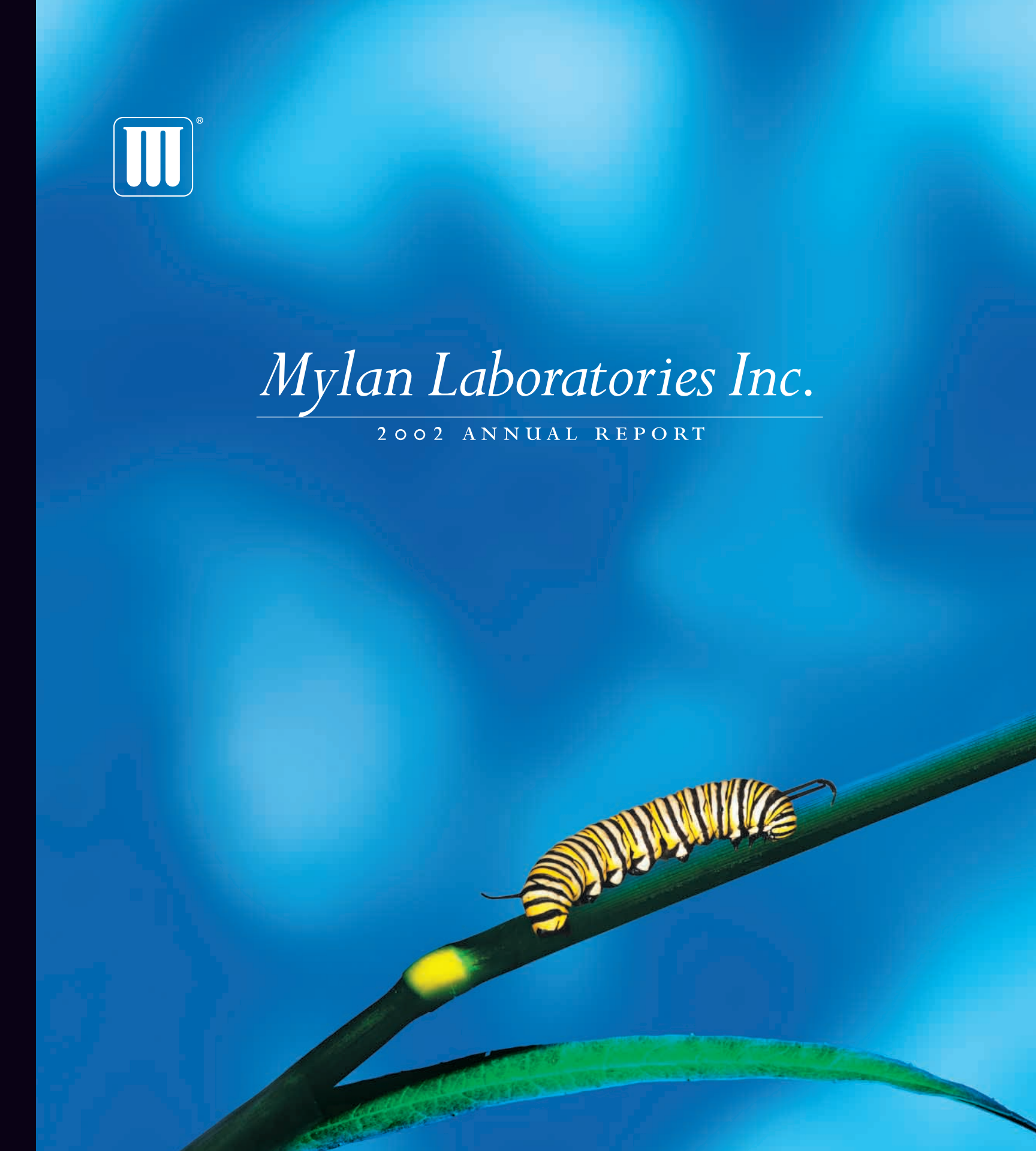
Mylan Laboratories Inc.

2002 ANNUAL REPORT



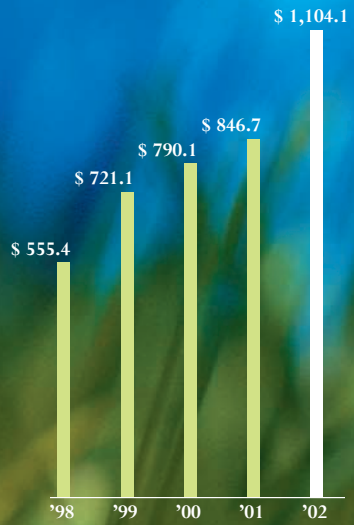
Financial Highlights

(IN THOUSANDS, EXCEPT PER SHARE DATA)

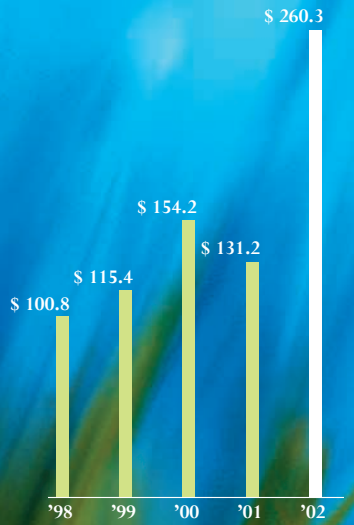
FISCAL YEAR ENDED MARCH 31,	2002	2001[1]	2000	1999[2]	1998[3]
Net revenues	$ 1,104,050	$ 846,696	$ 790,145	$ 721,123	$ 555,423
Gross profit	623,939	382,175	420,768	381,781	267,133
Net earnings	260,251	131,208	154,246	115,409	100,777
Cash dividends paid	20,195	20,144	20,663	19,833	19,525
Per common share:					
Net earnings –					
Basic	$ 2.07	$ 1.04	$ 1.19	$ .92	$ .83
Diluted	$ 2.04	$ 1.04	$ 1.18	$ .91	$ .82
Cash dividends paid	$ .16	$ .16	$ .16	$ .16	$ .16
Shareholders' equity – diluted	$ 11.01	$ 8.94	$ 9.24	$ 8.34	$ 6.05
Net revenues per employee	$ 496	$ 381	$ 343	$ 346	$ 285

(1) Excludes the impact of the $147.0 million pre-tax litigation settlement (see Note 17 to Consolidated Financial Statements).
(2) Includes acquired in-process research and development expense relating to the Penederm acquisition in October 1998.
(3) Includes other revenue of $26.8 million in connection with a supply agreement with Genpharm Inc.

Net Revenues
(IN MILLIONS)



Net Earnings
(IN MILLIONS)



Shareholders' Equity
(IN MILLIONS)

Evolve. Develop. Diversify. Thrive.

When Mylan Pharmaceuticals was founded in 1961, our mission was to help make quality medicines more affordable for the patients who need them. Our mission has not changed, but we will continue to evolve.

Today, as a leader in the generic pharmaceutical industry, we produce and market high quality generic products through Mylan Pharmaceuticals Inc., Mylan Technologies Inc., and UDL Laboratories, Inc. Innovative R&D, state-of-the-art manufacturing and a variety of delivery systems allow us to continually offer quality products to our customers. Also, our branded presence continues to grow through our proprietary company, Bertek Pharmaceuticals Inc.

Together, we're Mylan Laboratories Inc. Dynamic and ever-changing, we have evolved into an innovative leader.

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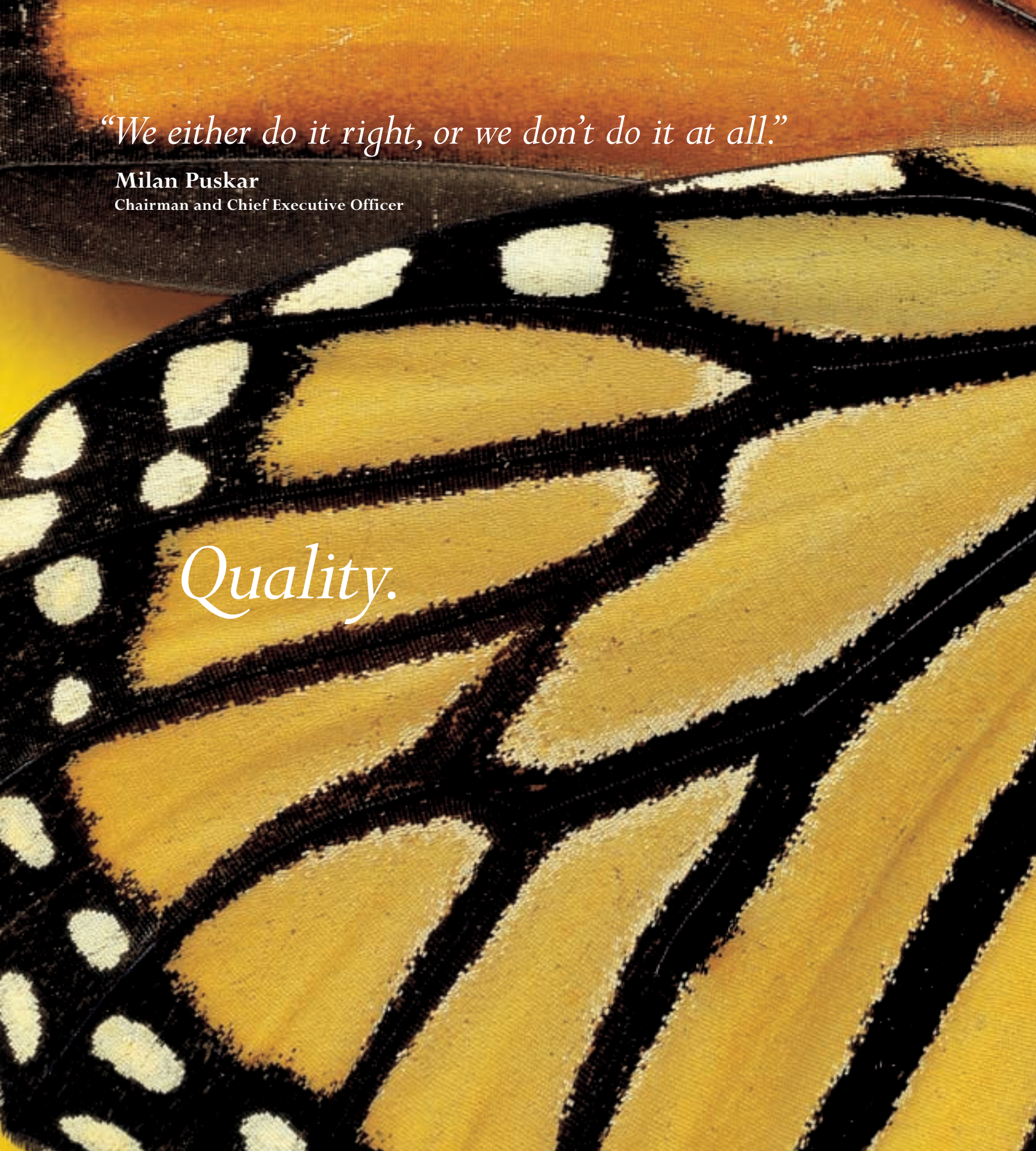


"We either do it right, or we don't do it at all."

Milan Puskar
Chairman and Chief Executive Officer

Quality.

Milan Puskar

Chairman and
Chief Executive Officer

DEAR SHAREHOLDER,

Fiscal 2002 marked a milestone in the evolution of our company as net revenues, net earnings and gross profit set a new record for Mylan.

Our revenues have increased ten-fold over the decade and for the first time in our history they surpassed the billion-dollar mark. We had a highly successful year and I take great pride in our accomplishments.

- Net revenues increased 30% to exceed $1.1 billion.
- Gross profit increased 63% to $623.9 million.
- Net earnings increased 98% to $260.3 million.*
- Diluted earnings per share increased 96% to $2.04.*

Our record-setting year was driven by our unwavering commitment to quality, our people, and the selective management and controlled growth of our product mix. Beyond that, we continue to strategically grow our capacity through robust and efficient product formulations, modern facilities, state-of-the-art equipment, and the finest people in the industry. We are ideally positioned for continued growth and success.

Mylan ended the year with $1.1 billion in net revenues, which represents a 30% increase over fiscal 2001 revenues of $846.7 million. The year-over-year increase of $257.4 million was driven by the overall improvement in product mix of our core generic business, the extended exclusivity of buspirone, and new product launches.

One of our primary objectives this year was to increase profit margins, and that initiative is succeeding. Gross profit increased from $382.2 million in fiscal 2001 to $623.9 million in fiscal 2002, an increase of $241.7 million. Critical to our success is the strategic selection of products based on solid profit margins, consumer demand and technological exclusivities. Additionally, the fact that we manufacture over 95% of dosage units which we sell allows us to maintain control of our service levels and achieve higher profit margins.

A SOLID FOUNDATION

Fiscal 2002 was another year in which our innovative research and development made great strides. We have introduced a number of new products and formulations that strongly position us for future growth.

I would like to emphasize that our base generic business played a key role in our financial results as well. Our success in growing the net revenues and gross margin of these products was significant and is a continuation of one of our strategies.

Buspirone, the generic equivalent of Bristol-Myers Squibb's BuSpar® Tablets, was also a large contributor for 2002. In February, after 11 months of exclusivity on the 15mg strength, the product was opened to competition. Since

then, we have exceeded expectations in terms of maintaining market share. Additionally, we are the only company that markets buspirone in 5mg, 10mg, 15mg and 30mg strengths.

We have an excellent generic pipeline. We have 20 Abbreviated New Drug Applications (ANDAs) pending FDA approval which represent products with 2001 brand sales of approximately $18 billion. Eight of these have approvable or tentative approval status representing $6.7 billion in 2001 brand sales. It is our goal in fiscal 2003 to surpass our historical best number of 21 major submissions.

Our broad generic base business is solid and growing due to our ability to be the reliable supplier. We continue to add capacity consistent with demand and are confident and committed to our future success in the generic market.

STRATEGIC, CONTROLLED GROWTH

Due to customer buying patterns and the elimination of end of quarter promotional programs, revenues and earnings declined in the brand sector during fiscal 2002. We believe customer buying patterns have now normalized. Additional steps were taken to prepare the business for future growth opportunities. As we have gone through this process and look toward fiscal 2003, we have paid strict attention to the fundamentals of our business – increasing prescription volume, growing market share, improving margins and decreasing expenses.

Prescription activity in fiscal 2002 shows evidence of progress. Compared to fiscal 2001, total prescriptions for Mentax®, grew 35%, Kristalose® 106%, Phenytoin 21%, Clozapine 149% and Digitek® 101%.

In December 2001, Mylan received approval for a new, once-daily form of phenytoin for the treatment of seizures, which Bertek markets and sells as Phenytek™ in 200mg and 300mg capsules. While prescription growth is still in the launch phase for this product, we have intensified our promotional efforts to convert existing Dilantin® Kapseals®† prescriptions to Phenytek. Phenytek's availability in higher strengths helps to ensure patient compliance and market research indicates that doctors plan on prescribing Phenytek more often. We are pleased with Phenytek and feature its story later in this report.

Bertek currently awaits approval of the ANDA for isotretinoin, the generic equivalent to Roche Pharmaceuticals' Accutane® for the treatment of severe recalcitrant nodular acne. Last year, Accutane brand sales in the US were over $550 million. Entrance barriers for this product are some of the highest in generic history, including completely revised labeling standards which require all marketers of isotretinoin to provide a Risk Management/ Pregnancy Prevention Program to physicians, patients and pharmacists. Final issues regarding labeling and risk management are currently being addressed, our sales representatives are being trained and selling and marketing materials are being prepared.

This spring, Bertek began submission of a New Drug Application (NDA) for apomorphine injection for the treatment of unpredictable "off" episodes in Parkinson's disease, when patients have restricted ability to control their movements. Apomorphine is the first dopaminergic drug ever used to treat symptoms of Parkinson's disease and only in recent years has it been the subject of systematic study.

Finally, we continue to be excited about the potential of nebivolol, a unique, new generation beta-blocker. Nebivolol was announced in fiscal 2002 and rapidly moved into Phase III clinical trials for the treatment of hypertension. We continue to focus on the goal of a NDA submission for nebivolol by the end of calendar 2003.

Through organic development and strategic acquisitions, we continue to grow our branded presence and introduce products that meet unmet needs in the marketplace.

FRESH PERSPECTIVES, GROWING EXPERTISE

There were a number of management changes during fiscal 2002. In March, Edward J. Borkowski, former Vice President of Global Finance and Information Technologies of Pharmacia Corporation's Consumer Health Unit, was named Chief Financial Officer. Also in March, Stuart Williams, Esq., joined us as Chief Legal Officer. Stu, formerly of DKW Law Group, has served as a member of our Board of Directors since July of 2001. Additionally, former senior executive C.B. (Sonny) Todd returned from retirement to fill the vacated position of President and Chief Operating Officer. We are pleased that these men have joined the Company in these important operating roles.

I am also pleased to announce that John P. O'Donnell, Ph.D., former Vice President of Research and Quality Control, was named Chief Scientific Officer.

Additionally, Sharad K. Govil, Ph.D., was named President of Mylan Technologies Inc.

Two of our officers retired within this past fiscal year. Dana G. Barnett, Executive Vice President and director of the Company, retired in December 2001 after 36 years of service. Roderick P. Jackson, Senior Vice President, retired in March 2002, after being with us for nearly 16 years. I am grateful to both of these gentlemen for the countless ways in which they have contributed to Mylan over the years and wish them all the best in their retirement.

Perhaps the most significant change in our management structure was the expansion of our Board of Directors. Robert J. Coury, the principal of Coury Consulting, L.P., was named to the Board in February filling the position vacated by Mr. Barnett and then was appointed Vice Chairman in March. Also in March, Randall L. (Pete) Vanderveen, Ph.D., Dean of the School of Pharmacy and Graduate School of Pharmaceutical Sciences at Duquesne University, was named to the Board. Wendy Cameron, who joined our Board in May, is a former Vice President for Cameron Coca-Cola Bottling Company, Inc.

In fiscal 2001, our Board was comprised of nine directors. Now we have expanded to 11. The growth in many ways reflects the growth of our company. We are confident that this Board has what it takes to provide our company with innovative and active leadership.

LOOKING AHEAD — OUR CONTINUING COMMITMENT TO QUALITY

Mylan's future is full of promise. Our goals for fiscal 2003 continue on the path that has proven so successful for us. Beyond our financial successes, we continue to believe our strength comes from people – our employees, our shareholders, our customers, our consumers and our communities.

In May, the Board authorized a Stock Repurchase Program, whereby we can purchase up to 10 million or approximately 8% of outstanding common shares.

We also recently established the Mylan Laboratories Charitable Foundation, a 501(c) (3) non-profit organization established to provide support through grants to qualified charitable organizations. Mylan is proud of its long history of civic and philanthropic activity, and it is my hope that this foundation continues our tradition of giving back to the communities in which we work and live.

In the report that follows, you will find the story of our evolution as a company. We have built on our strengths, adapted to the changing marketplace, strategically grown our innovative research and development, developed state-of-the-art manufacturing and integrated a variety of delivery systems to meet the needs of the consumer. Throughout the years, we have held to our core mission – offering the highest quality pharmaceuticals at an affordable price.

It has been a great year at Mylan. There are many more to come. Thank you for taking the journey with us.

Milan Puskar
Chairman and Chief Executive Officer
June 7, 2002

**Excluding the impact of the Federal Trade Commission settlement*
†Dilantin® Kapseals® is a registered trademark of Parke-Davis


Grow.
Learn.
Mature.
$1.1 billion
in revenue

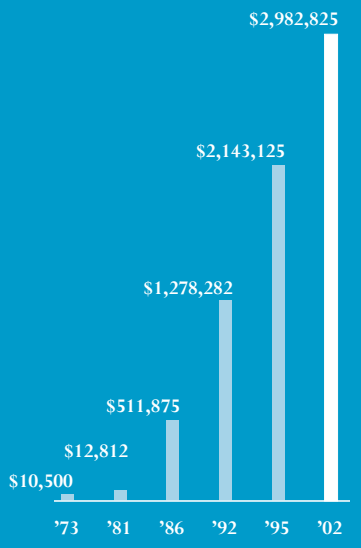
Growing stronger with each passing year.

It was a landmark year for Mylan. We just exceeded $1.1 billion in net revenues, and that's just the beginning. We also achieved record earnings of $260.3 million as we continue to strengthen our balance sheet. Mylan's financial position enables the Company to invest in our foundation of quality, innovative R&D and unique manufacturing capabilities. In fact, since our initial public offering in 1973, all of our growth has been generated from internally-developed funds. All that we do builds upon our mission to provide affordable products to patients. This year we reached the billion-dollar mark.

We can't wait to see what happens over the next 40 years.

Shareholder Value

(FISCAL YEAR ENDED MARCH 31st)



If you had invested in Mylan during the winter of '73, and purchased a thousand shares for $10,500, today you would have 101,250 shares, valued at $2,982,825.


A Quality Foundation.

Quality for over 40 years.

Since 1961, we have maintained an exemplary record for quality and service. We enjoy an outstanding reputation with the FDA and among our customers, pharmacists and consumers. Our position in the marketplace as a leader is built on our commitment to quality, which provides us with a platform for continued growth and success. Our culture is based on quality – quality in our products, our people and the way we do business.

We are always excited by the growth of new products; however, a significant percentage of our business each year comes from our core products. As the marketplace has changed, we have gained market share and have revitalized older products. Our strength comes from our foundation, which is built upon robust and efficient formulations; modern facilities and equipment; and a superb infrastructure. We are especially proud of our people and corporate culture. Beginning with four employees in 1961 to over 2,200 today, we recruit the best and the brightest and retain them. The result: a commitment to quality that just keeps growing.

For the seventh consecutive year, *The Mylan Brand* is the #1 most widely dispensed line of generic pharmaceuticals in America.*

- **More than 860 million prescriptions dispensed***
- **More than 50 billion doses shipped***
- **Last year, more transdermal patches sold than any other company***

Continued excellence. Forty-one years and growing.

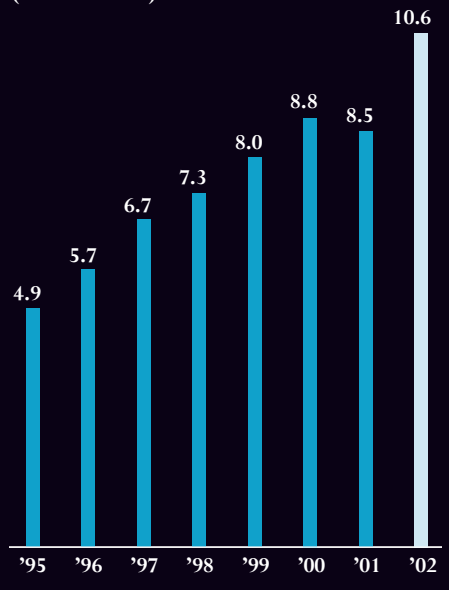
**IMS National Prescription Audit, 1995–2001*

Quality: Dedication to Detail.

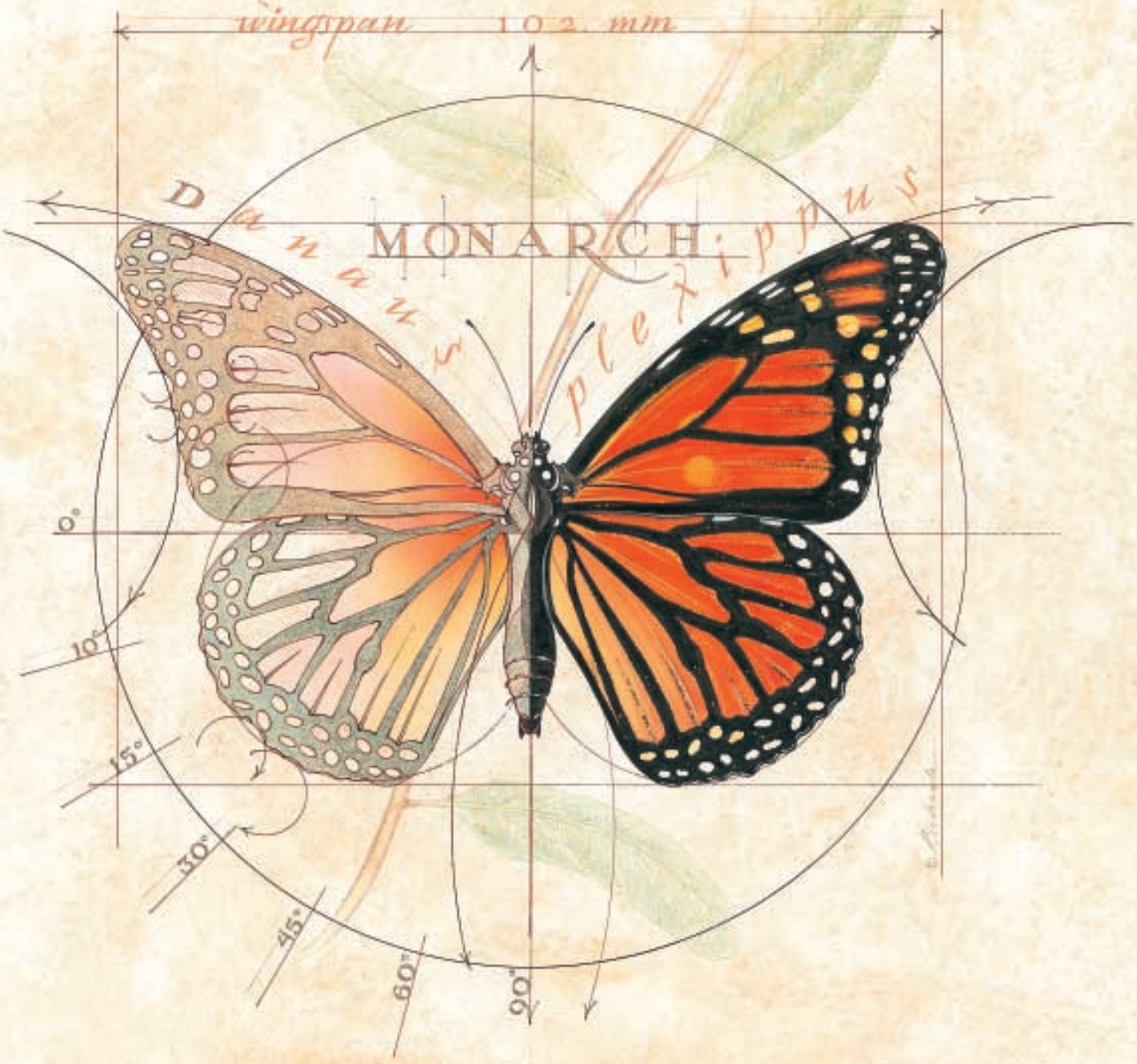
Mylan's focus is on quality manufacturing and service. Our facilities are state-of-the-art. We are proud of the fact that 95% of doses sold by Mylan are developed and produced by Mylan subsidiaries, and that we have become known within the industry as the reliable supplier. We believe our commitment to quality and service has enabled us to earn that distinction.

In fiscal 2002 we shipped 10.6 billion doses. All batches are thoroughly tested to ensure that we consistently produce the finest quality products. Suppliers, doctors, pharmacists and patients trust us to consistently provide this quality.

Doses Shipped – Tablets and Capsules
(IN BILLIONS)



Mylan has grown substantially over the last seven years with an increase of approximately 5.7 billion doses or 116% growth. Our commitment to continuously adding capacity will allow us to capitalize on future opportunities.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MONARCH
Danaus plexippus
0°
10°
15°
30°
45°
60°
90°

Prepare. Adapt.

Mylan is ideally positioned with an internally-developed generic platform to produce large volumes of quality products at competitive prices with superior service. We have successfully acquired or developed unique capabilities that give us a competitive advantage. Our acquisition of Mylan Technologies Inc. in 1993 allowed us to capitalize on the latest in transdermal technologies, and the acquisition of UDL Laboratories made us a leader in unit-dose generics.

We continually adapt to the changing market and seize opportunities that fit our strategic needs. Whether that means licensing a promising product or purchasing a company, we are prepared to invest in our future. Strategic thinking is what has made us #1 in new and refilled prescriptions dispensed among all pharmaceutical companies.* Strategic, controlled growth is just one of the ways we keep ahead of the competition.

**IMS National Prescription Audit, March 31, 2002*

Mylan has averaged 18 FDA submissions per year for the past three years. And our commitment keeps growing.

We take pride in maintaining an exemplary record with the FDA. We have a rich, firmly established research and development pipeline, and we selectively manage our product portfolio to yield higher gross margins while efficiently utilizing our R&D resources.

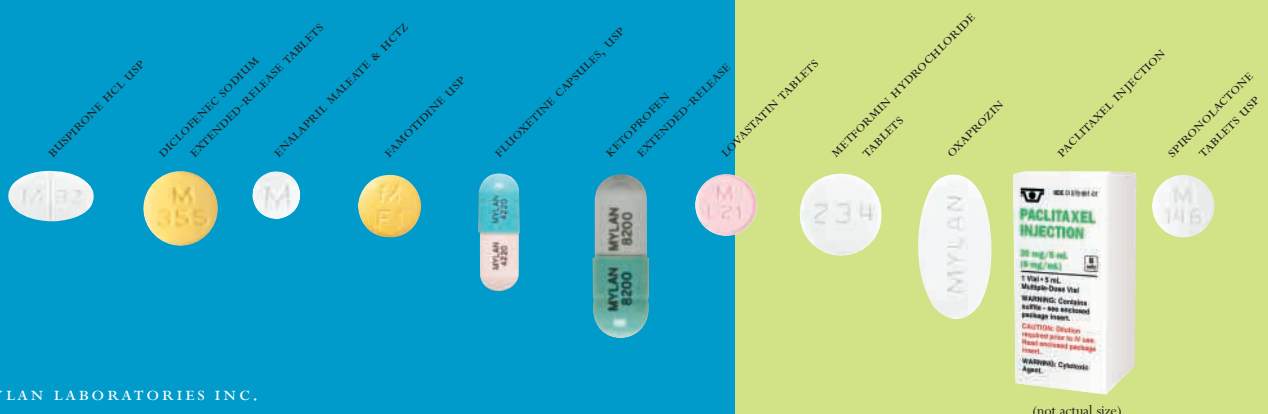
In fiscal 2002, we received 18 application approvals, including 11 final ANDA approvals (below), three tentative ANDA approvals, one ANDA approvable letter, one amendment and two supplemental ANDA approvals for new product strengths. These 18 approvals encompass 14 new products and 43 product strengths.

18 FDA *approvals*

Beyond our excitement for the many approvals we've received, Mylan obtained exclusive US marketing rights for generic Etoposide Capsules, which is the generic equivalent to Bristol Laboratories' VePesid® Capsules, during fiscal 2002. We also acquired an ANDA for Butorphanol Tartrate Nasal Spray, 10mg/mL, which is the generic equivalent to Bristol-Myers Squibb Company's Stadol® NS.

Our approval for 200mg and 300mg Phenytek™ (extended phenytoin sodium) Capsules, an anti-seizure medication used primarily for epileptics, was an important addition to our product portfolio. Learn about our innovation to help increase patient compliance inside. →

Mylan is also pleased to have acquired exclusive North American rights to the promising beta-blocker, nebivolol. For the estimated 50 million Americans suffering from hypertension, this new drug may offer some unique advantages over other beta-blockers. Find out what makes this product unique inside. →



(not actual size)

Mylan has consistently been a leader in submissions to the FDA. That is something we are proud of and will continue in the future. At Mylan, there is nothing more satisfying to us than launching new products into the marketplace.

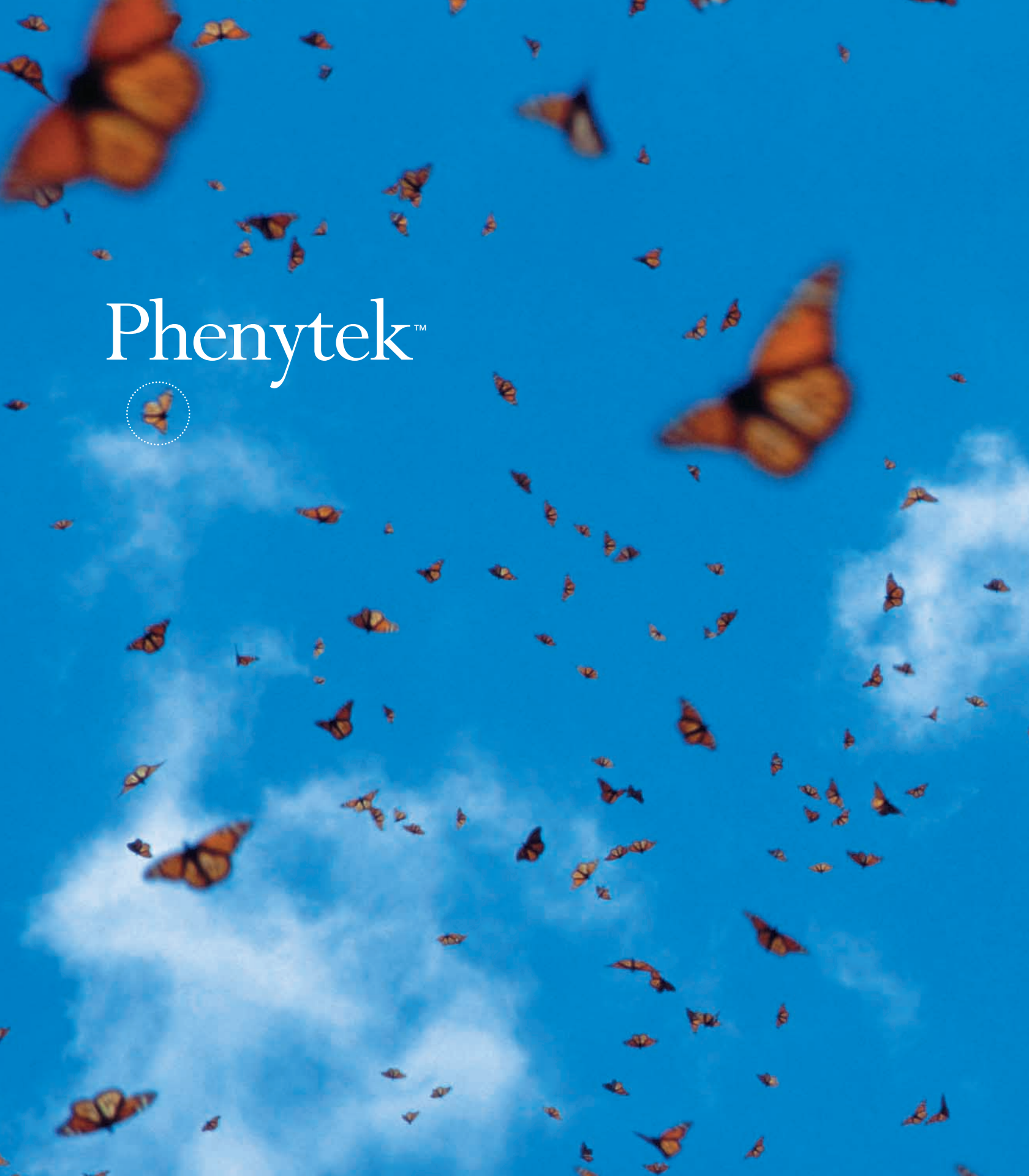
The Potential for Greater Patient Compliance. One Capsule.

Bertek introduced Phenytek™ in mid-January and is intensifying promotional efforts to convert existing Dilantin® Kapseals®†† prescriptions. A recent market survey indicated that 96% of primary care physicians and 75% of neurologists surveyed expect to increase their prescribing of Phenytek.*

Any pharmaceutical company could have offered seizure patients an easier way to take their medicine, but we're the one that did.

A recent patient survey reported that 71% of seizure patients routinely miss doses of their medication, and in 45% of those cases the patient suffered a breakthrough seizure.† Why? The more doses of medicine a patient has to take each day, the more likely he/she is to miss one. That's why Bertek offers Phenytek™, extended phenytoin sodium capsules, which are bioequivalent and therefore therapeutically equivalent to Dilantin® Kapseals®,†† in new 200mg and 300mg strengths. Now patients have the opportunity to take fewer capsules per day which may help achieve better compliance. It's a simple thing, but it's how innovation can make a difference.

** Source: Fastape Plus™ Study No. 42572, April 25, 2002.*
† Data on file, Bertek Pharmaceuticals Inc.
†† Dilantin® Kapseals® is a registered trademark of Parke-Davis.


Phenytek™


STRATEGIC SELECTION
Mylan chooses products that stand out from the crowd.
Nebivolol

Exclusive Rights.
A New Generation of Beta Blocker.
A Golden Opportunity.

Bertek has already begun Phase III trials of nebivolol and anticipates submitting a NDA for hypertension by late calendar 2003. Nebivolol is currently marketed in 30 countries throughout Europe and Central America.

Nebivolol is a unique, new generation beta-blocker which may offer new hope for hypertension patients.

Bertek acquired exclusive US and Canadian rights to nebivolol in fiscal 2001. International studies have demonstrated that, compared to traditional beta-blockers, nebivolol may feature a unique tolerability profile – potentially causing less fatigue, less sexual dysfunction and fewer metabolic disturbances. While traditional beta-blockers have been less effective in treating African American patients, international clinical studies have been encouraging that nebivolol may be effective regardless of race, thus potentially extending its use into a new patient population. If approved, nebivolol has the potential for significantly expanding Bertek's business.

Variety.


Monarch
Danaus plexippus
Blue
Polyommatus icarus
California Dogface
Zerene eurydice
Colorado Hairstreak
Hypaurotis crysalus
Purple Hairstreak
Atlides halesus
Tiger Swallowtail
Papilio glaucus
Pygmy Blue
Brephidium exile
Painted Lady
Vanessa cardui
Zebra
Heliconius charitonius

How many delivery systems do we have?

As many as you need.

At Mylan, we know that flexibility is key to evolving within the industry. In addition to the billions of tablets and capsules that we produce each year, we have developed and integrated new varieties of delivery systems. We are a leader in transdermal technologies, and sold more transdermal patches last year than any other company.* We have the ability to manufacture a variety of product delivery systems, which include an innovative tablet-within-a-capsule technology. Our expertise in developing and manufacturing unique dosage forms provides us with a competitive advantage. These sound fundamentals are firmly in place to allow for future product development.

**IMS National Prescription Audit, 1995–2001*


OVER THE NEXT FIVE YEARS,
$40 billion
of branded pharmaceutical revenue will be available to generic competition.*
* Source: Wall Street Journal, December 17, 2001
MYLAN LABORATORIES INC.


On the horizon…
We're ready.

Our evolution continues…

Mylan Laboratories Inc. continues to build on its 41-year foundation of quality. We have adapted to the marketplace by taking advantage of strategic growth opportunities and develop new products consistent with the needs of our customers. Our state-of-the-art manufacturing expertise and commitment to excellence position us for future growth. Our innovative R&D allows us to provide quality products through a variety of delivery systems. We believe we are in an outstanding position to capitalize on the growth prospects within our industry.

Now is an exciting time at Mylan.
The sky is the limit.
Let the evolution continue.

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Selected Financial Data

(IN THOUSANDS, EXCEPT PER SHARE DATA)

FISCAL YEAR ENDED MARCH 31,	2002	2001	2000	1999	1998
Statements of Earnings:					
Net revenues	$ 1,104,050	$ 846,696	$ 790,145	$ 721,123	$ 555,423
Cost of sales	480,111	464,521	369,377	339,342	288,290
Gross profit	623,939	382,175	420,768	381,781	267,133
Operating expenses:					
Research and development	58,847	64,385	49,121	61,843	46,278
Selling and administrative	169,913	151,212	148,688	122,468	96,708
Acquired in-process research and development	–	–	–	29,000	–
Litigation settlement	–	147,000	–	–	–
Earnings from operations	395,179	19,578	222,959	168,470	124,147
Equity in (loss) earnings of Somerset	(4,719)	(1,477)	(4,193)	5,482	10,282
Other income, net	17,863	39,912	23,977	18,342	13,960
Earnings before income taxes	408,323	58,013	242,743	192,294	148,389
Provision for income taxes	148,072	20,885	88,497	76,885	47,612
Net earnings	$ 260,251	$ 37,128	$ 154,246	$ 115,409	$ 100,777
MARCH 31,					
Selected Balance Sheet Data:					
Total assets	$ 1,616,710	$ 1,469,312	$ 1,342,470	$ 1,207,252	$ 847,748
Working capital	886,935	588,037	598,976	475,398	379,726
Long-term obligations	21,854	23,345	30,630	26,827	26,218
Total shareholders' equity	1,402,239	1,132,536	1,203,722	1,059,905	744,465
Per common share data:					
Net earnings					
Basic	$ 2.07	$ .30	$ 1.19	$ .92	$ .83
Diluted	$ 2.04	$ .29	$ 1.18	$ .91	$ .82
Shareholders' equity – diluted	$ 11.01	$ 8.94	$ 9.24	$ 8.34	$ 6.05
Cash dividends declared and paid	$ .16	$ .16	$ .16	$ .16	$ .16
Weighted average common shares outstanding:					
Basic	125,525	125,788	129,220	125,584	122,094
Diluted	127,368	126,749	130,224	127,156	123,043

In July 2000, we reached a tentative settlement with the Federal Trade Commission, States Attorneys General and certain private parties with regard to lawsuits filed against the Company relating to pricing issues and raw material contracts on two products. Excluding the litigation settlement of $147,000, net earnings for fiscal 2001 were $131,208, or $1.04 per diluted share. This settlement was approved by the court and made final in February 2002 (see Note 17 to Consolidated Financial Statements).

In June 2000, we completed the Stock Repurchase Program authorized and announced by the Board of Directors in April 1997. In fiscal 2001, we purchased 4,855 shares for $91,456.

In October 1998, we acquired 100% of the common stock of Penederm Inc. The above financial data reflects Penederm's results of operations from the date of acquisition.

In fiscal 1998, net revenues include $26,822 relating to a supply agreement with Genpharm Inc.

Management's Discussion and Analysis

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis should be read in conjunction with the fiscal 2002 Consolidated Financial Statements and related Notes to Consolidated Financial Statements included elsewhere in this report. All references to fiscal years shall mean the twelve months ended March 31.

Overview

Mylan Laboratories Inc. and its subsidiaries (the Company or Mylan) develop, manufacture, market and distribute generic and brand pharmaceutical products. Fiscal 2002 was the most financially successful year in Mylan's history. Net revenues exceeded the $1.0 billion mark reaching $1.1 billion compared to $846.7 million in fiscal 2001. This revenue growth was driven by the Generic Segment, which represented 88% of total net revenues for fiscal 2002.

The Generic Segment's growth in net revenues, as well as gross profit and operating income, was primarily driven by the marketing exclusivity for buspirone, the introduction of new products and a relatively stable pricing environment for the core generic products. The US Food and Drug Administration (FDA) withheld competitor approvals for buspirone 15mg until late February 2002. This delay extended Mylan's original 180-day marketing exclusivity by approximately five months, which resulted in increased net revenues and gross profits. With the approval and launch of additional buspirone products, the Company experienced substantial price erosion by the end of fiscal 2002. Price and volume erosion are considered normal in the generic industry as competitors launch their products.

During fiscal 2002, the Generic Segment's revenues were also enhanced by certain changes in the competitive environment, which resulted in relatively stable pricing for the core generic products. These changes, such as the consolidation in both customer and competitor bases, the withdrawal from the market of a competitor and the manufacturing and supply issues experienced by certain competitors, along with Mylan's ability to consistently manufacture and supply quality products, made a substantial contribution to the Generic Segment's revenue growth.

The Brand Segment's product line consists of both brand and branded generic products which are sensitive to promotional efforts. Mylan continues its efforts to build upon this platform of products through internal development, in-licensing agreements and/or acquisitions. With the addition of executive management and the consolidation of non-manufacturing operations to Research Triangle Park complete, Mylan remains committed to the implementation and execution of its brand strategic plan.

Management's Discussion and Analysis

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following table presents the results of operations for each of our business segments:

(IN THOUSANDS)	FISCAL 2002	FISCAL 2001	FISCAL 2000	CHANGE 2002/2001	CHANGE 2001/2000
Consolidated:					
Net revenues	$ 1,104,050	$ 846,696	$ 790,145	30%	7%
Gross profit	623,939	382,175	420,768	63%	(9%)
Research and development	58,847	64,385	49,121	(9%)	31%
Selling and marketing	59,913	59,238	56,854	1%	4%
General and administrative	110,000	91,974	91,834	20%	0%
Pretax earnings	408,323	58,013	242,743	604%	(76%)
Generic Segment:					
Net revenues	971,075	675,118	650,890	44%	4%
Gross profit	552,736	273,111	332,222	102%	(18%)
Research and development	33,814	47,204	39,255	(28%)	20%
Selling and marketing	12,430	14,342	18,753	(13%)	(24%)
General and administrative	23,424	24,450	26,111	(4%)	(6%)
Segment profit	483,068	187,115	248,103	158%	(25%)
Brand Segment:					
Net revenues	132,975	171,578	139,255	(22%)	23%
Gross profit	71,203	109,064	88,546	(35%)	23%
Research and development	25,033	17,181	9,866	46%	74%
Selling and marketing	47,483	44,896	38,101	6%	18%
General and administrative	14,899	20,841	11,814	(29%)	76%
Segment (loss) profit	(16,212)	26,146	28,765	(162%)	(9%)
Corporate/Other Segment:					
Segment loss	(58,533)	(155,248)	(34,125)	62%	(355%)

Segment net revenues represent revenues from unrelated third parties. For the Generic and Brand Segments, segment profit represents segment gross profit less direct research and development, selling and marketing and general and administrative expenses. Segment loss for Corporate/Other includes legal costs, goodwill amortization, other corporate administrative expenses and other income and expense.

Effective April 1, 2001, the Brand Segment assumed responsibility for the sales and marketing of EX phenytoin 100mg, which were previously included and evaluated in the operating results of the Generic Segment. Accordingly, the operating results of the Brand Segment for fiscal 2001 and 2000 have been revised to include the net revenues of $26,317 and $16,917 and the corresponding costs of sales of $5,247 and $3,782 for EX phenytoin 100mg previously included in the Generic Segment.

In fiscal 2001, Corporate/Other includes the expense of $147,000 for the settlement with the Federal Trade Commission and related litigation (see Note 17 to Consolidated Financial Statements).

Results of Operations

The following discussion excludes the $147.0 million before tax effect of the Federal Trade Commission (FTC) settlement recognized in fiscal 2001 (see Note 17 to Consolidated Financial Statements). Excluding the impact of the FTC settlement, net earnings for fiscal 2001 were $131.2 million, or $1.04 per diluted share. Including the FTC settlement, net earnings were $37.1 million, or $.29 per diluted share.

Fiscal 2002 compared to Fiscal 2001

Financial Highlights

- Net revenues increased 30% or $257.4 million to $1.1 billion from $846.7 million.
- Gross profit increased 63% or $241.7 million to $623.9 million from $382.2 million.
- Gross margin increased to 57% from 45%.
- Operating income increased 137% or $228.6 million to $395.2 million from $166.6 million.
- Net earnings increased 98% or $129.1 million to $260.3 million from $131.2 million.
- Earnings per diluted share increased 96% to $2.04 per share from $1.04 per share.

Net Revenues and Gross Profit

Net revenues for fiscal 2002 were $1.1 billion compared to $846.7 million for fiscal 2001, an increase of 30% or $257.4 million. This increase in net revenues is attributed to increased net revenues for the Generic Segment of $296.0 million, which was partially offset by a decrease in net revenues for the Brand Segment of $38.6 million.

Generic Segment net revenues for the current year increased 44% to $971.1 million from $675.1 million for fiscal 2001. This increase is primarily attributed to sales of our buspirone products, as well as the launch of new products (excluding buspirone 5mg, 10mg and 30mg) in fiscal 2002. The buspirone products contributed net revenues of $167.7 million or 57% of fiscal 2002's growth, while new products contributed net revenues of $69.7 million or 24% of fiscal 2002's growth. The remaining increase is attributed to the growth of core generic products of $77.8 million, which was partially offset by lost revenues of $19.2 million due to the sale of the liquids facility in Florida. The growth of core generic products is partially attributed to the elimination of end of quarter promotional programs in the prior year.

The 180-day market exclusivity period, as provided by the Waxman-Hatch Act, for buspirone 15mg expired in late September 2001. However, the FDA withheld additional approvals for generics until late February 2002. Generic Segment net revenues in fiscal 2002 benefited significantly from the extended exclusivity period. Since other generic pharmaceutical companies entered the buspirone market, the Generic Segment has experienced substantial pricing and volume pressures. See Note 17 to Consolidated Financial Statements regarding litigation of certain issues relating to our buspirone Abbreviated New Drug Application (ANDA).

Because of the significant uncertainties surrounding when the FDA would approve additional buspirone 15mg ANDAs, we could not reasonably estimate the amount of potential price adjustments that would occur as a result of the additional approvals. For the quarterly periods ended September 2001 and December 2001, revenues on certain shipments were deferred until such uncertainties were resolved. Such uncertainties were resolved either upon our customers' sale of this product or when the FDA approved additional generics in late February 2002. For the quarterly period ended March 2002, we were able to estimate potential price adjustments on the remaining deferred shipments and, therefore, recognized revenue related to such shipments.

Brand Segment net revenues for fiscal 2002 decreased 22% to $133.0 million from $171.6 million for the prior year. This decrease is primarily attributed to the decision to discontinue end of quarter promotional programs in an effort to normalize our customer buying patterns and more effectively manage our business. Given the upward trends in the prescription activity of the Brand Segment's product line, Brand Segment net revenues for fiscal 2003 are anticipated to reflect a similar trend.

Gross profit for fiscal 2002 was $623.9 million, or 57% of net revenues, compared to $382.2 million, or 45% of net revenues, for fiscal 2001. This increase of 63% or $241.7 million is attributed to increased gross profit for our Generic Segment of $279.6 million, primarily contributed by buspirone and new products, which was partially offset by decreased gross profit for our Brand Segment of $37.9 million.

Research and Development

Research and development expenses for fiscal 2002 were $58.8 million, or 5% of net revenues, compared to $64.4 million, or 8% of net revenues, in fiscal 2001, a decrease of 9% or $5.6 million. This decrease is largely due to the timing of projects currently in development by our Generic Segment, as well as a decrease in in-licensing milestones compared to the prior year.

The Brand Segment is currently incurring significant research and development expenses related to nebivolol, a hypertension treatment product. As the clinical development program for nebivolol progresses, we anticipate that the Brand Segment research and development expenses will continue to increase. Additionally, potential milestone payments related to this product may significantly increase Brand Segment research and development expenses in future periods.

We are actively pursuing, and are involved in, joint development projects in an effort to broaden our scope of capabilities to market both generic and brand products. Many of these arrangements provide for payments by us upon the attainment of specified milestones. While these arrangements help to reduce our financial risk for unsuccessful projects, fulfillment of milestones or the occurrence of other obligations may result in fluctuations in research and development expenses.

Selling and Marketing

Selling and marketing expenses for fiscal 2002 were $59.9 million, or 5% of net revenues, relatively unchanged compared to $59.2 million, or 7% of net revenues, in fiscal 2001.

General and Administrative

General and administrative expenses were $110.0 million, or 10% of net revenues, for fiscal 2002, compared to $92.0 million, or 11% of net revenues, for fiscal 2001. This increase is attributed to an increase in Corporate general and administrative expenses of $25.0 million, partially offset by a decrease of $5.9 million in the Brand Segment general and administrative expenses.

Corporate general and administrative expenses for fiscal 2002 were $71.7 million compared to $46.7 million in fiscal 2001. This increase is largely due to increases in expenses relating to retirement benefits for executives and management employees of $10.6 million, as well as the expense associated with the funding of a charitable foundation of $5.0 million. As a result of certain one-time expenses in fiscal 2002, we anticipate general and administrative expenses for the Corporate/Other Segment to be lower in fiscal 2003.

Brand general and administrative expenses for fiscal 2002 were $14.9 million compared to $20.8 million in fiscal 2001. This decrease is largely due to fiscal 2001 including a $7.8 million impairment charge for the intangible assets associated with our brand product Zagam®, partially offset by increased relocation expenses as our Brand Segment completed its move to ResearchTriangle Park, North Carolina.

Other Income, Net

Other income, net of other expenses, was $17.9 million in fiscal 2002 compared to $39.9 million in fiscal 2001. This decrease of $22.0 million is primarily attributed to fiscal 2001 including a $9.2 million favorable litigation settlement and a $4.4 million gain from the sale of certain intangible assets. Also contributing to this decrease, investment income from our limited liability partnership investments decreased $6.8 million in fiscal 2002 compared to income recognized in fiscal 2001. In fiscal 2002 and 2001, we liquidated $9.5 million and $52.2 million in our investment in a certain limited liability partnership. In an effort to limit our exposure to market risk, we intend to continue to liquidate this investment.

Equity in Loss of Somerset

We own a 50% equity interest in Somerset Pharmaceuticals, Inc. (Somerset) and account for this investment using the equity method of accounting. The recorded loss in Somerset for fiscal 2002 was $4.7 million compared to a loss of $1.5 million in fiscal 2001. This $3.2 million increase in loss is primarily attributed to decreased sales, which were partially offset by reduced operating expenses, and the prior year loss being reduced by a recapture of income tax expenses as a result of a favorable Internal Revenue Service (IRS) audit.

Somerset is engaged in the manufacturing and marketing of Eldepryl® (selegiline), its sole commercial product, which is used for the treatment of Parkinson's disease. Somerset continues to conduct research and development activities related to new indications and delivery technologies for selegiline and other products. As Somerset continues these research and development activities, earnings may continue to be adversely affected.

Income Taxes

The effective tax rate for fiscal 2002 was 36.3% compared to 36.0% for fiscal 2001. This increase in the effective tax rate was due to increased domestic taxable income partially offset by favorable increases in certain tax credits.

For fiscal 2003, we expect the tax rate to decrease slightly due to the favorable impact Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, will have on tax related purchase accounting adjustments.

Fiscal 2001 compared to Fiscal 2000

Financial Highlights

- Net revenues increased 7% or $56.6 million to $846.7 million from $790.1 million.
- Gross profit decreased 9% or $38.6 million to $382.2 million from $420.8 million.
- Gross margin decreased to 45% from 53%.
- Operating income decreased 25% or $56.4 million to $166.6 million from $223.0 million.
- Net earnings decreased 15% or $23.0 million to $131.2 million from $154.2 million.
- Earnings per diluted share decreased 12% to $1.04 per share from $1.18 per share.

Net Revenues and Gross Profit

Net revenues for fiscal 2001 were $846.7 million compared to $790.1 million for fiscal 2000, an increase of $56.6 million. This 7% increase in net revenues is attributable to increased net revenues for both the Generic and Brand Segments, with 43% or $24.2 million of the growth from the Generic Segment and 57% or $32.4 million of the increase contributed by the Brand Segment.

Fiscal 2001 Generic Segment net revenues benefited from the addition of eight new products to the generic product line that resulted in an aggregate net revenue increase of $22.9 million. Nifedipine, launched in late fiscal 2000 through a license and supply agreement, increased net revenues by $136.3 million in fiscal 2001 as compared to fiscal 2000. Additional net revenue increases were derived from sales of carbidopa/levodopa, which increased by $36.9 million as compared to the prior year. The net revenue increase provided from these and other products was partially offset by reduced prices and volumes related to sales of lorazepam and clorazepate, which declined $82.7 million as compared to fiscal 2000. Other products for which we had increased prices in prior years had price and volume erosion that totaled $27.6 million in fiscal 2001 compared to fiscal 2000.

Brand Segment net revenues increased largely due to the result of increases from clozapine, Kristalose®, Digitek®, Avita® and Mentax® as compared to fiscal 2000. No individual product represented a significant portion of the net revenue increase. These increases in net revenues were partially offset by a $6.0 million decrease in Zagam® sales due to product supply issues resulting from our contract supplier, as well as decreases in various nonpromoted brand products, including the wound and burn care product line. The Zagam® supply issues impaired our ability to market this product. Consequently, related inventories were reduced to net realizable value and the related product license intangible was written off.

Gross profit for fiscal 2001 was $382.2 million, or 45% of net revenues, compared to $420.8 million, or 53% of net revenues, for fiscal 2000, a $38.6 million or 9% decrease. Generic Segment gross profit decreased largely due to both price and volume erosion on lorazepam and clorazepate, as well as decreases related to other products that also had price increases in prior years. These decreases, coupled with the lower gross profit resulting from contractual obligations associated with nifedipine, resulted in a lower overall generic gross profit in fiscal 2001. Brand Segment gross profit was also lower due to the absence of Zagam® sales, a $2.4 million write-down of Zagam® inventories and an overall change in product sales mix.

Research and Development

Research and development expenses for fiscal 2001 were $64.4 million, or 8% of net revenues, compared to $49.1 million, or 6% of net revenues in fiscal 2000. The increase of $15.3 million is primarily attributed to increased studies expenses for both generic and brand product development projects, as well as increased licensing expenses associated with joint development opportunities.

Generic Segment research and development expenses increased $7.9 million to $47.2 million in fiscal 2001 compared to fiscal 2000. The increase was primarily due to milestone payments for in-licensed products and increased expenses due to biostudies and raw materials, as well as payroll and payroll related expenses.

Brand Segment research and development expenses were $17.2 million in fiscal 2001, an increase of $7.3 million as compared to fiscal 2000. The increase was due largely to additional clinical trial expenses and milestone payments under product licensing arrangements. In the latter part of fiscal 2001, we obtained the rights to develop and, upon FDA approval, to market nebivolol in the US and Canada.

Selling and Marketing

Selling and marketing expenses for fiscal 2001 were $59.2 million, or 7% of net revenues, relatively unchanged compared to $56.9 million, or 7% of net revenues, in fiscal 2000.

Generic Segment selling and marketing expenses were $14.3 million in fiscal 2001, which represented a $4.4 million decrease from the prior year. The decrease was primarily due to lower promotions and advertising expenses.

Brand Segment selling and marketing expenses increased $6.8 million to $44.9 million in fiscal 2001 compared to fiscal 2000. This increase was primarily due to increased payroll and payroll related expenses, product sample expenses and expenses associated with the consolidation of the Brand Segment non-manufacturing operations.

General and Administrative

General and administrative expenses for fiscal 2001 were $92.0 million, or 11% of net revenues, relatively unchanged from $91.8 million, or 12% of net revenues, in fiscal 2000.

Generic Segment general and administrative expenses were $24.5 million in fiscal 2001, compared to $26.1 million in fiscal 2000. The decrease was primarily due to lower professional service fees.

Brand Segment general and administrative expenses increased $9.0 million to $20.8 million in fiscal 2001 from $11.8 million in fiscal 2000. The increase was largely the result of a $7.8 million write-off of the Zagam® product license intangible.

Corporate administrative expenses for fiscal 2001 were $46.7 million compared to $53.9 million for fiscal 2000, a decrease of $7.2 million. Lower legal expenses accounted for the majority of the decrease.

Litigation Settlement

In July 2000, a settlement was reached with the FTC, States Attorneys General and certain private parties with regard to lawsuits filed against the Company relating to pricing issues and raw material contracts on two products. As a result, a litigation settlement charge of $147.0 million was recognized. This settlement was approved by the court and made final in February 2002 (see Note 17 to Consolidated Financial Statements).

Equity in Loss of Somerset

In fiscal 2001, equity in the loss of Somerset was $1.5 million compared to a loss of $4.2 million in fiscal 2000. The decrease in fiscal 2001 is primarily attributable to decreased research and development expenses and the favorable outcome of an IRS audit.

Other Income, Net

Other income for fiscal 2001 was $39.9 million compared to $24.0 million for fiscal 2000. The $15.9 million increase is primarily attributed to gains of $9.2 million and $4.4 million related to a litigation settlement and the sale of certain intangible assets. Other income recognized in fiscal 2001 also included income from our investment in a certain limited liability partnership of $14.9 million as compared to $15.4 million in fiscal 2000.

Income Taxes

The effective tax rate for fiscal 2001 was 36.0%, relatively unchanged from 36.5% for fiscal 2000.

Liquidity and Capital Resources

Cash provided from operations continues to be the primary source of funds to operate and expand our business. This is reflected in cash flows from operations that reached $346.5 million during fiscal 2002. Our business relies on new product approvals to generate significant future cash flows. An inability to introduce new products to the marketplace could cause a decline in operating cash flows.

As a result of our cash flows from operations during fiscal 2002, working capital increased $298.9 million to $886.9 million from $588.0 million in fiscal 2001. We believe that our working capital and cash provided by operating activities are sufficient to meet operating needs. Of the $1.6 billion in total assets, 38% or $617.1 million is held in cash, cash equivalents and marketable securities. The table below summarizes cash and cash equivalents and marketable securities at March 31, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Cash and cash equivalents	$ 160,790	$ 229,183
Marketable securities	456,266	55,715
	$ 617,056	$ 284,898

Investments in marketable securities are primarily high quality government and commercial paper that generally mature within one year. These investments are highly liquid and available for operating needs. Upon maturity, they are generally reinvested in instruments with similar characteristics.

In fiscal 2001, a deposit of $135.0 million was placed into escrow and a liability of $147.0 million was recorded as a result of a tentative settlement of the FTC litigation. With the final court approval in February 2002, the amount held in escrow and the liability were relieved from the consolidated balance sheet. Final payments representing attorneys' fees of $8.0 million and $4.0 million were made in March 2002 and May 2002 (see Note 17 to Consolidated Financial Statements).

In May 2002, the Board of Directors (Board) approved a Stock Repurchase Program that authorized the purchase of up to 10,000,000 shares of the Company's outstanding common stock. Such purchases could have a material effect on cash, cash equivalents and marketable securities. Through May 29, 2002, 1,000,000 shares of common stock have been purchased for $29.0 million. In fiscal 2001, 4,855,100 shares of common stock were purchased for $91.5 million under a program approved by the Board in April 1997.

In fiscal 2002, payments of $8.1 million were made on long-term obligations. However, to provide additional operating leverage if necessary, a commercial bank has extended a revolving line of credit of up to $50.0 million (see Note 8 to Consolidated Financial Statements). As of March 31, 2002, no funds have been advanced under this line of credit. Additionally, the acquisition of new products, as well as other companies, will play a strategic role in our growth. Consequently, such acquisitions may require additional indebtedness which would impact future liquidity.

Capital expenditures during fiscal 2002 were $20.6 million compared to $24.7 million during fiscal 2001. These expenditures in the current year were primarily made to acquire machinery and equipment for our production facilities. Fiscal 2001 payments were made to expand the manufacturing facility in Puerto Rico and finalize the construction of a sales and administration building in Morgantown, West Virginia. Also, during the quarter ended December 31, 2001, we completed the sale of our liquid pharmaceutical manufacturing facility and warehouse in Largo, Florida. In fiscal 2003, capital expenditures, primarily for the expansion of our manufacturing capacity, are anticipated to approximate amounts expended in previous years.

A limited liability partnership investment is being liquidated in an effort to reduce market risk. In fiscal 2002 and 2001, $9.5 million and $52.2 million were liquidated. This liquidation is expected to continue.

The Company continues to pay quarterly cash dividends of $.04 per common share. Dividend payments totaled $20.2 million during fiscal 2002 and $20.1 million during fiscal 2001. In fiscal 2002, we received $20.9 million from the exercise of stock options issued through our stock option plans compared to $5.7 million in fiscal 2001.

Payments for state and federal income taxes increased to $152.1 million during fiscal 2002 compared to $20.1 million for fiscal 2001. Payments during fiscal 2001 were lower as a result of lower taxable income resulting from the FTC settlement.

The Company is involved in various legal proceedings (see Note 17 to Consolidated Financial Statements). While it is not feasible to predict the outcome of such proceedings, an adverse outcome in any of these proceedings could materially affect our cash flows.

Critical Accounting Policies

Our significant accounting policies are described in Note 2 to Consolidated Financial Statements, which were prepared in accordance with accounting principles generally accepted in the United States. Included within these policies are our "critical accounting policies." Critical accounting policies are those policies that are most important to the preparation of our consolidated financial statements and require management's subjective and complex judgments due to the need to make estimates about the effect of matters that are inherently uncertain. The Company's critical accounting policies are the determination of revenue provisions, useful lives and impairment of intangibles and the impact of existing legal matters. These critical accounting policies affect each of the operating segments. The application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We are currently not aware of any reasonably likely event or circumstance which would result in different amounts being reported that would have a material impact on our results of operations or financial condition.

The development and selection of these critical accounting policies have been discussed with the Audit Committee. Such policies are reviewed quarterly by the Audit Committee.

Revenue Provisions

Revenue is recognized for product sales upon shipment when title and risk of loss has transferred to the customer and when provisions for estimates, including discounts, rebates, price adjustments, returns, chargebacks, promotional and other potential adjustments are reasonably determinable. Accruals for these provisions are presented in the consolidated financial statements as reductions to net revenues and accounts receivable and within other current liabilities. Accounts receivable are presented net of allowances relating to these provisions, which were $221.3 million and $132.4 million at March 31, 2002 and 2001. Other current accrued liabilities include approximately $21.6 million and $13.1 million at March 31, 2002 and 2001, for certain rebates and other adjustments that are paid to indirect customers.

Provisions for estimated discounts, returns, rebates, promotional and other credits require a limited degree of subjectivity and are simple in nature, yet combined represent a significant portion of the provisions. These provisions are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and contract terms. Such provisions are determinable due to the limited number of assumptions and consistency of historical experience.

The provisions for chargebacks are the most significant and complex estimates used in the recognition of revenue. The Company is a party to arrangements with other parties establishing prices for products for which they independently select a wholesaler from which to purchase. Such parties are referred to as indirect customers. A chargeback represents the difference between our invoice price to the wholesaler and the indirect customer's contract price. Provisions for estimating chargebacks are calculated primarily using historical chargeback experience and estimated wholesaler inventory levels. We continually monitor our assumptions giving consideration to wholesaler buying patterns and current pricing trends and make adjustments to these provisions when we believe that the actual chargeback credits will differ from the estimated provisions.

Useful Lives and Impairment of Intangibles

As of March 31, 2002 and 2001, recorded goodwill, net of accumulated amortization, was $100.9 million and $107.3 million. Goodwill is reviewed for impairment when events or other changes in circumstances may indicate that the carrying amount of the goodwill may not be recoverable. Goodwill associated with the Brand Segment was reviewed in fiscal 2002. Impairment is determined when the undiscounted future cash flows, based on estimated sales volumes, pricing and the anticipated cost environment, are less than the carrying value of the goodwill. The carrying value of the goodwill reviewed was not impaired. If these projections do not properly reflect future activity, results of operations could be negatively impacted.

As of March 31, 2002 and 2001, recorded intangible assets, excluding goodwill, net of accumulated amortization, were $171.6 million and $187.1 million. Other intangible assets consist of product rights purchased from other companies, product rights acquired through acquisition and internally developed patents and technologies. Amortization periods for these assets were established based on estimates of the periods the assets would generate revenue, not to exceed 20 years. Intangible assets are reviewed for impairment when the carrying amount of an asset may not be recoverable. Certain product rights associated with the Brand Segment were reviewed for impairment in fiscal 2002. Impairment is determined when the undiscounted cash flow value, based on estimated sales volume, anticipated pricing and estimated product costs, is less than the carrying value of the intangible asset. The carrying values of the product rights reviewed were not impaired. If these projections do not properly reflect future activity, results of operations could be negatively impacted.

Legal Matters

The Company is involved in various legal proceedings, some of which involve claims for substantial amounts. An accrual for a loss contingency relating to any of these legal proceedings is made if it is probable that a liability was incurred at the date of the financial statements and the amount of loss can be reasonably estimated. After review, it was determined, at March 31, 2002, that for each of the various legal proceedings in which we are involved, the conditions mentioned above were not met. However, if any of these legal proceedings would result in an adverse outcome for the Company, the impact could have a material adverse effect on our financial position and results of operations.

Recent Accounting Pronouncements

In April 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, as amended, *Accounting for Derivative Instruments and Hedging Activities*, issued by the Financial Accounting Standards Board (FASB) in June 1998. SFAS No. 133 requires an entity to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value and those changes in fair value to be recognized currently in earnings, unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 had no material impact on our results of operations or financial position.

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method of accounting. We adopted the provisions of SFAS No. 141 as of July 1, 2001, and, accordingly, all future business combinations consummated by us must be recorded at fair value using the purchase method of accounting.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will no longer be amortized, but will be subject to at least annual impairment tests. Intangible assets with finite lives will continue to be amortized over their useful lives. Furthermore, SFAS No. 142 requires that the useful lives of intangible assets acquired before June 30, 2001, be reassessed and the remaining amortization periods adjusted accordingly.

We are required to adopt the provisions of SFAS No. 142 effective April 1, 2002, and are in the process of preparing for its adoption. This process includes evaluating the useful lives of assets, making determinations as to what reporting units are and

what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units. We will no longer record approximately $6.4 million in annual amortization of goodwill. Until the above process, including the required initial impairment evaluation, is complete, we are unable to determine any further impact SFAS No. 142 will have on our consolidated financial position and results of operations.

The FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. This statement is effective for us on April 1, 2003. We are currently evaluating the impact, if any, this statement will have on our financial position and results of operations.

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, was issued by the FASB in August 2001. This statement addresses financial accounting and reporting for the impairment and disposal of long-lived assets. For long-lived assets to be held and used, the new rules continue previous guidance to recognize impairment when the undiscounted future cash flows do not exceed the asset's carrying amount. The impairment to be recognized will continue to be measured as the difference between the carrying amount and fair value of the asset. The computation of fair value now removes goodwill from consideration. Assets that are to be disposed of by sale are required to be evaluated using the same measurement approach as those assets to be held and used. Additionally, assets qualifying for discontinued operations treatment have been expanded beyond the former operating segment approach. We will now recognize impairment of long-lived assets to be disposed by other than sale at the date of disposal, but will consider such assets to be held and used until that time. This statement is effective for us as of April 1, 2002, and we believe that the adoption of SFAS No. 144 will not have a material impact on our financial position and results of operations.

Emerging Issues Task Force (EITF) Issue No. 00–25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products*, became effective for us as of January 1, 2002. It states that consideration paid by a vendor to a reseller is to be classified as a reduction of revenue in the income statement unless an identifiable benefit is or will be received from the reseller that is sufficiently separable from the purchase of the vendor's products and the vendor can reasonably estimate the fair value of the benefit. We have adopted the provisions of EITF Issue No. 00–25, and it had no material effect on our financial statements.

EITF Issue No. 01–09, *Accounting for Consideration Given to a Customer or a Reseller of a Vendor's Products*, reconciles EITF Issue No. 00–14, Issue No. 3 of EITF Issue No. 00–22 and EITF Issue No. 00–25. EITF Issue No. 01–09 became effective for us as of January 1, 2002, and it had no material effect on our financial statements.

Fluctuating Results of Operations and Liquidity

In the past, results of operations have fluctuated on both an annual and a quarterly basis. These fluctuations have resulted from several timing factors, including, among others, new product approvals, new product launches, as well as those of our competitors, product and business acquisitions, in-house research and development projects, milestone payments related to in-licensing of research and development projects and litigation settlements.

We believe we will continue to experience fluctuations in net revenues, gross profit, net earnings and liquidity. Such fluctuations will result from, among other things, the timing of regulatory approvals and market introduction of our new products, as well as those of our competitors, downward pricing pressure on products available from multiple approved sources and the timing of milestone payments related to in-licensing of research and development projects.

Risk of Product Liability Claims

The testing, manufacturing and marketing of pharmaceutical products subject the Company to the risk of product liability claims. The Company is a defendant in a number of product liability cases, none of which we believe will have a material adverse effect on our business, results of operations or financial condition. We believe that we maintain an adequate amount of product liability insurance, but no assurance can be given that our insurance will cover all existing and future claims or that we will be able to maintain existing coverage or obtain additional coverage at reasonable rates.

Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to market risk primarily from changes in the market values on investments in marketable debt and equity securities, including marketable securities owned indirectly through pooled asset funds that are classified as other assets on our balance sheet. Additional investments are made in overnight deposits, money market funds and marketable securities with maturities of less than three months. These instruments are classified as cash equivalents for financial reporting purposes and have minimal or no interest rate risk due to their short-term nature. Professional portfolio managers manage the majority of our investments. We also invest in nonpublic securities that are classified as other assets on our balance sheet and do not consider these investments to be market risk sensitive. The following table summarizes the investments which subject the Company to market risk at March 31, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Marketable debt securities	$ 435,499	$ 46,019
Marketable equity securities	20,767	9,696
Pooled asset funds	26,144	29,065
	$ 482,410	$ 84,780

Marketable debt securities

The primary objectives for the marketable debt securities investment portfolio are liquidity and safety of principal. Investments are made to achieve the highest rate of return while retaining principal. The investment policy limits investments to certain types of instruments issued by institutions and government agencies with investment grade credit ratings. These investments increased significantly during fiscal 2002 due to cash flows generated from operations. Of the $435.5 million invested in marketable debt securities at March 31, 2002, $417.1 million will mature within one year. This short duration to maturity creates minimal exposure to fluctuations in market values for these investments. A significant change in current interest rates could affect the market value of the remaining $18.4 million of marketable debt securities that mature after one year. A 5% change in the market value of the marketable debt securities that mature after one year would result in a $0.9 million change in our balance of marketable debt securities.

Marketable equity securities

Marketable equity securities are primarily managed by professional portfolio managers whose investment objective is to increase fund value through purchasing undervalued common stocks and holding these securities for a period of time. These portfolio managers are continually evaluating the portfolio to ensure that it meets our investment objectives. As of March 31, 2002, a 10% change in the market value of these investments would result in a $2.1 million change in marketable equity securities.

Pooled asset funds

Pooled asset funds consist of investments in limited liability partnerships. The assets of these funds are typically actively traded and are exposed to market fluctuations. Unlike investments in marketable debt and equity securities, the changes in the market values of these investments are recognized as other income or loss in the Consolidated Statements of Earnings. A 20% change in the market value of the pooled asset funds would result in a $5.2 million change in other assets and a corresponding change to other income or expense.

Forward-Looking Statements

The statements set forth in this Annual Report concerning the manner in which we intend to conduct our future operations, potential trends that may impact future results of operations, and our beliefs or expectations about future operations are forward-looking statements. The following statements that we make in this Annual Report, in other filings made with the SEC, in press releases, on our website, or in other contexts (including statements made by our authorized representatives, either orally or in writing), are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995:

(i) any statement regarding possible or assumed future results of operations of our business, the markets for our products, anticipated expenditures, regulatory developments or competition;

(ii) any statement preceded by, followed by or that includes the words "intends," "estimates," "believes," "expects," "anticipates," "should," "could," or the negative or other variations of these or other similar expressions; and

(iii) other statements regarding matters that are not historical facts.

Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to:

- uncertainties regarding our ability to successfully develop and introduce new products on a timely basis in relation to competing product introductions;
- our ability to obtain required FDA approvals for new products on a timely basis;
- the affects of vigorous competition on commercial acceptance of our products and their pricing;
- uncertainties regarding continued market acceptance of and demand for our core products;
- potential legislative or regulatory changes affecting the pharmaceutical industry;
- uncertainties associated with the licensing of products developed by others and the successful integration of acquired businesses;
- our periodic dependence on one or a few products as a significant source of our revenues;
- the periodic expiration of patent or regulatory market exclusivity on some of our products;
- the effects of consolidation of our customer base;
- uncertainties regarding patent and other intellectual property protection of our proprietary products;
- the cost and management time associated with litigation involving patent or other intellectual property protection of competing products;
- our exposure to product liability and other lawsuits and contingencies associated with our products;
- our ability to attract and retain key personnel; and
- changes in accounting and related standards promulgated by the accounting profession or regulatory agencies.

The cautionary statements contained or referred to above should be considered in connection with any subsequent written or oral forward-looking statements that may be made by us or by persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future.

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

MARCH 31,	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 160,790	$ 229,183
Marketable securities	456,266	55,715
Accounts receivable, net	145,491	235,938
Inventories	195,074	161,810
Deferred income tax benefit	92,642	59,474
Deposit – litigation settlement	–	135,000
Other current assets	11,819	5,443
Total current assets	1,062,082	882,563
Property, plant and equipment, net	166,531	170,193
Intangible assets, net	272,511	294,384
Investment in and advances to Somerset	22,720	27,621
Other assets	92,866	94,551
Total assets	$ 1,616,710	$ 1,469,312

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

MARCH 31,	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	$ 36,534	$ 48,928
Income taxes payable	63,826	34,348
Current portion of long-term obligations	16	5,245
Cash dividends payable	5,067	5,007
Litigation settlement	4,014	147,000
Other current liabilities	65,690	53,998
Total current liabilities	175,147	294,526
Long-term obligations	21,854	23,345
Deferred income tax liability	17,470	18,905
Total liabilities	214,471	336,776
Shareholders' equity		
Preferred stock – par value $.50 per share		
Shares authorized: 5,000,000		
Shares issued: none	–	–
Common stock – par value $.50 per share		
Shares authorized: 300,000,000		
Shares issued: 132,200,528 in 2002 and 130,689,762 in 2001	66,100	65,345
Additional paid-in capital	349,719	322,987
Retained earnings	1,080,736	840,741
Accumulated other comprehensive earnings	7,920	2,983
	1,504,475	1,232,056
Less treasury stock – at cost		
Shares: 5,813,033 in 2002 and 5,731,913 in 2001	102,236	99,520
Total shareholders' equity	1,402,239	1,132,536
Total liabilities and shareholders' equity	$ 1,616,710	$ 1,469,312

See Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

(IN THOUSANDS, EXCEPT PER SHARE DATA)

FISCAL YEAR ENDED MARCH 31,	2002	2001	2000
Net revenues	$ 1,104,050	$ 846,696	$ 790,145
Cost of sales	480,111	464,521	369,377
Gross profit	623,939	382,175	420,768
Operating expenses:			
Research and development	58,847	64,385	49,121
Selling and marketing	59,913	59,238	56,854
General and administrative	110,000	91,974	91,834
Litigation settlement	—	147,000	—
Earnings from operations	395,179	19,578	222,959
Equity in loss of Somerset	(4,719)	(1,477)	(4,193)
Other income, net	17,863	39,912	23,977
Earnings before income taxes	408,323	58,013	242,743
Provision for income taxes	148,072	20,885	88,497
Net earnings	$ 260,251	$ 37,128	$ 154,246
Earnings per common share:			
Basic	$ 2.07	$ .30	$ 1.19
Diluted	$ 2.04	$ .29	$ 1.18
Weighted average common shares outstanding:			
Basic	125,525	125,788	129,220
Diluted	127,368	126,749	130,224

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

FISCAL YEAR ENDED MARCH 31,		2002	2001	2000
Common stock– shares issued:	Shares at beginning of year	130,689,762	130,277,568	129,968,514
	Stock options exercised	1,510,766	412,194	309,054
	Shares at end of year	132,200,528	130,689,762	130,277,568
Treasury stock:	Shares at beginning of year	(5,731,913)	(893,498)	(888,578)
	Shares acquired upon the exercise of stock options	(81,120)	(4,165)	(4,920)
	Issuance of treasury stock	–	20,850	–
	Stock purchases	–	(4,855,100)	–
	Shares at end of year	(5,813,033)	(5,731,913)	(893,498)
Common shares outstanding		126,387,495	124,957,849	129,384,070
Common stock, $0.50 par:	Balance at beginning of year	$ 65,345	$ 65,139	$ 64,984
	Stock options exercised	755	206	155
	Balance at end of year	66,100	65,345	65,139
Additional paid-in capital:	Balance at beginning of year	322,987	316,393	311,995
	Stock options exercised	23,023	5,392	3,679
	Reissuance of treasury shares	–	102	–
	Tax benefit of stock option plans	3,709	1,100	719
	Balance at end of year	349,719	322,987	316,393
Retained earnings:	Balance at beginning of year	840,741	823,570	690,003
	Net earnings	260,251	37,128	154,246
	Dividends declared ($0.16 per share)	(20,256)	(19,957)	(20,679)
	Balance at end of year	1,080,736	840,741	823,570
Accumulated other comprehensive earnings:	Balance at beginning of year	2,983	6,936	1,105
	Net unrealized gain (loss) on marketable securities	4,937	(3,953)	5,831
	Balance at end of year	7,920	2,983	6,936
Treasury stock, at cost:	Balance at beginning of year	(99,520)	(8,316)	(8,182)
	Shares acquired upon the exercise of stock options	(2,716)	(109)	(134)
	Reissuance of treasury stock	–	361	–
	Stock purchases	–	(91,456)	–
	Balance at end of year	(102,236)	(99,520)	(8,316)
Total shareholders' equity		$ 1,402,239	$ 1,132,536	$ 1,203,722
Comprehensive earnings:	Net earnings	$ 260,251	$ 37,128	$ 154,246
	Other comprehensive earnings (loss), net of tax:			
	Net unrealized holding gains (losses) on securities	5,195	(2,863)	7,826
	Reclassification for gains included in net earnings	(258)	(1,090)	(1,995)
	Other comprehensive earnings (loss), net of tax	4,937	(3,953)	5,831
	Comprehensive earnings	$ 265,188	$ 33,175	$ 160,077

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS)

FISCAL YEAR ENDED MARCH 31,	2002	2001	2000
Cash flows from operating activities:			
Net earnings	$ 260,251	$ 37,128	$ 154,246
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Depreciation and amortization	46,111	42,392	35,706
Gain on disposal/sale of equipment	(240)	(157)	(84)
Gain on sale of certain intangible assets	–	(4,367)	–
Deferred income tax benefit	(37,262)	(28,222)	(23,267)
Equity in loss of Somerset	4,719	1,477	4,193
Cash received from Somerset	182	363	460
Adjustments to estimated accounts receivable credits	88,831	38,485	37,581
Write-down of investments and intangible assets	2,982	11,131	9,450
Litigation settlement	–	147,000	–
Litigation settlement deposits	(7,986)	(135,000)	–
Other noncash items	(7,502)	(12,945)	(2,575)
Changes in operating assets and liabilities:			
Accounts receivable	1,616	(73,238)	(86,694)
Inventories	(30,696)	(17,203)	(9,534)
Trade accounts payable	(12,394)	30,947	5,839
Income taxes	33,187	29,064	11,389
Other operating assets and liabilities, net	4,672	(914)	(17,578)
Net cash provided from operating activities	346,471	65,941	119,132

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS)

FISCAL YEAR ENDED MARCH 31,	2002	2001	2000
Cash flows from investing activities:			
Proceeds from (purchase of):			
Capital assets	(20,621)	(24,651)	(29,841)
Reduction of investment in a limited liability partnership	9,535	52,207	–
Sale of certain intangible assets	–	12,800	–
Sale of fixed assets	4,848	1,076	1,137
Other and intangible assets	(8,195)	(7,520)	(23,779)
Marketable securities	(819,038)	(104,029)	(200,939)
Sale of marketable securities	426,045	141,782	180,706
Net cash (used in) provided from investing activities	(407,426)	71,665	(72,716)
Cash flows from financing activities:			
Payments on long-term obligations	(8,095)	(5,987)	(15,696)
Cash dividends paid	(20,195)	(20,144)	(20,663)
Purchase of common stock	–	(91,456)	–
Proceeds from exercise of stock options	20,852	5,671	3,587
Net cash used in financing activities	(7,438)	(111,916)	(32,772)
Net (decrease) increase in cash and cash equivalents	(68,393)	25,690	13,644
Cash and cash equivalents – beginning of year	229,183	203,493	189,849
Cash and cash equivalents – end of year	$ 160,790	$ 229,183	$ 203,493
Cash paid during the year for:			
Interest	$ 238	$ 867	$ 1,418
Income taxes	$ 152,145	$ 20,052	$ 100,374

See Notes to Consolidated Financial Statements.

NOTE 1

Nature of Operations

Mylan Laboratories Inc. and its subsidiaries (the Company or Mylan) are engaged in the development, manufacture and distribution of pharmaceutical products for resale by others. The principal markets for these products are proprietary and ethical pharmaceutical wholesalers and distributors, drug store chains, drug manufacturers, institutions, and public and governmental agencies within the United States.

NOTE 2

Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Mylan Laboratories Inc. and those of its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents. Cash equivalents are composed of highly liquid investments with an original maturity of three months or less at the date of purchase.

Marketable Securities. Marketable securities are classified as available for sale and are recorded at fair value based on quoted market prices, with net unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive earnings as a component of shareholders' equity. Net gains and losses on sales of securities available for sale are computed on a specific security basis and included in other income.

Concentrations of Credit Risk. Financial instruments that potentially subject us to credit risk consist principally of interest-bearing investments and accounts receivable.

We invest our excess cash in deposits primarily with major banks and other high quality short-term liquid money market instruments (commercial paper, government and government agency notes and bills, etc.). These investments generally mature within twelve months. We maintain deposit balances at banks in excess of federally insured amounts.

We perform ongoing credit evaluations of our customers and generally do not require collateral. Approximately 64% and 60% of the accounts receivable balances represent amounts due from four customers at March 31, 2002 and 2001. Total allowances for doubtful accounts were $6,480,000 and $5,049,000 at March 31, 2002 and 2001.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market. Provisions for potentially obsolete or slow moving inventory are made based on our analysis of inventory levels and future sales forecasts.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation, computed on a straight-line basis, is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (3 to 10 years for machinery and equipment and 15 to 39 years for buildings and improvements). Interest related to the construction of qualifying assets is capitalized as part of the construction cost. Interest expense capitalized in fiscal 2002, 2001 and 2000 was $119,000, $614,000 and $1,108,000, respectively.

Intangible Assets. Intangible assets are stated at cost less accumulated amortization. Amortization is recorded on a straight-line basis over estimated useful lives ranging from 2 to 20 years. We periodically review the original estimated useful lives of assets and make adjustments when appropriate. Intangible assets are also periodically reviewed to determine recoverability by comparing carrying value to expected future cash flows. Adjustments are made in the event estimated undiscounted net cash flows are less than the carrying value.

Other Assets. Investments in business entities in which we have the ability to exert significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method. Under the equity method, investments are recorded at cost and adjusted for dividends and undistributed earnings and losses.

Non-marketable equity investments for which we do not have the ability to exercise significant influence are accounted for using the cost method. Such investments are included in other assets on the balance sheet. Under the cost method of accounting, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments.

Other assets are periodically reviewed for other-than-temporary declines in fair value. Other-than-temporary declines in fair value are identified by evaluating market conditions, the entity's ability to achieve forecast and regulatory submission guidelines, as well as the entity's overall financial condition.

Revenue Recognition. We recognize revenue for product sales upon shipment when title and risk of loss pass to our customers and when provisions for estimates, including discounts, rebates, price adjustments, returns, chargebacks, and other promotional programs are reasonably determinable. The following briefly describes the nature of each provision and how such provisions are estimated.

Discounts are reductions to invoiced amounts offered to our customers for payment within a specified period and are estimated upon shipment utilizing historical customer payment experience.

Rebates are offered to our key customers to promote customer loyalty and encourage greater product sales. These rebate programs provide that, upon the attainment of pre-established volumes or the attainment of revenue milestones for a specified period, the customer receives credit against purchases. Other promotional programs are incentive programs periodically offered to our customers. Due to the nature of these programs, we are able to estimate provisions for rebates and other promotional programs based on the specific terms in each agreement at the time of shipment.

We have agreed to terms with our customers, consistent with common industry practices, to allow our customers to return product that is within a certain time period of the expiration date. Upon shipment of product to our customers, we provide for an estimate of product to be returned. This estimate is determined by applying a historical relationship of customer returns to amounts invoiced.

We also generally provide credits to our customers for decreases that we make to our selling prices for the value of inventory that is owned by our customers at the date of the price reduction. We have not contractually agreed to provide price adjustment credits to our customers; instead, we issue price adjustment credits at our discretion. We estimate price adjustment credits at the time the price reduction occurs. The amount is calculated based on an estimate of our customers' inventory levels.

We have arrangements with certain parties establishing prices for our products for which they independently select a wholesaler from which to purchase. Such parties are referred to as indirect customers. A chargeback represents the difference between our invoice price to the wholesaler and the indirect customer's contract price. Provisions for estimating chargebacks are calculated primarily using historical chargeback experience and estimated wholesaler inventory levels.

Accounts receivable are presented net of allowances relating to the above provisions, which were $221,259,000 and $132,428,000 at March 31, 2002 and 2001. Other current accrued liabilities include approximately $21,577,000 and $13,107,000 at March 31, 2002 and 2001 for certain rebates and other adjustments that are paid to indirect customers.

Three of our customers accounted for 15%, 14% and 14% of net revenues in fiscal 2002. Two of our customers accounted for 14% and 11% of net revenues in fiscal 2001, and four of our customers accounted for 15%, 15%, 11% and 10% of net revenues in fiscal 2000.

Research and Development. Research and development expenses are charged to operations as incurred.

Advertising Costs. Advertising costs are expensed as incurred and amounted to $7,315,000, $7,250,000 and $6,063,000 in fiscal 2002, 2001 and 2000, respectively.

Income Taxes. Income taxes have been provided for using an asset and liability approach in which deferred income taxes reflect the tax consequences on future years of events that we have already recognized in the financial statements or tax returns. Changes in enacted tax rates or laws will result in adjustments to the recorded tax assets or liabilities in the period that the new tax law is enacted.

Earnings per Common Share. Basic earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding for the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of stock options granted, excluding antidilutive shares, under our stock option plans (see Note 12). Antidilutive shares of 130,000, 3,589,953 and 1,194,454 were excluded from the diluted earnings per common share calculation for fiscal 2002, 2001 and 2000, respectively.

A reconciliation of basic and diluted earnings per common share is as follows:

(IN THOUSANDS, EXCEPT PER SHARE DATA) FISCAL	2002	2001	2000
Net earnings	$ 260,251	$ 37,128	$ 154,246
Weighted average common shares outstanding	125,525	125,788	129,220
Assumed exercise of dilutive stock options	1,843	961	1,004
Diluted weighted average common shares outstanding	127,368	126,749	130,224
Earnings per common share:			
Basic	$ 2.07	$ .30	$ 1.19
Diluted	$ 2.04	$ .29	$ 1.18

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements, in conformity with accounting principles generally accepted in the US, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Estimates are used in determining such items as, but not limited to, discounts, rebates, price adjustments, returns, chargebacks, other promotional programs, depreciable/amortizable lives, other postretirement benefit plan assumptions, fair value of other assets, projected cash flows, amounts recorded for contingencies and other potential adjustments. Because of the uncertainty inherent in such estimates, actual results could differ from those estimates.

Reclassification. The presentation of certain prior year amounts were reclassified to conform to the fiscal 2002 presentation.

Fiscal Year. Our fiscal year ends on March 31. All references to fiscal year shall mean the twelve months ended March 31.

Recent Accounting Pronouncements. In April 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, as amended, *Accounting for Derivative Instruments and Hedging Activities*, issued by the Financial Accounting Standards Board (FASB) in June 1998. SFAS No. 133 requires an entity to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value and those changes in fair value to be recognized currently in earnings, unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 had no material impact on our results of operations or financial position.

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method of accounting. We adopted the provisions of SFAS No. 141 as of July 1, 2001, and, accordingly, all future business combinations consummated by us must be recorded at fair value using the purchase method of accounting.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. SFAS No. 142 provides that goodwill and intangible assets with indefinite lives will no longer be amortized, but will be subject to at least annual impairment tests. Intangible assets with finite lives will continue to be amortized over their useful lives. Furthermore, SFAS No. 142 requires that the useful lives of intangible assets acquired before June 30, 2001, be reassessed and the remaining amortization periods adjusted accordingly.

We are required to adopt the provisions of SFAS No. 142 effective April 1, 2002, and are in the process of preparing for its adoption. This process includes evaluating the useful lives of assets, making determinations as to what reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units. We will no longer record approximately $6.4 million in annual amortization of goodwill. Until the above process, including the required initial impairment evaluation, is complete, we are unable to determine any further impact SFAS No. 142 will have on our consolidated financial position and results of operations.

The FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. This statement is effective for us on April 1, 2003. We are currently evaluating the impact, if any, this statement will have on our financial position and results of operations.

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, was issued by the FASB in August 2001. This statement addresses financial accounting and reporting for the impairment and disposal of long-lived assets. For long-lived assets to be held and used, the new rules continue previous guidance to recognize impairment when the undiscounted future cash flows do not exceed the asset's carrying amount. The impairment to be recognized will continue to be measured as the difference between the carrying amount and fair value of the asset. The computation of fair value now removes goodwill from consideration. Assets that are to be disposed of by sale are required to be evaluated using the same measurement approach as those assets to be held and used. Additionally, assets qualifying for discontinued operations treatment have been expanded beyond the former operating segment approach. We will now recognize impairment of long-lived assets to be disposed by other than sale at the date of disposal, but will consider such assets to be held and used until that time. This statement is effective for us as of April 1, 2002, and we believe that the adoption of SFAS No. 144 will not have a material impact on our financial position and results of operations.

Emerging Issues Task Force (EITF) Issue No. 00–25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products*, became effective for us as of January 1, 2002. It states that consideration paid by a vendor to a reseller is to be classified as a reduction of revenue in the income statement unless an identifiable benefit is or will be received from the reseller that is sufficiently separable from the purchase of the vendor's products and the vendor can reasonably estimate the fair value of the benefit. We have adopted the provisions of EITF Issue No. 00–25, and it had no material effect on our financial statements.

EITF Issue No. 01–09, *Accounting for Consideration Given to a Customer or a Reseller of a Vendor's Products*, reconciles EITF Issue No. 00–14, Issue No. 3 of EITF Issue No. 00–22 and EITF Issue No. 00–25. EITF Issue No. 01–09 became effective for us as of January 1, 2002, and it had no material effect on our financial statements.

NOTE 3
Balance Sheet Components

Selected balance sheet components consist of the following at March 31, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Inventories:		
Raw materials	$ 74,782	$ 57,825
Work in process	31,056	23,752
Finished goods	89,236	80,233
	$ 195,074	$ 161,810
Property, plant and equipment:		
Land and improvements	$ 9,039	$ 9,154
Buildings and improvements	108,363	106,653
Machinery and equipment	174,080	168,963
Construction in progress	10,731	9,671
	302,213	294,441
Less accumulated depreciation	135,682	124,248
	$ 166,531	$ 170,193
Other current liabilities:		
Payroll and employee benefit plan accruals	$ 20,965	$ 12,542
Accrued rebates	21,577	13,107
Royalties and product license fees	12,363	12,490
Other	10,785	15,859
	$ 65,690	$ 53,998

NOTE 4
Investment in and Advances to Somerset

We acquired 50% of the outstanding common stock of Somerset Pharmaceuticals, Inc. (Somerset) in November 1988. We account for this investment using the equity method of accounting.

Equity in loss of Somerset includes our 50% portion of Somerset's financial results, as well as expense for amortization of intangible assets resulting from the acquisition of Somerset. Such intangible assets are being amortized using the straight-line basis over 15 years. Amortization expense was $924,000 in each of fiscal 2002, 2001 and 2000.

NOTE 5
Marketable Securities

The amortized cost and estimated market values of marketable securities are as follows:

(IN THOUSANDS) MARCH 31, 2002	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
Debt securities	$ 435,592	$ 567	$ 660	$ 435,499
Equity securities	8,535	13,219	987	20,767
	$ 444,127	$ 13,786	$ 1,647	$ 456,266
MARCH 31, 2001				
Debt securities	$ 45,371	$ 698	$ 50	$ 46,019
Equity securities	5,762	4,684	750	9,696
	$ 51,133	$ 5,382	$ 800	$ 55,715

Net unrealized gains on marketable securities are reported net of tax of $4,219,000 and $1,599,000 in fiscal 2002 and 2001.

Maturities of debt securities at market value as of March 31, 2002, are as follows:

(IN THOUSANDS)	
Mature within one year	$ 417,087
Mature in one to five years	2,061
Mature in five years and later	16,351
	$ 435,499

Gross gains of $1,263,000, $2,732,000 and $4,504,000 and gross losses of $865,000, $1,056,000 and $1,414,000 were realized during fiscal 2002, 2001 and 2000, respectively.

NOTE 6
Intangible Assets

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

(IN THOUSANDS)	2002	2001
Patents and technologies	$ 119,663	$ 120,739
License fees and agreements	43,540	38,671
Maxzide® intangibles	69,666	69,666
Goodwill	128,008	128,008
Other	26,091	26,091
	386,968	383,175
Less accumulated amortization	114,457	88,791
	$ 272,511	$ 294,384

The Maxzide® intangibles relate to trademark, tradedress and marketing rights. Other consists principally of an assembled workforce, non-compete agreements, customer lists and contracts.

During fiscal 1999, we executed a product license agreement for the product Zagam® and recorded a corresponding intangible asset. This intangible asset was initially recorded in the amount of the initial cash payments and future contract commitments.

During fiscal 2001, we experienced significant product supply issues resulting from our contract supplier (such supplier is also the owner of the Zagam® patent) that significantly impaired our ability to market the product. As a result, the intangible asset was determined to have no value and its carrying value was reduced to zero during the year ended March 31, 2001.

We reduced the carrying value of the intangible asset by recording a $7,770,000 charge to general and administrative expenses, representing the portion of the unamortized intangible asset created from the initial payments. The remaining $4,000,000 carrying value of the intangible asset was offset against the liability initially established for the future contract commitments. As a result of our inability to market the licensed product, we believe that the future contract commitments initially established will not be earned and will not become payable.

In connection with certain product license agreements, we recorded intangible assets and the related obligations, in excess of amounts paid, of $2,250,000 in noncash transactions in fiscal 2000.

NOTE 7
Other Assets

Other assets consist of the following components at March 31, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Pooled asset funds	$ 26,144	$ 29,065
Cash surrender value	35,825	32,991
Other investments	30,897	32,495
	$ 92,866	$ 94,551

Pooled asset funds primarily include our interest in limited liability partnership funds that invest in common and preferred stocks, bonds and money market funds. In fiscal 2001, we began to liquidate a certain fund in an effort to reduce the impact of market fluctuations. The total amounts liquidated in fiscal 2002 and 2001 were $9,535,000 and $52,207,000. The investments in these limited liability partnership funds are accounted for using the equity method. We record our share of earnings or losses as other income or expense with the offsetting entry to the corresponding investment account. Earnings on the pooled asset funds included in other income amounted to $7,113,000, $13,957,000 and $15,378,000 in fiscal 2002, 2001 and 2000, respectively. At March 31, 2002 and 2001, the carrying amounts of these investments approximated fair value.

Cash surrender value is related to insurance policies on certain officers and key employees and the value of split dollar life insurance agreements with certain executive officers.

Other investments principally consist of an equity investment in a foreign entity and a building held for sale. Our equity investment in a foreign entity is accounted for using the cost method of accounting and was $20,000,000 as of March 31, 2002 and 2001. As a result of a settlement, in August 2000, we received the rights to an office building in Santa Monica, California. The building is currently being leased to the former owner under an operating lease that expires in October 2003. The lease agreement allows the former owner to purchase the building upon expiration of the lease.

Based on a periodic review of other investments for other-than-temporary declines in fair value, we recorded adjustments of $1,821,000, $2,670,000 and $9,450,000 in fiscal 2002, 2001 and 2000, respectively, to reduce the carrying value of other assets to their estimated fair value. Such adjustments were recorded as reductions to other income.

NOTE 8

Revolving Line of Credit

In March 2002, we renewed our agreement with a commercial bank for a revolving line of credit. This one-year line of credit allows Mylan to borrow up to $50,000,000, on an unsecured basis, at a monthly adjusted rate of 0.75% per annum (1.25% per annum should the balance of our trust account be less than $50,000,000) in excess of the 30-day London InterBank Offered Rate (LIBOR). The agreement does not contain any significant financial covenants. At March 31, 2002 and 2001, we had no outstanding borrowings under this line of credit.

NOTE 9

Long-Term Obligations

Long-term obligations consist of the following components at March 31, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Deferred compensation	$ 19,682	$ 16,512
Deferred revenue	1,948	5,845
Product acquisitions	–	3,142
Other	240	3,091
Total long-term obligations	21,870	28,590
Less: Current portion of long-term obligations	16	5,245
Long-term obligations, net of current portion	$ 21,854	$ 23,345

Deferred compensation consists of the discounted future payments under individually negotiated agreements with certain key employees and directors. Individual agreements for certain key employees were amended in fiscal 2002 to provide additional benefits. The agreements with certain key employees provide for annual payments ranging from $60,000 to $1,000,000 to be paid over periods commencing at retirement and ranging from ten years to life. The agreements with certain outside directors include annual payments of $18,000 over ten years beginning at retirement.

In fiscal 2000, we recorded $9,238,000 in deferred revenue relating to a license and supply agreement. Revenue recognized relating to this agreement in fiscal 2002 and 2001 was $3,897,000 and $3,393,000.

In fiscal 2001, other consisted primarily of a 10.5% senior promissory note, paid in full in July 2001, related to the acquisition of UDL.

NOTE 10

Income Taxes

Income taxes consist of the following components:

(IN THOUSANDS) FISCAL	2002	2001	2000
Federal:			
Current	$ 161,977	$ 45,463	$ 97,957
Deferred	(32,150)	(26,100)	(21,596)
	129,827	19,363	76,361
State and Puerto Rico:			
Current	20,809	3,772	13,807
Deferred	(2,564)	(2,250)	(1,671)
	18,245	1,522	12,136
Income taxes	$ 148,072	$ 20,885	$ 88,497
Pre-tax earnings	$ 408,323	$ 58,013	$ 242,743
Effective tax rate	36.3%	36.0%	36.5%

Temporary differences and carryforwards that result in the deferred tax assets and liabilities are as follows at March 31, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Deferred tax assets:		
Employee benefits	$ 9,630	$ 10,239
Contractual agreements	7,248	8,924
Intangible assets	8,780	5,450
Accounts receivable allowances	84,440	47,500
Inventories	3,191	3,844
Investments	8,271	7,802
Tax loss carryforwards	5,025	8,773
Tax credit carryforwards	8,080	5,813
Other	–	146
Total deferred tax assets	134,665	98,491
Deferred tax liabilities:		
Plant and equipment	12,515	9,917
Intangible assets	36,912	39,287
Investments	10,008	8,718
Other	58	–
Total deferred tax liabilities	59,493	57,922
Deferred tax asset, net	$ 75,172	$ 40,569
Classification in the consolidated balance sheets:		
Deferred income tax benefit – current	$ 92,642	$ 59,474
Deferred income tax liability – noncurrent	17,470	18,905
Deferred tax asset, net	$ 75,172	$ 40,569

Deferred tax assets relating to net operating loss carryforwards and research and development tax credit carryforwards were acquired in fiscal 1999 with the acquisition of Penederm. The utilization of these assets is subject to certain limitations set forth in the Internal Revenue Code. In fiscal 2002, we utilized approximately $10,709,000 of the acquired net operating loss carryforwards to reduce our current tax liability by approximately $3,748,000. As of March 31, 2002, we have approximately $13,415,000 of acquired federal tax loss carryforwards of which $11,353,000 will expire in fiscal 2012 and the remaining amount will expire in fiscal 2013. Additionally, at March 31, 2002, acquired federal tax credit carryforwards of $2,151,000 will expire in fiscal years 2003 through 2013.

We also have $2,743,000 of federal research and development tax credits that are deferred until fiscal 2003 due to recent tax law changes. A $3,004,000 tax credit against Puerto Rican local income tax is also available for future years.

A reconciliation of the statutory tax rate to the effective tax rate is as follows:

FISCAL	2002	2001	2000
Statutory tax rate	35.0%	35.0%	35.0%
State and Puerto Rico income taxes, net	2.8%	2.4%	3.1%
Nondeductible amortization	0.6%	4.0%	1.0%
Tax credits	(2.1%)	(6.5%)	(2.7%)
Other items	0.0%	1.1%	0.1%
Effective tax rate	36.3%	36.0%	36.5%

Tax credits result principally from operations in Puerto Rico and from qualified research and development expenditures, including orphan drug research. State income taxes are shown net of the federal deduction benefit.

Operations in Puerto Rico benefit from Puerto Rican incentive grants, which partially exempt the Company from income, property and municipal taxes. In fiscal 2001, a new tax grant was negotiated with the Government of Puerto Rico extending our tax incentives until fiscal 2010. This grant exempts all earnings during this grant period from tollgate tax upon repatriation to the US. In fiscal 2001, approximately $109,000,000 of cash was repatriated for pre-fiscal 2001 earnings from Puerto Rico to the US. Prepaid tollgate tax of $1,508,000 was credited to the Government of Puerto Rico to cover the tax due upon this repatriation. Under Section 936 of the US Internal Revenue Code, Mylan is a "grandfathered" entity and is entitled to the benefits under such statute through fiscal 2006.

In April 2002, the Internal Revenue Service (IRS) completed the examination of fiscal years 1998 through 2000. The adjustments noted by the IRS had no effect on the current year tax rate.

NOTE 11

Preferred and Common Stock

In fiscal 1985, the Board of Directors (Board) authorized 5,000,000 shares of $.50 par value preferred stock. No shares of the preferred stock have been issued.

The Board adopted a Shareholder Rights Plan (the Rights Plan) in fiscal 1996. The Rights Plan was adopted to provide our Board with sufficient time to assess and evaluate any takeover bid and explore and develop a reasonable response. Effective November 1999, the Rights Plan was amended to eliminate the special rights held by continuing directors. The Rights Plan will expire on September 5, 2006, unless it is extended or such rights are earlier redeemed or exchanged.

In May 2002, the Board approved a Stock Repurchase Program to purchase up to 10,000,000 shares of our outstanding common stock. This Stock Repurchase Program will be administered through open market or privately negotiated transactions. The purchase of common stock under this program will be at market prices. Through May 29, 2002, we have

purchased 1,000,000 shares of common stock for approximately $29,006,000. In fiscal 2001, we completed a previously approved program with the purchase of 4,855,100 shares for $91,456,000.

NOTE 12

Stock Option Plan

In January 1997, the Board adopted the *Mylan Laboratories Inc. 1997 Incentive Stock Option Plan* (the Plan), as amended, which was approved by the shareholders in July 1997. Under the Plan, up to 10,000,000 shares of the Company's common stock may be granted to officers, employees, and non-employee consultants and agents as either incentive stock options or nonqualified stock options. Options, which may be granted at not less than fair market value on the date of the grant, may be exercised within ten years from the date of grant. Nonqualified stock option grants generally vest on the date of grant or equally on the anniversary date of the grant for the first three years. Incentive stock option grants generally have one of the following two vesting schedules: 25% two years from the date of grant, 25% at the end of year three and the remaining 50% at the end of year four or 33% one year after grant date, 33% after year two and 33% after year three. As of March 31, 2002, 1,502,725 shares are available for future grants.

In June 1992, the Board adopted the 1992 *Non-employee Director Stock Option Plan* (the Directors' Plan) which was approved by the shareholders in April 1993. A total of 600,000 shares of the Company's common stock are reserved for issuance upon the exercise of stock options which vest at grant and may be granted at not less than fair market value on the date of grant. Options may be exercised within ten years from the date of grant. As of March 31, 2002, 187,500 shares are available for future grants.

Additional stock options are outstanding from the expired 1986 Incentive Stock Option Plan and other plans assumed through acquisitions.

The following table summarizes stock option activity:

	NUMBER OF SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding at April 1, 1999	3,549,154	$ 15.11
Options granted	1,410,100	25.50
Options exercised	(309,054)	12.04
Options cancelled	(53,419)	18.34
Outstanding at March 31, 2000	4,596,781	18.44
Options granted	3,255,700	24.38
Options exercised	(412,194)	13.06
Options cancelled	(260,699)	24.40
Outstanding at March 31, 2001	7,179,588	21.23
Options granted	3,672,999	26.42
Options exercised	(1,510,766)	15.60
Options cancelled	(779,647)	25.29
Outstanding at March 31, 2002	8,562,174	24.07

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

RANGE OF EXERCISE PRICE PER SHARE	OPTIONS OUTSTANDING NUMBER OF SHARES	AVERAGE LIFE[1]	AVERAGE PRICE[2]	OPTIONS EXERCISABLE NUMBER OF SHARES	AVERAGE PRICE[2]
$ 2.35 – $ 20.96	1,271,763	4.19	$ 15.71	1,271,763	$ 15.71
21.38 – 23.15	1,335,408	8.09	21.95	956,201	21.60
24.32 – 25.51	1,642,231	8.85	24.87	625,567	24.96
25.82 – 25.82	2,405,500	9.20	25.82	–	–
26.06 – 27.90	922,700	8.05	26.25	278,125	26.44
28.06 – 37.02	984,572	9.07	30.06	367,072	29.67
$ 2.35 – $ 37.02	8,562,174	8.08	24.07	3,498,728	21.29

(1)Weighted average contractual life remaining in years.
(2)Weighted average exercise price per share.

The number of shares exercisable and the associated weighted average exercise price as of March 31, 2001 and 2000, were 3,408,639 shares at $17.25 per share and 2,623,182 shares at $14.76 per share.

In accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, we account for our stock option plans under the intrinsic-value-based method as defined in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation expense has been recognized for our existing employee and non-employee director stock option plans. If we had elected to recognize compensation costs based on the alternative fair-value-based method prescribed by SFAS No. 123, net earnings and earnings per share (on both a basic and diluted basis) would have been reduced by $20,284,000, or $.16 per share, $11,308,000, or $.09 per share and $1,430,000 or $.01 per share for fiscal 2002, 2001 and 2000, respectively.

The fair value of options granted in fiscal 2002, 2001 and 2000, using the Black-Scholes option pricing model, and the assumptions used are as follows:

FISCAL	2002	2001	2000
Volatility	48%	36%	34%
Risk-free interest rate	4.8%	5.5%	6.2%
Dividend yield	0.6%	0.6%	0.6%
Expected term of options (in years)	5.4	5.8	5.2
Weighted average fair value per option	$ 12.51	$ 9.99	$ 9.93

In consideration for the exercise of stock options, we received and recorded into treasury stock 81,120 shares valued at $2,716,000 in fiscal 2002, 4,165 shares valued at $109,000 in fiscal 2001 and 4,920 shares valued at $134,000 in fiscal 2000.

NOTE 13

Employee Benefits

The Company has a plan covering substantially all employees to provide for limited reimbursement of supplemental medical coverage. In December 2001, the Supplemental Health Insurance Program for Certain Officers of Mylan Laboratories was adopted to provide full post-retirement medical coverage to certain officers and their spouse and dependents. These plans generally provide benefits to employees who meet minimum age and service requirements. We account for these benefits under SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. We have provided for the costs and related liability of these benefits, which are not material.

We have defined contribution plans covering essentially all of our employees. Our defined contribution plans consist primarily of a 401(k) retirement plan with a profit sharing component for non-union employees and a 401(k) retirement plan for union employees. Profit sharing contributions are made at the discretion of the Board. The 401(k) company matching contributions are based upon employee contributions or service hours, depending upon the plan. Total employer contributions to all plans for fiscal 2002, 2001 and 2000 were $9,756,000, $4,784,000 and $6,342,000, respectively.

We provide supplemental life insurance benefits to certain management employees. Such benefits require annual funding and may require accelerated funding in the event that we would experience a change in control.

The production and maintenance employees at the Company's manufacturing facilities in Morgantown, West Virginia, are covered under a collective bargaining agreement which expires in April 2007. These employees represent approximately 26% of the Company's total workforce at March 31, 2002.

NOTE 14

Segment Reporting

We have two reportable operating segments, a Generic Segment and a Brand Segment, based on differences in products, marketing and regulatory approval. Additionally, we have a Corporate/Other Segment, which includes general and administrative expenses, such as legal expenditures, litigation settlements and goodwill amortization, offset by non-operating income and expense.

Generic pharmaceutical products are therapeutically equivalent to a brand name product and marketed primarily to wholesalers, retail pharmacy chains, mail-order pharmacies and group purchasing organizations. These products are approved for distribution by the US Food and Drug Administration (FDA) through the Abbreviated New Drug Application (ANDA) process.

Brand pharmaceutical products are generally, when new, patent protected products marketed directly to health care professionals by a single provider. These products are approved by the FDA primarily through the New Drug Application process. Our Brand Segment also includes off-patent brand products, which have prescriber and customer loyalties and brand recognition, as well as branded generics which are responsive to promotional efforts.

The accounting policies of the operating segments are the same as those described in Note 2. The table below presents segment information for the fiscal years identified. For the Generic and Brand Segments, segment profit represents segment gross profit less direct research and development, selling and marketing and general and administrative expenses. Generic and Brand Segment assets include property, plant and equipment, trade accounts receivable, inventory and intangible assets other than goodwill. Corporate/Other Segment assets include consolidated cash, cash equivalents, marketable securities, investments in Somerset and other assets, goodwill and all income tax related assets.

The following table provides a reconciliation of segment information to total consolidated information:

(IN THOUSANDS) FISCAL	2002	2001	2000
Net revenues			
Generic	$ 971,075	$ 675,118	$ 650,890
Brand	132,975	171,578	139,255
Consolidated	$ 1,104,050	$ 846,696	$ 790,145
Depreciation and amortization expense			
Generic	$ 20,365	$ 19,772	$ 12,919
Brand	17,336	16,037	15,540
Corporate/Other	8,410	6,583	7,247
Consolidated	$ 46,111	$ 42,392	$ 35,706
Segment profit (loss)			
Generic	$ 483,068	$ 187,115	$ 248,103
Brand	(16,212)	26,146	28,765
Corporate/Other	(58,533)	(155,248)	(34,125)
Consolidated	$ 408,323	$ 58,013	$ 242,743
Property, plant and equipment additions			
Generic	$ 14,313	$ 18,883	$ 24,418
Brand	5,369	5,231	5,168
Corporate/Other	939	537	255
Consolidated	$ 20,621	$ 24,651	$ 29,841
MARCH 31,			
Segment assets			
Generic	$ 466,311	$ 628,441	$ 463,311
Brand	209,603	251,801	261,402
Corporate/Other	940,796	589,070	617,757
Consolidated	$ 1,616,710	$ 1,469,312	$ 1,342,470

Effective April 1, 2001, the Brand Segment assumed responsibility for the sales and marketing of EX phenytoin 100mg, which were previously included and evaluated in the operating results of the Generic Segment. Accordingly, the operating results of the Brand Segment for fiscal 2001 and 2000, have been revised to include the net revenues of $26,317 and $16,917 and the corresponding costs of sales of $5,247 and $3,782 for EX phenytoin 100mg previously included in the Generic Segment.

In fiscal 2001, Corporate/Other includes the expense of $147,000 for the settlement with the Federal Trade Commission and related litigation (see Note 17).

NOTE 15
Commitments

We lease certain real property, primarily an office complex in Research Triangle Park, North Carolina, and several warehousing facilities, under various operating lease arrangements that expire over the next nine years. These leases generally provide us with the option to renew the lease at the end of the lease term. We have also entered into agreements to lease vehicles, which are typically 24 to 36 months, for use by our sales force and key employees. For fiscal 2002, 2001 and 2000, we made lease payments of $4,812,000, $4,301,000 and $3,667,000, respectively.

Future minimum lease payments under these commitments are as follows:

(IN THOUSANDS) FISCAL	OPERATING LEASES
2003	$ 5,673
2004	3,082
2005	2,025
2006	1,676
2007	1,672
Thereafter	1,850
	$ 15,978

We have entered into various product licensing and development agreements. In some of these arrangements, we provide funding for the development of the product or to obtain rights to the use of the patent, through milestone payments, in exchange for marketing and distribution rights to the product. Milestones represent the completion of specific contractual events and it is uncertain if and when these milestones will be achieved. In the event that all projects are successful, milestone and development payments of approximately $14,000,000 would be paid over the next four years.

We have entered into employment agreements with certain executives that provide for compensation and certain other benefits. These agreements provide for severance payments under certain circumstances.

NOTE 16
Related Parties

In July 2000, we entered into an agreement with a consulting firm to provide advice and recommendations to us relating to strategic and operational matters. A director of the Company owns directly or indirectly all of the equity interests in this consulting firm. The agreement, as amended, is in effect until December 31, 2003, and provides for a monthly consulting fee of $75,000, the potential for a discretionary performance bonus, reimbursement of reasonable out-of-pocket expenses and a grant of a vested option covering 100,000 shares of our common stock at an exercise price of $21.88 per share. Fees paid to this firm in fiscal 2002 and 2001 were $1,565,000 and $125,000. We are obligated under the agreement to pay a fee equal to one-tenth of one percent of the aggregate value of any major business transaction in which the consultant participates and which is announced during the term of the agreement or within twelve months after its termination. We are entitled to terminate the agreement for cause under certain specified circumstances.

A director of the Company is the chief executive officer of a bank in which the Company had on deposit $7,155,000 and $10,557,000 in a money market account representing 5% and 14% of the bank's total deposits at March 31, 2002 and 2001.

A director of the Company, who also became an officer of the Company in March 2002, was a member of a law firm that provided legal services to the Company. The fees paid to such law firm amounted to $3,325,000, $1,218,000 and $386,000 in fiscal 2002, 2001 and 2000, respectively.

An officer of the Company is a consultant to a company that provides services to assist Mylan with its biostudies. Such officer is currently a minority shareholder of this company; however, in prior years, this officer was the principal owner. The officer's son is the owner of a company that performs registry services for a product marketed by the Company. These agreements have varying terms with the latest expiring in 2010 and provide for the reimbursement of services on a cost plus basis. The officer is also an investor in a company that provides on-site medical units to certain subsidiaries and whose son is a principal officer. Total expenses for all the services provided under these related party arrangements were $8,356,000, $9,405,000 and $7,272,000 in fiscal 2002, 2001 and 2000, respectively.

NOTE 17
Contingencies

Product Litigation

While it is not possible to determine with any degree of certainty the ultimate outcome of the following legal proceedings, we believe that we have meritorious defenses with respect to the claims asserted against the Company and we intend to vigorously defend our position. An adverse outcome in any one of these proceedings could have a material adverse effect on our financial position and results of operations.

Paclitaxel

NAPRO Biotherapeutics Inc. (NAPRO) and Abbott Laboratories Inc. (Abbott) filed suit against the Company in the US District Court for the Western District of Pennsylvania. Plaintiffs allege the Company's manufacture, use and sale of its paclitaxel product infringes certain patents owned by NAPRO and allegedly licensed to Abbott. The Company began selling its paclitaxel product on July 25, 2001. Abbott's ANDA seeking approval to sell paclitaxel has been approved.

Verapamil ER

Biovail Laboratories Inc. (Biovail) has filed a demand for arbitration against the Company with the American Arbitration Association. In response to such demand, the Company filed its answer and counterclaims. The dispute relates to a supply agreement under which the Company supplied extended-release verapamil to Biovail. The Company terminated the agreement in March 2001. Biovail's allegations include breach of contract, breach of implied covenant of good faith and fair dealing and unfair competition. The Company's allegations as set forth in its counterclaims include breach of obligations of good faith and fair dealing, fraud and unjust enrichment. The arbitration hearing is scheduled to be held in September 2002.

Zagam®

The Company filed suit against Aventis Pharmaceuticals, Inc., successor in interest to Rhone-Poulenc Rorer Pharmaceuticals, Inc.; Rhone-Poulenc Rorer Pharmaceuticals, LTD.; Rorer Pharmaceutical Products, Inc.; Rhone-Poulenc Rorer, S.A., and their affiliates in the US Federal District Court for the Western District of Pennsylvania on May 23, 2001. The complaint sets forth claims of breach of contract, rescission, breach of implied covenant of good faith and fair dealing and unjust enrichment. The defendant's answer includes a counterclaim which alleges nonpayment of royalties and failure to mitigate.

Nifedipine

In February 2001, Biovail filed suit against the Company and Pfizer Inc. (Pfizer) in the US District Court for the Eastern District of Virginia alleging antitrust violations with respect to agreements entered into between the Company and Pfizer regarding nifedipine. The Company filed a motion to transfer the case to the US District Court for the Northern District of West Virginia, which was granted. The Company's motion to dismiss Biovail's complaint was denied and the Company's motion to dismiss certain claims by other plaintiffs was granted in part and denied in part.

The Company has been named as a defendant in five other putative class action suits alleging antitrust claims based on the settlement entered into by the Company with Bayer AG, Bayer Corporation and Pfizer regarding nifedipine.

Buspirone

The Company filed an ANDA seeking approval to market buspirone, a generic equivalent to Bristol-Myers Squibb's (BMS) BuSpar®. The Company filed the appropriate certifications relating to the patents for this product, which were then listed in the FDA publication entitled *Approved Drug Products with Therapeutic Equivalence Evaluations*, popularly known as the "Orange Book." On November 21, 2000, a new patent claiming the administration of a metabolite of buspirone (which BMS claims also covers the administration of buspirone itself) was issued to BMS. The subsequent listing of this patent in the Orange Book prevented the FDA from granting final approval for the Company's buspirone ANDA. On November 30, 2000, the Company filed suit against the FDA and BMS in the US District Court for the District of Columbia. The complaint asked the court to order the FDA to immediately grant final approval of the Company's ANDA for the 15mg buspirone product and require BMS to request withdrawal of the patent from the Orange Book. Upon the Company's posting a bond in the amount of $25,000,000, the court entered an order granting the Company's motion for a preliminary injunction. Following a brief stay by the US Court of Appeals for the Federal Circuit, the FDA granted approval of the Company's ANDA with respect to the 15mg strength. Upon receiving FDA approval, the Company began marketing and selling the 15mg tablet in March 2001. The Company has also been selling the 30mg buspirone tablet since August 2001. BMS appealed the preliminary injunction order to both the US Court of Appeals for the Federal Circuit and the US Court of Appeals for the District of Columbia Circuit. The District of Columbia Court of Appeals denied BMS' application and stayed the Company's motion to dismiss pending the decision of the Federal Circuit Court of Appeals. The Federal Circuit heard oral arguments on July 12, 2001.

On October 12, 2001, the Federal Circuit overturned the lower court ruling and held that the Company did not have a cognizable claim against BMS under the Declaratory Judgment Act to challenge the listing of BMS' patent, which the Federal Circuit viewed as an improper effort to enforce the Federal Food, Drug and Cosmetic Act. The Federal Circuit did not address the lower court's determination that the BMS patent does not claim buspirone or a method of administration of the drug. The Company filed a petition with the Federal Circuit asking that the court reconsider its holding. The petition was denied on January 9, 2002. A petition for review by the United States Supreme Court is pending.

On January 16, 2002, the Company filed a motion in the US District Court for the District of Columbia seeking a preliminary injunction which, if granted, would require that the FDA refuse to list the BMS patent should BMS submit it for re-listing in the Orange Book. The District of Columbia Court has entered an order staying further proceedings in this case pending appeal of the order entered in the US District Court for the Southern District of New York granting the Company's motion for summary judgment of non-infringement.

The Company is involved in three other suits related to buspirone. In November 2000, the Company filed suit against BMS in the US District Court for the Northern District of West Virginia. The suit seeks a declaratory judgment of non-infringement and/or invalidity of the BMS patent listed in November 2000. In January 2001, BMS sued the Company for patent infringement in the US District Court for the District of Vermont and also in the US District Court for the Southern District of New York. In each of these cases, BMS asserts that the Company infringes BMS' patent and seeks to rescind approval of the Company's

ANDA. It is expected that BMS will seek to recover damages equal to the profits it has lost as a result of the Company's sales of this product.

The Company subsequently filed motions to dismiss the Vermont case and dismiss and transfer the New York case to the US District Court for the Northern District of West Virginia. The Judicial Panel on Multi-District Litigation ordered these cases, along with another patent case and numerous antitrust suits filed against BMS, be consolidated in the US District Court for the Southern District of New York. The New York Court has granted the Company's motion for summary judgment that the BMS patent is not infringed or alternatively is invalid. BMS has appealed this decision to the Court of Appeals for the Federal Circuit. The New York Court also denied the BMS motion to dismiss the Company's antitrust counterclaims.

Lorazepam and Clorazepate

In December 1998, the Federal Trade Commission (FTC) filed suit in US District Court for the District of Columbia against the Company. The FTC's complaint alleged that the Company engaged in restraint of trade, monopolization, attempted monopolization and conspiracy to monopolize arising out of certain agreements involving the supply of raw materials used to manufacture two products, lorazepam and clorazepate.

In July 2000, the Company reached a tentative agreement to settle the actions brought by the FTC, the States Attorneys General and suits brought by or on behalf of third party reimbursers. The Company agreed to pay up to $147,000,000, including attorneys' fees. This tentative settlement became final in February 2002. Included in this settlement were three companies indemnified by the Company — Cambrex Corporation, Profarmaco S.r.l. and Gyma Laboratories, Inc.

Lawsuits not included in this settlement principally involve alleged direct purchasers such as wholesalers and distributors. In July 2001, the United States Court for the District of Columbia certified a litigation class consisting of these direct purchasers. The Company filed a petition with the United States Court of Appeals for the District of Columbia Circuit seeking appellate review of the district court's order. The appellate court denied the Company's appeal of the lower court's class certification order. In addition, four third party reimbursers opted out of the class action settlements and have filed separate, nonclass actions against the Company. The Company has filed motions to dismiss those claims.

Other Litigation

The Company is involved in various other legal proceedings that are considered normal to its business. While it is not feasible to predict the ultimate outcome of such other proceedings, it is the opinion of management that the ultimate outcome of such other proceedings will not have a material adverse effect on our results of operations or financial position.

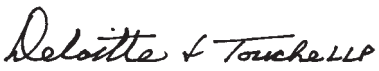
Independent AUDITORS' REPORT

Board of Directors and Shareholders
Mylan Laboratories Inc.:

We have audited the accompanying consolidated balance sheets of Mylan Laboratories Inc. and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, such consolidated financial statements present fairly, in all material respects, the financial position of Mylan Laboratories Inc. and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP
Pittsburgh, Pennsylvania
May 6, 2002 (May 29, 2002, as to Note 11)

Quarterly FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	YEAR[1]
Fiscal 2002					
Net revenues	$ 237,933	$ 286,328	$ 297,191	$ 282,598	$ 1,104,050
Gross profit	121,859	163,777	177,372	160,931	623,939
Net earnings	50,648	64,136	78,176	67,291	260,251
Earnings per share:					
Basic	$ .41	$ .51	$ .62	$ .53	$ 2.07
Diluted	$ .40	$ .50	$ .61	$ .53	$ 2.04
Share prices[2]:					
High	$ 31.81	$ 35.65	$ 37.91	$ 36.20	$ 37.91
Low	$ 24.02	$ 28.30	$ 31.35	$ 29.46	$ 24.02
Fiscal 2001					
Net revenues	$ 167,255	$ 207,555	$ 223,238	$ 248,648	$ 846,696
Gross profit	73,753	93,996	102,268	112,158	382,175
Net earnings[3]	(76,089)	33,509	37,645	42,062	37,128
Earnings per share:					
Basic	$ (.59)	$ .27	$ .30	$ .34	$ .30
Diluted	$ (.59)	$ .27	$ .30	$ .33	$ .29
Share prices[2]:					
High	$ 32.25	$ 27.94	$ 30.00	$ 25.85	$ 32.25
Low	$ 17.00	$ 18.06	$ 22.50	$ 21.00	$ 17.00

(1) The sum of earnings per share for the four quarters may not equal earnings per share for the total year due to changes in the average number of common shares outstanding.

(2) NewYork Stock Exchange symbol: MYL

(3) In July 2000, we reached a tentative settlement with the Federal Trade Commission, States Attorneys General and certain private parties with regard to lawsuits filed against the Company relating to pricing issues and raw material contracts on two of our products. Excluding the litigation settlement of $147,000, net earnings for fiscal 2001 were $131,208, or $1.04 per basic and diluted share. This settlement was approved by the court and made final in February 2002.

Shareholder INFORMATION

Annual Meeting of Shareholders

Friday, July 26, 2002, at 10:00 A.M.
The Hilton Pittsburgh & Towers
600 Commonwealth Place
Gateway Center
Pittsburgh, Pennsylvania 15222

Stockholder Information

Investor inquiries should be directed to Investor Relations:
Mylan Laboratories Inc.
1030 Century Building
130 Seventh Street
Pittsburgh, Pennsylvania 15222
(412) 232-0100
E-mail: investor_relations@mylan.com
http://www.mylan.com/shareholder

A copy of the Mylan's Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), will be furnished without charge to any shareholder upon request. Other SEC filings and company information, including press releases, can be found at www.mylan.com/shareholder

Dividends

Quarterly dividends are generally paid in January, April, July, and October. The record date is established prior to each dividend payment. The Company also offers an Automatic Dividend Reinvestment and Stock Purchase Plan. For further information, contact Investor Relations.

Corporate Headquarters

Mylan Laboratories Inc.
1030 Century Building
130 Seventh Street
Pittsburgh, Pennsylvania 15222
(412) 232-0100
www.mylan.com

Stock Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038
(800) 937-5449
www.amstock.com

Certified Public Accountants

Deloitte & Touche LLP
Pittsburgh, Pennsylvania 15222

Securities Traded

Mylan's common stock is listed on the New York Stock Exchange under the symbol MYL.

Board of Directors

Milan Puskar
Chairman of the Board & Chief Executive Officer

Robert J. Coury
Vice Chairman of the Board, Principal of Coury Consulting, L.P.

Wendy Cameron
Former Vice President, Cameron Coca-Cola Bottling Company, Inc.

Leslie B. Daniels
Founding Partner in CAI Managers & Company, L.P.

Laurence S. DeLynn
Retail Consultant

John C. Gaisford, MD
Director of Burn Research, West Penn Hospital

Douglas J. Leech
Chairman, President & CEO, Centra Bank, Inc. and Centra Financial Holdings, Inc.

Patricia A. Sunseri
Senior Vice President, Investor & Public Relations, Mylan Laboratories Inc.

C.B. Todd
President & Chief Operating Officer, Mylan Laboratories Inc.

Randall L. Vanderveen, Ph.D.
Dean of the School of Pharmacy and the Graduate School of Pharmaceutical Sciences at Duquesne University

Stuart A. Williams, Esq.
Chief Legal Officer, Mylan Laboratories Inc.

Executive Officers

Milan Puskar
Chairman of the Board & Chief Executive Officer

Edward J. Borkowski
Chief Financial Officer

Thomas S. Clark, MD
Vice President Corporate Medical Affairs

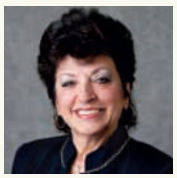
Louis J. DeBone
Senior Vice President & President & Chief Operating Officer Mylan Pharmaceuticals Inc.

Roger L. Foster, Esq.
Vice President & General Counsel & Corporate Secretary

Harry A. Korman
Vice President & President UDL Laboratories, Inc.

James J. Mauzey
Senior Vice President & President & Chief Executive Officer Bertek Pharmaceuticals Inc.

John P. O'Donnell, Ph.D.
Chief Scientific Officer & Executive Vice President Mylan Pharmaceuticals Inc.



Patricia A. Sunseri
Senior Vice President, Investor & Public Relations

C.B. Todd
President & Chief Operating Officer

Stuart A. Williams, Esq.
Chief Legal Officer

Design: Brady Communications (www.bradycommunications.com)

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130 Seventh Street
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