as of July 23, 2003 incorporated by reference to Exhibit 10.7 to the June 30, 2003 10Q Report.
10.8	Option Agreement between Bernard Berk and the Company dated as of July 23, 2003 incorporated by reference to Exhibit 10.8 to the June 30, 2003 10Q Report.
10.9	Option Agreement between John A. Moore and the Company dated as of July 23, 2003 incorporated by reference to Exhibit 10.9 to the June 30, 2003 10Q Report.
10.10	Engagement letter dated February 26, 1998, between Gittelman & Co. P.C. and the Company. *
21	Subsidiaries of the Company.*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section

302 of the Sarbanes-Oxley Act of 2002.*

32.1** Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2** Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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* Filed herewith

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** As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Annual Report on Form 10-K and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of Elite Pharmaceuticals, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filings.

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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/ Bernard Berk

Bernard Berk
Chief Executive Officer

Dated: June 28, 2004

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

SIGNATURE	TITLE	DATE
/s/ Bernard Berk Bernard Berk	Chief Executive Officer (Principal Executive Officer)	June 28, 2004
/s/ Mark I. Gittelman Mark I. Gittelman	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	June 28, 2004
/s/ Harmon Aronson Harmon Aronson	Director	June 28, 2004
/s/ John A. Moore John A. Moore	Director	June 28, 2004
/s/ Eric L. Sichel Eric L. Sichel	Director	June 28, 2004

<PAGE>

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2004, 2003 AND 2002

CONTENTS

<PAGE>

INDEPENDENT AUDITORS' REPORT

To Elite Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Elite Pharmaceuticals, Inc. and Subsidiaries (the "Company") as of March 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended March 31, 2004, 2003 and 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 audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elite Pharmaceuticals, Inc. and Subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has experienced significant losses and negative cash flows, resulting in decreased working capital and accumulated deficits. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 2.

/s/ MILLER, ELLIN & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
June 8, 2004, except for
the fourth and fifth paragraphs of
Note 13, as to which
the date is June 24, 2004

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2004 AND 2003

ASSETS

<TABLE>
<CAPTION>

	2004	2003
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	$2,104,869	$3,264,081
Accounts and accrued interest receivable	153,250	4,681
Restricted cash	203,995	99,380
Prepaid expenses and other current assets	137,892	132,092
Total current assets	2,600,006	3,500,234
PROPERTY AND EQUIPMENT- net of accumulated depreciation and amortization	4,090,250	4,390,553
INTANGIBLE ASSETS - net of accumulated amortization	102,196	104,842
OTHER ASSETS:		
Deposit on equipment	398,580	--
Restricted cash - debt service	300,000	300,000
Restricted cash - note payable	225,000	250,000
EDA bond offering costs, net of accumulated amortization of $60,458 and $47,267, respectively	137,402	150,593
Total other assets	1,060,982	700,593
	$7,853,434	$8,696,222

</TABLE>

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

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2004 AND 2003
(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	2004	2003
<S>	<C>	<C>
CURRENT LIABILITIES:		
Current portion - Note payable	$ 75,000	$ 75,000
Current portion of EDA bonds	150,000	140,000
Accounts payable and accrued expenses	1,085,242	334,721
Total current liabilities	1,310,242	549,721
LONG TERM LIABILITIES:		
Note payable - net of current portion	150,000	225,000
EDA bonds - net of current portion	2,345,000	2,495,000
Total long-term liabilities	2,495,000	2,720,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock - $.01 par value; Authorized - 25,000,000 shares Issued and outstanding - 12,204,423 and 10,544,423 in 2004 and 2003, respectively	122,044	105,444
Additional paid-in capital	39,338,140	34,218,832

Accumulated deficit	(35,105,151)	(28,590,934)
	4,355,033	5,733,342
Treasury stock	(306,841)	(306,841)
Total stockholders' equity	4,048,192	5,426,501
Total liabilities and stockholders' equity	$ 7,853,434	$ 8,696,222

</TABLE>

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

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEARS ENDED MARCH 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
REVENUES:			
Research and development	$ 258,250	$ 442,500	$ 593,000
Product formulation fees	--	187,810	601,057
Consulting and test fees	--	--	3,450
Total revenues	258,250	630,310	1,197,507
OPERATING EXPENSES:			
Research and development	2,075,074	2,013,579	1,609,108
General and administrative	2,549,846	1,858,069	763,687
Depreciation and amortization	332,836	310,876	266,919
	4,957,756	4,182,524	2,639,714
LOSS FROM OPERATIONS	(4,699,506)	(3,552,214)	(1,442,207)
OTHER INCOME (EXPENSES):			
Interest income	23,765	96,692	260,055
Litigation Settlement	150,000	--	--
Sale of NJ Tax Losses	151,027	71,674	137,818
Interest expense	(211,595)	(227,907)	(220,123)
Equity in loss of joint venture	--	(186,379)	(507,640)
Charge relating to issuance of stock options	(1,166,601)	(20,550)	--
Charge relating of issuance of stock warrants	(587,983)	--	--
Charge relating to warrant exchange offer	(172,324)	(242,338)	--
	(1,813,711)	(508,808)	(329,890)
LOSS BEFORE PROVISION FOR INCOME TAXES	(6,513,217)	(4,061,022)	(1,772,097)
PROVISION FOR INCOME TAXES	1,000	400	2,430
NET LOSS	$ (6,514,217)	$ (4,061,422)	$ (1,774,527)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.58)	$ (0.40)	$ (0.19)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	11,168,618	10,069,991	9,561,299

</TABLE>

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

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

	PREFERRED STOCK		COMMON STOCK		
	SHARES	AMOUNT	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT APRIL 1, 2001	--	$ --	9,376,389	$ 93,764	$ 18,071,503
Issuance of shares through exercise of warrants	--	--	298,179	2,981	1,301,606
Issuance of shares and warrants through exercise of placement agent warrants	--	--	16,272	163	58,416
Issuance of shares and warrants through exercise of options	--	--	20,000	200	37,939
Issuance of Series B convertible exchangeable preferred stock	200,000	200,000	--	--	--
Dividends declared - Series A preferred stock	--	--	--	--	--
Net loss for year ended March 31, 2002	--	--	--	--	--
BALANCE AT MARCH 31, 2002	200,000	$ 200,000	9,710,840	$ 97,108	$ 19,469,464

<CAPTION>

	TREASURY STOCK			
	SHARES	AMOUNT	ACCUMULATED DEFICIT	STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>
BALANCE AT APRIL 1, 2001			($21,000,013)	$ (2,834,746)
Issuance of shares through exercise of warrants			--	1,304,587
Issuance of shares and warrants through exercise of placement agent warrants			--	58,579
Issuance of shares and warrants through exercise of options			--	38,139
Issuance of Series B convertible exchangeable preferred stock			--	200,000
Dividends declared - Series A preferred stock			(853,148)	(853,148)
Net loss for year ended March 31, 2002	--	--	(1,774,527)	(1,774,527)
BALANCE AT MARCH 31, 2002	--	$ --	($23,627,688)	$ (3,861,116)

</TABLE>

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

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

	PREFERRED STOCK		COMMON STOCK		ADDITIONA PAID-IN
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT APRIL 1, 2002	200,000	$ 200,000	9,710,840	$ 97,108	$ 19,469,4
Issuance of shares through exercise of warrants	--	--	2,603	26	13,6
Issuance of shares and warrants through exercise of placement agent warrants	--	--	14,670	147	52,6
Issuance of convertible exchangeable preferred stock	559,000	559,000	--	--	
Dividends - declared - Series B preferred stock	--	--	--	--	
Dividends - declared - Series A preferred stock	--	--	--	--	
Preferred stock issued to satisfy accrued dividends	14,000	14,000	--	--	
Conversion of convertible exchangeable preferred stock into common stock	(773,000)	(773,000)	816,310	8,163	14,520,8
Purchase of treasury stock	--	--	(100,000)	--	
Charge relating to exchange of warrants	--	--	--	--	242,3
Charge relating to issuance of stock options	--	--	--	--	20,5
Fees relating to Warrant Exchange Offer	--	--	--	--	(100,6
Net loss for the year ended March 31, 2003	--	--	--	--	
BALANCE AT MARCH 31, 2003	--	$ --	10,444,423	$ 105,444	$ 34,218,8

<CAPTION>

	TREASURY STOCK			
	SHARES	AMOUNT	ACCUMULATED DEFICIT	STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>
BALANCE AT APRIL 1, 2002	--	$ --	$(23,627,688)	$ (3,861,116)
Issuance of shares through exercise of warrants			--	13,030
Issuance of shares and warrants through exercise of placement agent warrants			--	52,813
Issuance of convertible exchangeable preferred stock			--	559,000
Dividends - declared - Series B				

preferred stock			(14,000)	(14,000)
Dividends - declared - Series A preferred stock	--	--	(887,824)	(887,824)
Preferred stock issued to satisfy accrued dividends			--	14,000
Conversion of convertible exchangeable preferred stock into common stock	--	--	--	13,755,973
Purchase of treasury stock	100,000	(306,841)	--	(306,841)
Charge relating to exchange of warrants	--	--	--	242,338
Charge relating to issuance of stock options	--	--	--	20,550
Fees relating to Warrant Exchange Offer	--	--	--	(100,000)
Net loss for the year ended March 31, 2003	--	--	(4,061,422)	(4,061,422)
BALANCE AT MARCH 31, 2003	100,000	$ (306,841)	$(28,590,934)	$ 5,426,501

</TABLE>

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

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

	PREFERRED STOCK		COMMON STOCK		
	SHARES	AMOUNT	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT APRIL 1, 2003	--	$ --	10,444,423	$ 105,444	$ 34,218,832
Modification of warrant exchange offer	--	--	--	--	172,324
Issuance of stock options	--	--	--	--	1,166,601
Issuance of stock warrants	--	--	--	--	587,983
Proceeds from exercising stock options	--	--	15,000	150	29,850
Net proceeds from private placement	--	--	1,645,000	16,450	3,162,550
Previous rounding differences	--	--		--	--
Net loss for the year ended March 31, 2004	--	--	--	--	--
BALANCE AT MARCH 31, 2004	--	$ --	12,104,423	$ 122,044	$ 39,338,140

<CAPTION>

	TREASURY STOCK			
	SHARES	AMOUNT	ACCUMULATED DEFICIT	STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>

BALANCE AT APRIL 1, 2003	100,000	$ (306,841)	$(28,590,934)	$ 5,426,501
Modification of warrant exchange offer	--	--	--	172,324
Issuance of stock options	--	--	--	1,166,601
Issuance of stock warrants	--	--	--	587,983
Proceeds from exercising stock options	--	--	--	30,000
Net proceeds from private placement	--	--	--	3,179,000
Previous rounding differences	--	--	--	--
Net loss for the year ended March 31, 2004	--	--	(6,514,217)	(6,514,217)
BALANCE AT MARCH 31, 2004	100,000	$ (306,841)	$(35,105,151)	$ 4,048,192

</TABLE>

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED MARCH 31,	
	2004	2003
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,514,217)	$ (4,061,422)
Adjustments to reconcile net loss to cash used in operating activities:		
Write off of accounts receivable and patents	--	--
Depreciation and amortization	332,836	310,876
Charge relating to Warrant Exchange Offer	172,324	242,338
Charge relating to issuance of stock options	1,166,601	20,550
Charge relating to issuance of stock warrants	587,983	--
Equity in loss of joint venture	--	186,379
Changes in assets and liabilities:		
Contract revenue receivable	(148,569)	35,307
Prepaid expenses and other current assets	(5,800)	(26,010)
Amount receivable from Joint Venture	--	525,259
Accounts payable and accrued expenses and other current Liabilities	750,521	193,009
NET CASH (USED IN) OPERATING ACTIVITIES	(3,658,321)	(2,573,714)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchases) redemptions of short-term investments	--	100,000
Payments for patent and trademark filings	(16,696)	(69,517)
Restricted cash	(79,615)	114,284
Receivable from sale of New Jersey tax losses	--	66,077
Payment of deposit for manufacturing equipment	(398,580)	--
Purchases of property and equipment	--	(679,485)
NET CASH (USED IN) INVESTING ACTIVITIES	(494,891)	(468,641)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Fees relating to Warrant Exchange Offer		(100,000)
Proceeds under bank note	--	--
Principal repayments of bank note	(75,000)	(75,000)
Purchase of treasury stock	--	(306,841)
Proceeds from issuance of common stock and warrants	3,209,000	65,843
Principal repayments of EDA bonds	(140,000)	(130,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,994,000	(545,998)

NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,159,212)	(3,588,353)	
CASH AND CASH EQUIVALENTS - beginning of period	3,264,081	6,852,434	
CASH AND CASH EQUIVALENTS - end of period	$ 2,104,869	$ 3,264,081	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 214,199	$ 228,938	$
Cash paid (received) for income taxes	(150,027)	(71,274)	
SCHEDULES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Utilization of equipment deposit towards purchase of equipment	$ --	$ 123,396	$
Issuance of Preferred Stock (including stock dividend payable of $14,000 and subscription receivable of $67,000) for interest in joint venture	--	573,000	
Conversion of preferred stock to common stock	--	8,163	
Conversion of preferred stock to additional paid in capital	--	14,520,810	
Satisfaction of amounts due to joint venture	--	622,133	
Reduction in (addition to) investment in joint venture	--	63,381	
Dividends accrued on preferred stock	--	899,923	

</TABLE>

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

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

The Company consolidates all entities that it controls. The Company did not consolidate companies it did not control. The Company used the equity method to account for its investments in companies in which it did not have the ability to exercise significant influence over operating and financial policies.

NATURE OF BUSINESS

Elite Pharmaceuticals, Inc. ("Elite") was incorporated on October 1, 1997 under the Laws of the State of Delaware, and its wholly-owned subsidiary Elite Laboratories, Inc. ("Elite Labs") 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.

On October 24, 1997, Elite merged with Prologica International, Inc. ("Prologica") a Pennsylvania Corporation, a publicly traded inactive corporation, with Elite surviving the merger. In addition, Elite Labs 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 qualified 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.

On September 30, 2002, the Company acquired from Elan Corporation, plc and Elan International Services, Ltd. (together "Elan") Elan's 19.9% interest in Elite Research, Ltd. ("ERL"), a joint venture formed between the Company and Elan where the Company's interest originally was 80.1%.

On December 31, 2002, the Company entered into an agreement of merger whereby ERL (a Bermuda Corporation) was merged into a new Delaware Corporation, Elite Research, Inc. ("ERI"), a wholly owned subsidiary of the Company. As a result of the merger, ERI became the owner of all of the assets and liabilities of ERL. The merger was accounted for as a tax free reorganization.

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market instruments. The Company places its cash and cash equivalents with high-quality, U.S. financial institutions and, to date, has not experienced losses on any of its balances.

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 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.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically evaluates the fair value of long-lived assets whenever events or changes in circumstances indicate that its carrying amounts may not be recoverable. Accordingly, any impairment of value will be recognized when the carrying amount of a long-lived asset exceeds its fair value in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management has determined that no impairment of long-lived assets has occurred.

RESEARCH AND DEVELOPMENT

Research and development expenditures are charged to expense as incurred.

PATENTS AND TRADEMARKS

Effective April 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." The adoption of SFAS No. 142 required an initial impairment assessment involving a comparison of the fair value of patents and trademarks to current carrying value. No impairment was determined to exist. The Company reviews such trademarks and patents with definite lives for impairment to ensure they are appropriately valued if conditions exist that may indicate the carrying value may not be recoverable. Such conditions may include an economic downturn or a change in the assessment of future operations.

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

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2004 and 2003, no allowance for doubtful accounts was considered necessary, based on historical trends, economic conditions and the credit worthiness of customers. Amounts are written off when they are deemed uncollectible. The Company has not experienced significant write-offs.

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. Significant estimates made by management include, but are not limited to, the recognition of revenue and the fair value of intangible assets and stock-based awards.

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 calculated by dividing net loss by the weighted average number of shares outstanding during each period presented. Common stock equivalents, consisting of options, warrants and convertible securities, have not been included, as their effect would be antidilutive. For the three years ended March 31, the following potentially dilutive securities were not included in the computation of diluted loss per share:

<TABLE>
<CAPTION>

	2004		2003		2002	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	W E
<S>	<C>	<C>	<C>	<C>	<C>	
Stock options	2,417,050	$ 3.70	2,266,850	$ 5.74	2,056,850	
Warrants	2,654,239	$ 4.72	733,752	$12.33	2,669,477	
Convertible preferred shares	--		--	--	816,310	
	5,071,289		3,000,602		5,542,637	

</TABLE>

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenues derived from providing research and development services under contracts with other pharmaceutical companies are recognized when earned. These contracts provide for non-refundable upfront and milestone payments. Because no discrete earnings event has occurred when the upfront payment is received, that amount is deferred until the achievement of a defined milestone. Each nonrefundable milestone payment is recognized as revenue when the performance criteria for that milestone has been met. Under each contract, the milestones are defined, substantive effort is required to achieve the milestone, the amount of the non-refundable milestone payment is reasonable, commensurate with the effort expended, and achievement of the milestone is reasonably assured.

Revenues earned by licensing certain pharmaceutical products developed by Elite are recognized at the beginning of a license term when Elite's customer has legal right to the use of the product. To date, no revenues have been earned by licensing products and there are no continuing obligations under any licensing agreements.

INVESTMENT IN JOINT VENTURE

The equity method of accounting was used to account for the Company's investment in its joint venture with Elan. Under the equity method, the Company recognized its share in the net earnings or losses of the joint venture as they occurred. While Elite owned 100% of the outstanding common stock of ERL, Elite's equity in the loss of ERL was based on 100% of ERL's losses, less the amounts funded by Elan. Elan funded 19.9% of ERL's losSes. Once Elite's investment was reduced to zero, further losses were recognized to the extent of Elite's commitment to fund the losses. The joint venture was terminated effective September 30, 2002, as further discussed in Note 7.

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TREASURY STOCK

The Company records common shares purchased and held in treasury at cost.

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, as further described in Note 11. Effective April 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and selected the prospective method of adoption described in SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." Prior to April 1, 2002, the Company measured stock-based compensation for its employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock-based employee compensation expense for stock options was reflected in net loss for the year ended March 31, 2002 as all stock options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant.

During the years ended March 31, 2003 and 2004 the Company issued 210,000 and 1,024,000, respectively options to purchase common stock to employees and to members of the board of directors. The options have an exercise price ranging from $2.01 to $5.00 per share and all vest over three years except 610,000 shares issued in 2004 which vested upon grant date. The options expire between five and ten years from the date of grant. The Company has recorded compensation expense of $20,550 and $1,166,601 for the years ended March 31, 2003 and 2004 which represents the fair value of the options vested, utilizing the Black-Scholes options pricing model on each grant date.

On June 22, 2004 the Company's Stockholders approved the 2004 Stock Option Plan and ratified the amendments of the terms of outstanding options and warrants, including the repricing of options to certain Directors and employees (See Note 13). The Company will record a significant compensation expense in future periods, based on the fair value of the options after reflecting the repricing and amendments to the terms of the options.

The following table illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to all outstanding and unvested awards in each year presented:

<TABLE>
<CAPTION>

	2004	2003	2002
<S>	<C>	<C>	<C>
Net loss as reported	$(6,514,217)	$(4,061,422)	$(1,774,527)
Add: Stock-based compensation expense included in reported net loss, net of related tax effects	1,166,601	20,550	--
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(865,255)	(1,070,651)	(1,779,338)
Pro forma net loss	(6,212,871)	(5,111,523)	(3,553,865)
Loss per share as reported	(0.58)	(0.40)	(0.19)
Pro-forma loss per share	(0.56)	(0.51)	(0.38)

</TABLE>

<PAGE>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, degrees of risk and remaining maturities.

RECLASSIFICATIONS

Certain accounts and amounts in the 2003 and 2002 financial statements have been reclassified in order to conform with the 2004 presentation. These reclassifications have no effect on net income.

NOTE 2 - MANAGEMENT'S LIQUIDITY PLANS

The Company reported net losses of $6,514,217, $4,061,422 and $1,774,527 for the fiscal years ended March 31, 2004, 2003 and 2002, respectively. At March 31, 2004, the Company had an accumulated deficit of approximately $35.1 million, consolidated assets of approximately $7.9 million, stockholders' equity of approximately $4.0 million, and working capital of approximately $1.3 million. The Company has not generated any significant revenue to date.

In an effort to reduce costs in fiscal 2003, the Company has reduced the number of products being actively developed from approximately fifteen to six. The six products that continue in development were deemed by management to be the most suitable for continued development given the Company's limited resources. The Company has also settled certain litigation with its former CEO which will significantly reduce its legal fees.

The primary strategy remains to develop the Company's oral control release pharmaceutical products, with emphasis in the area of pain management, for FDA approval, and once developed, to commercially exploit these products

either by licensing or through the development of collaborations with strategic partners.

The Company also retained an investment banking firm in fiscal 2003 to assist the Company in connection with potential strategic transactions, including acquisitions. The Company may receive additional cash proceeds from the exercise of outstanding options and warrants, as well as through the continued sale of its New Jersey State tax losses. However, there is no assurance that any options or warrants will be exercised, that any sale of tax losses will be completed or that the Company will be able to raise additional capital.

In the event Purdue proceeds with its option to license the Company's Oxycodone product pursuant to the option agreement entered into on May 14, 2004 (See Note 13), the terms of the licensing agreement provide for the Company to receive significant milestone payments on or before March 31, 2005.

See Note 13 for information as to the Company's efforts to effect a financing of equipment purchases and a private placement of shares of its Common Stock. No representation can be made that the efforts will be successful or that if successful that the resulting proceeds will be material.

There is also no assurance that the Company's current business strategies will be successfully implemented or that it will raise the necessary funds to allow it to continue its operations. Management believes that cost reductions already implemented will reduce losses in the future, and with the Company's existing working capital levels, anticipates that the Company will be able to continue its operations at least through the end of fiscal year 2005, assuming it is successful in consummating the transactions discussed above.

<PAGE>

NOTE 3- PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2004 and 2003 consists of the following:

	2004	2003
Laboratory manufacturing, and warehouse equipment	$3,140,250	$3,140,250
Office equipment	32,981	32,981
Furniture and fixtures	51,781	51,781
Land, building and improvements	2,097,668	2,097,668
Equipment under capital lease	168,179	168,179
	5,490,859	5,490,859
Less: Accumulated depreciation and amortization	1,400,609	1,100,306
	$4,090,250	$4,390,553

Depreciation and amortization expense amounted to $300,303, $278,348 and $249,338 for the years ended March 31, 2004, 2003 and 2002, respectively. The Company's obligations under capital leases were satisfied prior to March 31, 2003.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets at March 31, 2004 and 2003, consist of the following:

	2004	2003
Patents	$145,830	$129,134
Trademarks	8,120	8,120
	153,950	137,254
Less: Accumulated amortization	51,754	32,412

	$102,196	$104,842

Amortization of intangible assets amounted to $19,342, $19,344 and $4,390 for the years ended March 31, 2004, 2003 and 2002, respectively.

Aggregate amortization expense of intangible assets for the next five fiscal years is estimated to be as follows:

YEARS ENDING MARCH 31,

2005	$ 19,340
2006	19,340
2007	19,340
2008	19,340
2009	8,140

<PAGE>

NOTE 5 - NOTE PAYABLE

On February 26, 2002, the Company closed a bank loan totaling $375,000 to finance the purchase and installation of machinery and 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, with the first payment commencing on April 1, 2002, and is secured by the machinery and equipment purchased under this facility and a certificate of deposit in the amount of $225,000 held as collateral. This certificate of deposit has been classified as noncurrent restricted cash. The note payable consists of the following at March 31:

	2004	2003
Bank note payable	$ 225,000	$ 300,000
Current portion	(75,000)	(75,000)
Long-term portion, net of current maturities	$ 150,000	$ 225,000

Future principal maturities under this loan are as follows:

YEARS ENDING MARCH 31,

2005	$ 75,000
2006	75,000
2007	75,000
	$ 225,000

NOTE 6 - 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.

<PAGE>

NOTE 6 - 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. Bond financing consisted of the following at March 31:

	2004	2003
EDA Bonds	$ 2,495,000	$ 2,635,000
Current portion	(150,000)	(140,000)
Long term portion, net of current maturities	2,345,000	2,495,000

Future principal maturities required under the bond agreement are as follows:

YEARS ENDING MARCH 31,

2005	$ 150,000
2006	165,000
2007	175,000
2008	190,000
2009	205,000
Thereafter	1,610,000
	$ 2,495,000

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NOTE 7 - JOINT VENTURE ACTIVITIES

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, was initially owned 80.1% by the Company and 19.9% by Elan. ERL was to fund its research through capital contributions from its partners based on the partners' respective ownership percentage. ERL subcontracted research and development efforts to the Company, Elan and others. It was anticipated that the Company would provide most of the formulation and development work. The Company had commenced work for three products. The joint venture terminated on September 30,2002. For the years ended March 31, 2003 and 2002, the Company charged $187,810 and $601,057, respectively, to ERL which was reflected in product formulation fees. Intercompany profits and losses were eliminated.

ERL was initially capitalized with $15,000,000 which included the issuance of 6,000 voting common shares, par value $1.00 per share, and 6,000 non-voting convertible preferred shares, par value $1.00 per share. All of the voting shares were held by the Company, with the non-voting convertible preferred shares held by both the Company and Elan, being split 3,612 shares and 2,388 shares, respectively. Elite's and Elan's

respective ownership in ERL did not change during the term of the joint venture.

While the Company initially owned 80.1% of the outstanding capital stock (100% of the outstanding common stock) of ERL until September 30, 2002, Elan and its subsidiaries retained significant minority investor rights that were considered "participating rights" as defined in the Emerging Issues Task Force Consensus No. 96-16. Accordingly, the Company did not consolidate the financial statements of ERL until September 30, 2002 but instead accounted for its investment in ERL under the equity method of accounting until the Joint Venture was terminated, effective September 30, 2002.

For the year ended March 31, 2002 and the period beginning April 1, 2002 through September 30, 2002, ERL recognized net losses of $633,642 and $232,742, respectively, and the Company recognized 80.1% of these losses, or $507,640 and $186,379, respectively. The product formulation fees $187,810 and $601,057 earned by the Company for services rendered to ERL for the years ended March 31, 2003 and 2002, respectively, are included in ERL's expenses. During fiscal year 2001, ERL paid $15,000,000 to Elan for a license providing ERL non-exclusive rights to use certain Elan in-process drug delivery technologies. The Elan technology rights acquired relate to very early stage technology that, in the opinion of management, have not reached technological feasibility and have no future alternative uses. Through the date of its termination, ERL completed in-vivo (pilot clinical trial) on the first product and began formulation and development of two additional products.

During fiscal year 2003, the Company consummated a termination agreement (the "Termination Agreement") with Elan to acquire all of Elan's interest in ERL. As further discussed in Note 10, the joint venture was terminated effective September 30, 2002.

<PAGE>

NOTE 7 - JOINT VENTURE ACTIVITIES (CONTINUED)

Under the Termination Agreement, among other things, the Company acquired all proprietary, development and commercial rights for the worldwide markets for the products developed by ERL. In exchange for the assignment, ERL agreed to pay Elan a royalty on certain revenues that may be realized from the once-a-day Oxycodone product that has been developed by ERL. Effective October 1, 2002, the Company is solely responsible to fund ERL's product development.

The Company did not pay, nor did Elan receive any cash consideration under the Termination Agreement. Furthermore, the Company has the exclusive rights to the proprietary, development and commercial rights for the worldwide markets for two other products developed by ERL. The Company is not required to pay Elan royalties on revenues that may be realized from these products.

The Company accounted for this acquisition by consolidating ERL as a wholly-owned subsidiary as of September 30, 2002. As more specifically described in Note 10, Elan converted 773,000 shares of Series B Preferred Stock, according to their terms, into 52,089 shares of the Company's common stock. This resulted in an increase in common stock of $521 and an increase in additional paid in capital of $772,479. As a result, the Series B Preferred Stock was eliminated.

As further disclosed in Note 10, the acquisition resulted in the conversion of 13,756 shares of Series A Preferred Stock into 764,221 shares of Elite's common stock in accordance with their terms. The Company accounted for this conversion by increasing common stock in the amount of $7,642 and by a corresponding increase in additional paid in capital of $13,748,332. As a result, the Series A Preferred Stock was eliminated.

As a result of the Termination Agreement, ERL became a wholly owned subsidiary of the Company as of September 30, 2002. Elan retained certain securities of Elite it had obtained in connection with the joint venture and transferred other such securities to a third-party, as further discussed in Note 10.

The following is a condensed balance sheet of ERL on September 30, 2002 (the date of acquisition):

CURRENT ASSETS	
Cash	$ 1,084
Total assets	$ 1,084
CURRENT LIABILITIES	
Accounts payable	$ 84,597
Total liabilities	84,597
Shareholders' deficit	(83,513)
	$ 1,084

NOTE 7 - JOINT VENTURE ACTIVITIES (CONTINUED)

The following are unaudited pro-forma consolidated results of operations for the years ended March 31, 2003 and 2002, assuming the acquisition was completed on April 1, 2001.

	YEAR ENDED MARCH 31,	
	2003	2002
	(Unaudited)	(Unaudited)
Revenue	$ 442,500	$ 596,450
Proforma net (loss) available to common shareholders	$(4,107,785)	$(1,900,529)
Proforma net (loss) available to common shareholders per share - basic and diluted	$ (0.40)	$ (0.19)

Unaudited pro-forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

NOTE 8 - INCOME TAXES

The components of the provision for income taxes are as follows:

	YEAR ENDED MARCH 31,		
	2004	2003	2002
Federal:			
Current	$ --	$ --	$ --
Deferred	--	--	--
	--	--	--
State:			
Current	1,000	400	2,430
Deferred	--	--	--
	1,000	400	2,430
	$1,000	$ 400	$2,430

======	======	======

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 approved for receipt by the Company during the year ended March 31, 2002 was $368,343 of which $222,211 and $146,132 was received in 2002 and in 2003, respectively.

<PAGE>

NOTE 8 - INCOME TAXES (CONTINUED)

During the year ended March 31, 2003, 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 approved for receipt by the Company during the year ended March 31, 2003 was $137,818, of which $71,741 was received in November 2002. The remaining balance of $66,077 was received in 2003.

During the year ended March 31, 2004, the Company received approval for the sale of an additional $1,928,817 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 received during the year ended March 31, 2004 was $151,027 and is recorded as other income in the accompanying financial statements.

The major components of deferred tax assets at March 31, 2004 and 2003 are as follows:

	2004	2003
Net operating loss carry forwards	$ 6,736,336	$ 4,486,167
Valuation allowance	(6,736,336)	(4,486,167)
	$ --	$ --

At March 31, 2004, a 100% valuation allowance is provided, as it is uncertain if the deferred tax assets will be utilized. The valuation allowance increased during 2004, 2003 and 2002 by $2,250,169, $1,357,792 and $304,375, respectively.

At March 31, 2004, for federal income tax purposes, the Company has unused net operating loss carryforwards of approximately $20,518,995 expiring in 2007 through 2015. For state tax purposes, the Company has $11,011,302 of unused net operating losses, which are net of the $9,539,503 of New Jersey net-operating losses sold, as discussed above.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS

The Company had an employment agreement ("Employment Agreement") with its former President/CEO, Atul M. Mehta.

On June 3, 2003, Dr. Mehta resigned from all positions that he held with the Company, while reserving his rights under his Employment Agreement and under common law. On July 3, 2003, Dr. Mehta instituted litigation against Elite and one of its directors, in the Superior Court of New Jersey, for, among other things, allegedly breaching his Employment Agreement and for defamation, and claims that he is entitled to receive his salary through June 6, 2006.

<PAGE>

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

EMPLOYMENT AGREEMENTS

The Company and Dr. Mehta settled their litigation subsequent to March 31, 2004 (See Note 13). The Company accrued $400,000 for compensation owed to Dr. Mehta as of March 31, 2004, in accordance with the settlement agreement.

On July 23, 2003, the Company entered into an agreement with its new Chief Executive Officer, Bernard Berk. The initial terms of this agreement is three years. Pursuant to this agreement:

- Mr. Berk is entitled to receive a base salary of $200,000 per annum, subject to increase to $330,140 if and when the Company consummates a Strategic Transaction (as defined in the employment agreement);

- The Company confirmed its grant to Mr. Berk on June 3, 2003 of options to purchase 300,000 shares of the Company's common stock at$2.01 per share. All of these options are vested.

- The Company granted Mr. Berk options to purchase an additional 300,000 shares of its common stock, with an exercise price equal to $2.15, the closing price of the Company's common stock on the date of grant. These options will vest solely upon consummation of a Strategic Transaction.

- Mr. Berk will be appointed as a director of the Company if he is serving as its Chief Executive Officer following the consummation of a Strategic Transaction.

- Mr. Berk will be entitled to receive severance in accordance with the employment agreement if he is terminated without cause or because of his death or permanent disability or if he terminates his employment for good reason or following a "change-of-control." The severance will be payable in accordance with the terms of his employment agreement.

CONSULTING AGREEMENTS

The Company entered into one year consulting agreements with each of Saggi Capital Corp. and Bridge Ventures Inc. on November 4, 2003. The consultants' services will include, but not be limited to, advice with respect to overall strategic planning, financing opportunities, acquisition policy, commercial and investment banking relationships and stockholders matters. In consideration of each consultant's services, the Company agrees to pay it $75,000 payable in monthly installments of $6,250 and to issue to the consultant a warrant to purchase 100,000 shares of the Company's common stock. For the year ended March 31, 2004, consulting expenses under both agreements aggregated $30,000 plus approximately $470,000 attributable to the issuance of warrants.

On July 3, 2003, the Company entered into an agreement with Leerink Swann & Company to provide a Valuation and a Fairness Opinion in order for the Company to complete a proposed acquisition for which it received a non-refundable retainer fee of $50,000. If and when the Board of Directors requests a Fairness Opinion, Leerink's compensation shall be $50,000. For the year ended March 31, 2004, consulting expenses under this agreement amounted to the $50,000 non-refundable retainer fee.

<PAGE>

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

REFERRAL AGREEMENTS

On January 29, 2002, the Company entered into a Referral Agreement with a Director (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

NO AMOUNTS HAD BEEN EARNED THROUGH MARCH 31, 2004.

On August 1, 1998, the Company entered into a consulting agreement (the "1998 Agreement") with a company owned by a Director for the purpose of providing management, marketing and financial consulting services for an unspecified term. Terms of the agreement provided for a nonrefundable monthly fee of $2,000. This compensation was applied against amounts due pursuant to a business referral agreement entered into on April 8, 1997 (the "1997 Agreement") with the same party.

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

Consulting expense under the 1997 and 1998 Agreements amounted to $28,800, $38,400 and $12,800 for the years ended March 31, 2004, 2003 and 2002, respectively. The agreement terminated on November 30, 2003.

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NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

COLLABORATIVE AGREEMENTS

On December 18, 2003, the Company and Pivotal Development, L.L.C. entered into an agreement to develop a controlled release product utilizing Elite's proprietary drug delivery technology. The product is a generic equivalent to a drug losing patent exclusivity with addressable market revenues of approximately $150 million per year. The agreement will also provide an option to develop a controlled release NDA product.

Under the collaboration agreement, Pivotal Development will be responsible for taking the Elite formulation through clinical development and the FDA regulatory approval process. The partners will seek a license during the development cycle from a pharmaceutical company which has the resources to effectively market the product and share the cost of defining the product against any lawsuits.

Elite and Pivotal will bear costs in their respective areas of responsibility. In addition, Pivotal shall pay Elite $750,000 upon attainment of certain milestones outlined in the agreement.

In June 2001, the Company entered into two separate and distinct development and license agreements with another pharmaceutical company ("partner"). The Company is developing two drug compounds for the partner in exchange for certain payments and royalties. The Company also reserves the right to manufacture the compounds. The Company received $250,000 and $300,000, respectively, on these two agreements, which were earned during the year ended March 31, 2002. The Company is currently proceeding with the development and formulation for both products as specified in the development agreements. During the years ended March 31, 2004 and 2003, the Company earned revenues of $105,000 and $85,000, respectively, for

additional development and formulation for both products.

On September 13, 2002, the Company, entered into a manufacturing agreement with Ethypharm S.A. ("Ethypharm"). Under the terms of this agreement, the Company has initiated the manufacturing of a new prescription drug product for Ethypharm. The Company received an upfront manufacturing fee for the first phase of the technology transfer and billed an additional amount upon the completion of the first phase of manufacturing. The Company is entitled to receive additional fees in advance for the final phase of the manufacturing. In addition, if and when FDA approval is obtained and if requested by Ethypharm, the Company will manufacture commercial batches of the product on terms to be agreed upon. As of March 31, 2004, the Company billed and earned revenues of $280,000 under this agreement, all if which was billed and earned during the year ended March 31, 2003, in accordance with the substantive milestone method of revenue recognition. Under this method, the milestone payments are considered to be payments received for the accomplishment of a discrete, substantive earnings event. Accordingly, the non-refundable milestone payments are recognized in full when the milestone is achieved. In addition to milestone payments, the Company billed and recognized $75,000 in additional revenues as a result of the manufacturing and delivery of additional batches during the year ended March 31, 2003.

<PAGE>

NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT)

TREASURY STOCK TRANSACTIONS

At a special meeting of the Company's Board of Directors held on June 27, 2002, the Board authorized the Company to purchase up to 100,000 shares of its common stock in the open market no later than December 31, 2002. As of March 31, 2003, the Company had purchased 100,000 shares of common stock for total consideration of $306,841.

PUBLIC OFFERINGS

In July 1998 the Company 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 this 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 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 this 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.

PRIVATE PLACEMENT OFFERINGS

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.

In a private placement offering concluded in December 2003 the Company sold 1,645,000 shares of Common Stock for aggregate proceeds of $3,290,000. It paid a cash commission of $75,000 to the Placement Agent and issued to the agent and its associates five year warrants to purchase 50,000 shares of Common Stock at a price of $2.00 per share. The Company granted to the purchasers and the Placement Agent piggyback registration rights.

PREFERRED STOCK

As further discussed in Note 7, on October 16, 2000, Elite entered into an agreement (the "Joint Venture Agreement") with Elan International Services, Ltd. and Elan Corporation, plc. (together "Elan"), under which the parties formed a joint venture, Elite Research, Ltd. ("ERL"). Under the terms of the Joint Venture Agreement, 409,165 shares of the Company's common stock and 12,015 shares of a newly created Series A Convertible Exchangeable Preferred Stock ("Series A Preferred Stock") were issued to Elan 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 ERL, as further discussed in Note 7.

<PAGE>

NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT)
(CONTINUED)

PREFERRED STOCK (CONTINUED)

The Series A Preferred Stock accrued a dividend of 7% per annum, compounded annually and payable in shares of Series A Preferred Stock. Dividends accrued and compounded annually beginning on October 16, 2001. As of September 30, 2002 (the termination date of the Joint Venture), the Company had accrued dividends of $1,740,973 on the Series A Preferred Stock. During the year ended March 31, 2003, the Company issued preferred stock to satisfy accrued dividends.

On October 17, 2000, the Company authorized 7,250,000 shares of newly created Series B Preferred Stock of which 4,806,000 was designated for issuance to Elan for a total consideration of $4,806,000. These shares were issuable from time to time to fund the Company's 80.1% portion of capital contributions to ERL and for funding of the research and development activities for ERL.

The Series B Preferred Stock accrued a dividend of 7% per annum of the original issue price, compounded on each succeeding twelve month anniversary of the first issuance and payable solely by the issuance of additional shares of Series B Preferred Stock, at a price per share equal to the original issue price. Dividends were accrued and compounded commencing one year after issuance. As of September 30, 2002 (the termination date of the joint venture), the Company had accrued dividends of $14,000 on the Series B Preferred Stock. During the year ended March 31, 2003, the Company issued preferred stock to satisfy accrued dividends.

During the fiscal year ended March 31, 2003, the Company made capital contributions to ERL in the amount of $573,000. These contributions were financed by the proceeds from the issuance to Elan of 573,000 shares of Series B Preferred Stock. These contributions were in addition to a capital contribution in the amount of $200,000 made by the Company to ERL during the fiscal year ended March 31, 2002.

JOINT-VENTURE TERMINATION

In addition to the issuance of shares as described above, on October 17, 2000 the Company issued to Elan 100,000 warrants to purchase the Company's common stock at an exercise price of $18 per share. The warrants are exercisable at any time on or before October 17, 2005. Subject to a Termination Agreement between the Company and Elan dated September 30, 2002, the Company acquired Elan's 19.9% interest in ERL, and Elan transferred its warrants and its 12,015 shares of Series A Preferred Stock to a third party along with accrued dividends of 1,741 shares. On November 6, 2002, under a transfer and assignment among the Company, Elan and a third party purchaser, all 13,756 shares of Series A Preferred Stock have been converted, according to their terms, into 764,221 shares of the Company's common stock using the $18 per share price. Elan retained 409,165 shares of the Company's common stock and 773,000 shares of Series B Preferred Stock, the latter of which was converted into 52,089 shares of the Company's common stock. Both of the Series A and Series B preferred stock were converted into the Company's common stock in accordance with their terms. The warrants remain unexercised at March 31, 2004.

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004, 2003 AND 2002

NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT)
(CONTINUED)

JOINT-VENTURE TERMINATION (CONTINUED)

For the period of one year after the issuance of the above shares of common stock, Elan and the third party purchaser have the right to require registration under the Securities Act of 1933, as amended ("the Securities Act") of all or part of these securities. All registration expenses would be borne by the requesting party. Elan and the third party purchaser also have the right to piggyback registration if at any time the Company proposes to register shares of its common stock under the Securities Act.

WARRANTS

To date, the Company has 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 through October 17, 2005.

A summary of warrant activity for the fiscal years indicated below were as follows:

<TABLE>
<CAPTION>

	2004	2003	2002
<S>	<C>	<C>	<C>
Beginning balance	733,752	2,669,477	2,983,928
Warrants issued	200,000	--	--
Warrants issued pursuant to Placement Agent Agreement	50,000	8,136	2,260
Placement Agent Warrants Exercised	--	(158,652)	(24,408)
Class C Warrants	1,723,237	--	--
Warrants exercised or expired	(52,750)	(1,829,957)	(298,179)
Ending balance	2,654,239	733,752	2,669,477

</TABLE>

CLASS A WARRANT EXCHANGE OFFER

On October 23, 2002, the Company entered into a Settlement Agreement with various parties in order to end a Consent Solicitation and various litigation initiated by the Company. The Agreement provided, among other things, an agreement to commence an exchange offer (the "Exchange Offer") whereby holders of the Company's Class A Warrants which expired on November 30, 2002 (the "Old Warrants") had the opportunity to exchange those warrants for new warrants (The "New Warrants") upon payment to the Company of $0.10 per share of common stock issuable upon the exercise of the old warrants. In September 2003 the Company issued New Warrants to the record holders as of November 30, 2002 of the Old Warrants without requiring any cash payment.

Each New Warrant is exercisable for the same number of shares of common stock as the Old Warrants at an exercise price of $5.00 per share, and expires on November 30, 2005. The New Warrants are not transferable except pursuant to operation of law.

<PAGE>

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004, 2003 AND 2002

NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT)
(CONTINUED)

CLASS A WARRANT EXCHANGE OFFER (CONTINUED)

During the year ending March 31, 2003, the Company expensed $242,338 relating to the Exchange Offer, which represents the fair value of the New Warrants,. The per share weighted-average fair value of each warrant on the date of grant was $1.10 using the Black-Scholes option pricing model with the following weighted-average assumptions: no dividend yield; expected volatility of 73.77%; risk-free interest rate of 2.88%; and expected lives of 3 years. The elimination of the $0.10 per share fee resulted in an additional charge of $172,324 during the year ended March 31, 2004.

For the year ended March 31, 2003 the Company incurred legal fees and other costs amounting to approximately $100,000, in connection with the Exchange Offer, which has been charged to additional paid-in capital.

NOTE 11 - STOCK OPTION PLANS

Under various 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 years indicated were as follows:

<TABLE>
<CAPTION>

	2004		2003		2002	
	OPTIONS	AVERAGE WEIGHTED EXERCISE PRICE	OPTIONS	AVERAGE WEIGHTED EXERCISE PRICE	OPTIONS	AVERAGE WEIGHTED EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	2,266,850	$5.74	2,056,850	$5.82	2,009,064	$5.64
Granted	1,024,000	2.23	210,000	5.00	113,000	9.22
Exercised	(15,000)	2.00	--	--	(20,000)	6.00
Expired	(858,800)	7.38	--	--	(25,000)	7.80
Purchased for retirement	--	--	--	--	(20,214)	4.00
Outstanding at end of year	2,417,050	$3.70	2,266,850	$5.74	2,056,850	$5.82

</TABLE>

<PAGE>

NOTE 11 - STOCK OPTION PLANS (CONTINUED)

The following table summarizes information about stock options outstanding at March 31, 2004:

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISABLE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$1.00 -- $2.00	503,750	1.40	$ 1.70	503,750	$ 1.70
2.01 -- 4.00	1,209,000	5.47	2.20	810,000	2.20
4.01 - 6.00	311,000	8.15	5.55	156,000	5.55

6.01 - 8.00	60,300	6.75	6.50	60,300	6.50
8.01 - 10.00	333,000	6.27	10.00	122,000	10.00
$1.00 - 10.00	2,417,050	5.11	$ 3.10	1,652,080	$ 3.10

</TABLE>

The per share weighted-average fair value of each option granted during fiscal 2004, 2003 and 2002 ranged from $1.03 to $2.68, $1.28, and $8.38, respectively, on the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions; no dividend yield; expected volatility ranging from 75.47% to 77.97%, 75.40%, and 76.69% for fiscal years 2004, 2003, and 2002, respectively; risk-free interest rate of 4.0% in 2004, 4.0% in 2003 and rates ranging from 4.55% to 4.875% in 2002, and expected lives ranging from five to ten years.

NOTE 12 - MAJOR CUSTOMERS

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

	2004	2003	2002
Customer A	--	29.79%	50.19%
Customer B	--	56.32%	--
Customer C	40.70%	13.49%	--
Customer D	59.30%	--	--

Customer A represents ERL, a joint-venture until September 30, 2002, when it became a wholly-owned subsidiary of the Company, as further discussed in Note 7. Revenues after September 30, 2002, are eliminated in consolidation.

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NOTE 13 - SUBSEQUENT EVENTS

On April 21, 2004, the Company settled the litigation between Dr. Atul Mehta, its former president and chief executive officer of the Company. Under the settlement agreement, Dr. Mehta relinquished any rights to the Company's patents and intellectual properties and agreed to certain non-disclosure and certain limited non-competition covenants. The Company agreed to pay Dr. Mehta $400,000 and certain expense reimbursements in accordance with the settlement agreement, and received a short term option for the Company or its designees to acquire all of the shares of the common stock of the Company held by Dr. Mehta and his affiliates at $2.00 per share. The Company paid $100,000 into escrow which will be released to Dr. Mehta if the Company option is not exercised within 90 days. As part of the settlement, the Company extended expiration dates of certain options to purchase 770,000 shares of Common Stock held by Dr. Mehta and also provided him with certain "piggyback" registration rights with respect to shares underlying his options.

On May 10, 2004, Elite Labs entered into an agreement with Purdue Pharma L.P. ("Purdue") through which Purdue was granted the exclusive right to evaluate certain abuse resistance drug formulation technology of the Company and an exclusive option to negotiate a license to develop and commercialize oxycodone products under the Company's technology. The Company's proprietary abuse resistance technology is designed to discourage and reduce abuse of narcotic analgesic medications by making the products more difficult to abuse when crushed, damaged or otherwise manipulated.

On May 14, 2004, the Company's Board of Directors appointed Bernard Berk, its Chief Executive Officer and President, to the additional position of Chairman of the Board of Directors.

On June 22, 2004 the Company's stockholders approved the 2004 Stock Option Plan providing for grants of incentive and nonqualified stock option with respect to 1,500,000 shares including shares which are to be subject to options to be granted to employees in replacement of outstanding options

held by them. The stockholders also ratified the amendments of terms of outstanding options and warrants including the repricing of options with respect to 420,000 shares which will result in a significant charge to earnings. A proposal to amend the Certificate of Incorporation of the Company to increase the authorized 25,000,000 shares of Common Stock to 65,000,000 shares of Common Stock and 5,000,000 shares of Preferred stock is to be considered at the adjourned meeting scheduled to be held on July 19, 2004.

Elite Labs is currently negotiating an agreement with a financial institution to finance the purchase of certain machinery and equipment and to recast the outstanding balance due to a bank in the approximate amount of $212,000. Under the terms of the proposed agreement, Elite Labs is to borrow $612,000 payable in 36 monthly installments of $20,917, including principal plus interest at 14% per annum. The proposed agreement is to provide that the (i) loan will be secured by two pieces of equipment and the guaranty of the Company, (ii) restricted cash currently held as collateral under the note payable in the amount of $225,000 is to be released to the lender, of which $125,500 will be utilized to prepay the first six monthly payments under the loan and (iii) the balance will be held as a security deposit which is to be released if the Company raises certain proceeds from the sale of its securities or other licensing fees. No assurance can be given that the proposed agreement will be executed or if the agreement is executed that the agreement will provide the foregoing terms.

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