SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

Annual Report pursuant to Section 13 or 15(d)of the Securities Exchange Act of 1934For the fiscal year ended March 31, 1999 Commission File No. 1-9114

MYLAN LABORATORIES INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	25-1211621
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1030 Century Building 130 Seventh Street Pittsburgh, Pennsylvania	15222
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 412-232-0100

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.50 per share	New York Stock Exchange

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes...X.... No.....

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

The aggregate market value of voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock as of June 22, 1999:

$3,180,346,246

The number of shares of Common Stock of the registrant outstanding as of June 22, 1999:

129,153,311

Documents incorporated by reference into this Report are:

Annual Report to Shareholders for year ended	March 31, 1999...	Parts I and II, Items 1, 5-8
Proxy Statement for 1999 Annual Meeting of	Shareholders...	Part III, Items 10-13

PART I

Item 1. Business

Mylan Laboratories Inc., a Pennsylvania corporation incorporated in 1970, and its subsidiaries (herein referred to collectively as "the Company") are engaged in developing, licensing, manufacturing, marketing and distributing generic and branded pharmaceutical products. References herein to fiscal 1999, 1998 and 1997 shall mean the fiscal years ended March 31, 1999, 1998 and 1997, respectively.

The Company conducts business through its generic and branded pharmaceutical operating segments. For fiscal 1999, the generic segment represented approximately 88% of revenues and the branded segment represented approximately 12% of revenues. The financial information for operating segments required by Item 1 is hereby incorporated by reference to Note R of the Notes to Consolidated Financial Statements in the accompanying Annual Report to Shareholders for the year ended March 31, 1999.

Generic Segment

Through its subsidiaries, Mylan Pharmaceuticals Inc. and UDL Laboratories Inc., acquired in fiscal 1996, the Company is recognized as a leader in the generic pharmaceutical industry. Generic drugs are bioequivalent to their brand name counterparts and are generally sold at prices significantly less than branded products. Accordingly, generics provide a safe, effective and cost efficient alternative to users of these products.

The Company attained its leadership position in the generic industry through its ability to obtain ANDA approvals, uncompromising quality control and devotion to customer service. To build on this position the Company has expanded beyond its traditional solid oral dose products and now offers unit dose, suspensions, liquids, transdermal and extended release products. The investment in research and development and facilities to manufacture products in a variety of delivery systems is one of the many reasons the Company is a leader in the generic industry.

The Company has entered into strategic alliances with several

pharmaceutical companies through distribution and licensing agreements which provide the Company with additional products to broaden the Company's product line. In addition, the Company has entered into product development and licensing agreements, under which the Company has obtained rights to manufacture and distribute additional pharmaceutical products in exchange for funding of drug development activities.

Due to the non-exclusive nature of generic products, the generic industry is comprised of numerous competitors including manufacturers that market their products under their own names, distributors that market products manufactured by others, and brand name companies that market their products under both the brand name and as the generic substitute. The non-exclusive nature thus allows for significant price competition within the pharmaceutical industry.

Branded Segment

Pharmaceutical products initially sold on an exclusive basis are known in the industry as proprietary or branded products. These products generally are patent protected when introduced in the marketplace.

The Company operates its branded segment principally through its Bertek Pharmaceutical Inc. ("Bertek") subsidiary. Bertek's three therapeutic areas of concentration include cardiology, neurology and dermatology. The cardiology focus is built upon Maxzide(R), Clorpres(TM) and Nitrek(R). The Maxzide(R) products were reacquired from American Home Products Corp. ("AHP") in fiscal 1997. Since 1984, these products, which were developed and manufactured by the Company, were marketed by AHP under a worldwide license agreement.

The Company continues to expand its branded business through internally developed products as well as through product acquisitions. To expand its presence in dermatology, on October 2, 1998, the Company acquired 100% of the outstanding stock of Penederm Inc. ("Penederm"). Penederm develops and markets through Bertek patented topical prescription products. The current product portfolio consists of Avita(R), Mentax(R), and Acticin(R). Penederm maintains administrative and research and development facilities in Foster City, California.

New Product Approvals

The Company is required to secure and maintain the U.S. Food and Drug Administration's ("FDA") approval for the products it desires to manufacture and market. The FDA grants such approval by approving Company submitted Abbreviated New Drug Applications ("ANDAs") for generic drug products and New Drug Applications ("NDAs") for branded drug products.

During fiscal 1999, the Company received ten final ANDA approvals: Clomipramine HCl Capsules, Hydroxychloroquine Sulfate Tablets, Nystatin Oral Suspension, Glyburide Tablets, Ranitidine Tablets, Acyclovir Tablets, Clonazepam Tablets, Etodolac 500mg. Tablets, Albuterol Sulfate Syrup, and Extended Phenytoin Sodium Capsules. Presently, the Company has before the FDA 35 ANDAs pending final approval.

Also in fiscal 1999, the Company was awarded by the FDA a NDA approval for its wound care product Sulfamylon(R). Presently, the Company has nine Investigational New Drug (IND) applications filed with the FDA for new innovator compounds. An IND is the result of a successful preclinical development program and becomes part of the final NDA.

Products

The information on the Company's product line set forth on pages5-13 and 18 of the accompanying Annual Report to Shareholders for the year ended March 31, 1999 is incorporated herein by reference. For fiscal 1999, sales of the Company's antianxiety product group accounted for approximately 22% of revenues.

During fiscal 1999, 1998 and 1997, the Company expensed $61,843,000, $46,278,000, and $42,633,000 for research and development. The Company's research and development efforts are conducted primarily to qualify the Company to manufacture ethical pharmaceuticals under FDA standards and approval. Recently this has included increased spending for innovative compounds and transdermal delivery system technology. Typically research expenses related to the development of innovative compounds and the filing of NDAs are significantly higher than those associated with ANDAs. As the Company continues to develop these products, research expenses related to their development will continue to increase.

Customers and Marketing

The Company sells its products to proprietary and ethical pharmaceutical wholesalers and distributors, drug store chains, drug manufacturers and public and governmental agencies. Three customers accounted for approximately 15%, 14%, and 11% of net sales in fiscal 1999 and 13%, 12%, and 11% of net sales in fiscal 1998. No single customer represented more than 10% of net sales in fiscal 1997.

Generic pharmaceutical products are marketed to pharmaceutical wholesalers and distributors and certain food and drug store chains. These customers in turn market to retailers, managed care entities, hospitals, government agencies and consumers. Generic products involve limited public promotion. Approximately 80 employees are engaged in selling and servicing generic customers.

Branded pharmaceutical products are marketed directly to health care professionals. Approximately 200 employees are engaged in marketing, selling and servicing branded customers.

Competition

With respect to each of the generic products it sells, the Company believes it is usually subject to active competition from numerous companies. The four primary means of competition are service, product quality, FDA approval and price. The competition experienced by the Company varies among the markets and classes of customers. The Company has experienced additional competition from brand-name competitors that have entered the generic pharmaceutical industry by creating generic subsidiaries, purchasing generic companies or licensing their products prior to or as their patents expire.

In addition to the increase in the number of competitors, the consolidation of the Company's customers through mergers and acquisitions, along with the emergence of large buying groups representing independent pharmacies and health maintenance organizations, have contributed to severe price deterioration for many of the Company's generic products. While the Company has increased unit volume of its generic products through

specialized marketing programs, this has not fully offset the price declines the Company has experienced.

Severe price declines for generic products over the last several years, along with the increased costs in bringing new generic products to market, led the Company to an extensive evaluation of its operations. This ongoing evaluation includes assessing the Company's relationship with key customers and suppliers, production capacity and product level contributions. One of the key conclusions of this evaluation was the determination that changes in the Company's generic pricing practices were needed.

In the second half of fiscal 1998, the Company raised prices on seven generic products. During fiscal 1999, the Company raised prices on 22 additional products. While these price increases had a favorable impact on net earnings, such impact, if any in the future, will be affected by many factors including customer acceptance and the response by both existing and potential competitors as well as by both existing and potential suppliers. The Company intends to continue to work closely with its customers and suppliers to ensure that its full line of generic products continues to be available as a cost effective alternative to the innovator products.

In the branded segment, the Company faces competition from other branded and generic pharmaceutical companies that offer products which, while having different properties, are intended to provide similar benefits to the consumers.

Product Liability

Product liability suits by consumers represent a continuing risk to firms in the pharmaceutical industry. The Company strives to minimize such risks by adherence to stringent quality control procedures. Although the Company carries insurance, it believes that no reasonable amount of insurance can fully protect it against all such risks because of the potential liability inherent in the business of producing pharmaceuticals for human consumption.

Raw Materials

The active chemical ingredients and other materials and supplies used in the Company's pharmaceutical manufacturing operations are generally available and purchased from many different foreign and domestic suppliers. However, in some cases, the raw materials needed by the Company to manufacture pharmaceutical products are available from a single FDA-approved supplier. Even where more than one supplier exists, the Company may elect to list and in some cases has only listed one supplier in its applications with the FDA. New suppliers of the active ingredients in drugs must be approved by the FDA. Accordingly, in the event of an interruption, any change in a supplier not previously approved requires FDA approval, which may take several months.

In addition, recent and pending regulatory actions may make it more difficult for the Company and other generic pharmaceutical manufacturers to obtain commitments from foreign suppliers for raw materials prior to the expiration of patents on branded products. The unavailability of such raw materials could also impede the Company in its efforts to develop and obtain FDA approval to manufacture and market new generic pharmaceutical products.

Regulation

The Company's operations are subject to regulation under the Federal Food, Drug and Cosmetic Act, pursuant to which government standards as to "good manufacturing practice", product content, purity, labeling, effectiveness and record keeping (among other things) must be observed. In this regard, the FDA has extensive regulatory powers over the activities of pharmaceutical manufacturers including the power to seize and prohibit the sale of noncomplying products and to halt operations of noncomplying manufacturers.

In addition to the extensive regulation the Company faces under the Federal Food, Drug and Cosmetic Act, other regulations have also affected the generic approval process. In June 1995, the Uruguay Round Agreements Act ("URAA") took effect which extended patent terms pursuant to the General Agreements on Tariffs and Trade. The extension of patent terms has delayed and is expected to continue to delay the introduction of generic products by the Company.

While URAA has already extended patent terms, the brand companies have further delayed the approval of new generic products by filing patent infringement suits under the Hatch-Waxman Act. The Company upon filing

an ANDA with the FDA must make one of five certifications with respect to innovator patents. If the company certifies that its generic product is not infringing or that a patent is invalid, the patentee can file suit. Brand companies now use this certification process to prevent generic companies from introducing competing generic products by bringing suit for alleged patent infringement. Once a suit is filed, the FDA is prohibited from approving the ANDA for thirty months or until the suit is litigated or settled. Along with delaying the approval of generic products, the cost of bringing a new generic product to market has risen substantially as the number of these suits and the cost of defending them continues to increase. All such suits settled to date have been on terms favorable to the Company. However, until the laws are changed, the Company expects this type of suit will continue since it has proven a very effective way for brand companies to delay generic competition.

The Company is subject to inspection and regulation under other federal and state legislation relating to drugs, narcotics and alcohol. Many of its suppliers and customers, as well as the drug industry in general, are subject to the same or similar governmental regulations. The Company also is subject to various federal, state, and local environmental protection laws and regulations. Compliance with current environmental protection laws and regulations has not had a material effect on the earnings, cash flow or competitive position of the Company.

It is impossible for the Company to predict the extent to which its operations will be affected under the regulations discussed above or any new regulations which may be adopted by regulatory agencies.

Employees

The Company employs approximately 2,100 persons, approximately 1,050 of whom serve in clerical, sales and management capacities. The remaining are engaged in production and maintenance activities.

The production and maintenance employees at the Company's manufacturing facilities in Morgantown, West Virginia, are represented by the Oil, Chemical and Atomic Workers International Union (AFL-CIO) and its Local Union 8-957 under a contract which expires April 5, 2002.

Backlog

At March 31, 1999, the uncompleted portion of the Company's backlog of orders was approximately $7,388,000 as compared to approximately $19,899,000 at March 31, 1998 and $10,410,000 at March 31, 1997. Because of the relatively short lead time required in filling orders for its products, the Company does not believe these backlog amounts bear a significant relationship to sales or income for any full twelve-month period.

Item 2. Properties

The Company operates from various facilities in the United States and Puerto Rico which have an aggregate of approximately 1,281,000 square feet.

Mylan Pharmaceuticals Inc. owns production, warehouse, laboratory and office facilities in three buildings in Morgantown, West Virginia containing 473,000 square feet. Mylan Pharmaceuticals operates two distribution centers: a 166,000 square foot center in Greensboro, North Carolina which it owns and a 38,000 square foot center in Reno, Nevada which it operates under a lease expiring in 2002. A new sales and administration facility containing approximately 65,000 square feet and an additional production area of approximately 11,000 square feet are currently under construction in Morgantown, West Virginia.

Mylan Inc. owns a production and office facility in Caguas, Puerto Rico containing 115,000 square feet and a production facility in Cidra, Puerto Rico containing 32,000 square feet.

Bertek Pharmaceuticals, Inc. owns production, warehouse and office facilities in two buildings in Sugar Land, Texas containing 70,000 square feet.

Mylan Technologies Inc. owns production, warehouse, laboratory, and office facilities in three buildings in Swanton and St. Albans, Vermont containing 118,000 square feet. Mylan Technologies Inc. also operates a coating and extrusion facility in St. Albans containing 71,000 square feet under a lease expiring in 2015.

UDL Laboratories Inc. owns production, laboratory, warehouse, and office facilities in three buildings in Rockford, Illinois and Largo, Florida containing 123,000 square feet. UDL also leases a warehouse facility in Rockford containing 41,000 square feet under a lease expiring in 2005.

Penederm Inc. maintains administrative and research and development facilities in two buildings in Foster City, California containing 27,000 square feet under leases expiring in 2003.

The Company's production equipment includes that equipment necessary to produce and package tablet, capsule, aerosol, liquid, transdermal and powder dosage forms. The Company maintains seven analytical testing laboratories for quality control.

The Company's production facilities are operated primarily on a two-shift basis. Properties and equipment are well maintained and adequate for present operations.

The Company's corporate offices, approximately 7,000 square feet, are located at 1030 Century Building, 130 Seventh Street, Pittsburgh, Pennsylvania, and are occupied under a lease expiring in 2000.

Item 3. Legal Proceedings

In August 1997, Key Pharmaceuticals filed suit in the United States District Court for the Western District of Pennsylvania against the Company and certain subsidiaries alleging patent infringement relating to the marketing of its nitroglycerin transdermal system. The relief sought included a preliminary and permanent injunction, treble damages along with interest and attorney's fees and expenses. All claims and counterclaims were dismissed during fiscal 1999 pursuant to a settlement between the companies. The Company continues to manufacture and market its nitroglycerin transdermal system in accordance with the settlement.

In March 1999, a subsidiary of the Company entered into binding arbitration related to a dispute with KaiGai Pharmaceutical, Co., Ltd. ("KaiGai"). The dispute arose out of a license and supply agreement for nitroglycerin transdermal patches that both companies have asserted has been breached by the other party. KaiGai seeks damages in excess of $20,000,000. The Company believes the action against it is without merit and intends to vigorously defend its position.

In June 1998, the Company filed suit in the Los Angeles Superior Court against VivoRx Inc. ("VI"), VivoRx Diabetes, Inc. ("VDI") and certain directors. The Company's suit alleges the defendants have been guilty of fraud, mismanagement, abuse of authority, unfairness to the Company and other shareholders and have wasted and misapplied the property of VI and VDI. In March 1999, VI, VDI and certain directors filed an answer to and cross-complaint in Los Angeles Superior Court against the Company. The cross-complaint alleges negligence, misrepresentation, fraud, breach of contract, and tortuous inducement of breach of fiduciary duty. The suit seeks unspecified compensatory and punitive damages. With respect to the cross-complaint the Company believes the suit is without merit and intends to vigorously defend its position.

Upon motions made by the Company, certain disputes relating to the exclusive licensing agreement between VI, VDI and the Company were referred to a separate arbitration proceeding to be conducted under the auspices of the American Arbitration Association. Such proceeding concluded in April 1999 and on May 18, 1999, the Company received notice of the arbitrator's decision.

Under the terms of the arbitration award, the Company is required to fund approximately $10 million for research and development performed by VI subsequent to March 31, 1998. In turn, the Company was permitted, at its election, either to (1) continue in effect and continue funding the exclusive licensing agreement between the parties, or (2)terminate its rights under the agreement and receive payment from VI of approximately $18 million, representing 50% of the amounts it has funded for research and development to date (including the $10 million discussed above). The Company elected to terminate the agreement and, therefore, VI must pay to it the amounts due, plus interest, in five annual installments commencing October 1, 2000. This obligation is to be secured by a security interest in VI's diabetes-related U.S. patents.

As a result of this award, the Company recorded the effects of the $10 million funding obligation discussed above in its fiscal 1999 financial statements as research and development expense. The $18 million required to be paid by VivoRx will be recognized as income when realized.

Various other disputes between the Company and VI, VDI and other parties remain the subject of on-going litigation. While it is not feasible to

predict the ultimate outcome of this litigation, it is the opinion of management that the ultimate outcome will not have a material adverse effect on the Company's operations or its financial position.

In May 1998, Genpharm Inc. filed in the general division of Ontario Court, Canada, a statement of claim against Novopharm Limited and Granutec, Inc. ("Novopharm"). The claim was filed to resolve contract interpretation issues and collect additional funds due relating to an agreement between the parties for the sale of ranitidine. In July 1998, Novopharm filed a counterclaim against Genpharm and the Company seeking damages of up to $60,000,000. The Company was named in the counterclaim due to its agreement with Genpharm in which it shared in profits derived from the product ranitidine. The Company believes the counterclaim is without merit and intends to vigorously to defend its position.

On December 22, 1998, the Federal Trade Commission ("FTC") filed suit in federal district court for the District of Columbia against the Company. The FTC's complaint alleges 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 drugs. The FTC also sued in the same case the foreign suppliers of the raw materials, the supplier's parent company and its United States distributor. Under the terms of the agreements related to these raw materials, the Company has agreed to indemnify these parties.

The Company is a party to other suits involving the Attorneys General from 33 states and more than 20 putative class actions that allege the same conduct alleged in the FTC suit as well as alleged violations of state consumer protection laws. A qui tam action was commenced by a private party in the U.S. District Court for the District of South Carolina proportedly on behalf of the United States alleging violations of the False Claims Act and other statues. The relief sought by the FTC includes an injunction barring the Company from engaging in the challenged conduct, recision of certain agreements and disgorgement in excess of $120,000,000. The states and private parties seek similar relief, treble damages and attorneys' fees. In addition, a class action suit was filed alleging violations of federal securities laws by the Company and certain directors and officers of the Company.
Without specifying a dollar amount, the suit seeks compensatory damages.

Since the date of the filing of the Company's quarterly report of Form 10-Q for the quarter ended December 31, 1998, there have been no material developments in these proceedings except as described below. The Company has filed motions to dismiss the FTC and State Attorneys' General cases as well as the federal securities case filed in U.S. Federal District Court for the Western District of Pennsylvania. The Company has also filed motions to dismiss five of the suits commenced by private parties. In addition, two other private actions have been dismissed.

The Company believes that it has meritorious defenses to the claims in all FTC and related suits and intends to vigorously defend them. Although the Company believes it has meritorious defenses to the claims, an adverse result in these suits could have a material adverse effect on the Company's financial position and results of its operations.

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 proceedings, it is the opinion of management that the outcome of these suits will not have a material adverse effect on the Company's operations, financial position, or liquidity.

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

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of the Company's executive officers are as follows:

Milan Puskar	64	Chairman, Chief Executive Officer and President
Dana G. Barnett	58	Executive Vice President
Louis J. DeBone	53	Senior Vice President
Roger L. Foster	52	Vice President and General Counsel
Roderick P. Jackson	59	Senior Vice President
Donald C. Schilling	49	Vice President-Finance
Patricia A. Sunseri	59	Vice President-Investor and Public Relations
Robert W. Smiley	77	Secretary

Mr. Puskar was employed by the Company from 1961 to 1972 and served in various positions, including Secretary-Treasurer, Executive Vice President and a member of the Board of Directors. From 1972 to 1975, Mr. Puskar served as Vice President and General Manager of the Cincinnati division of ICN Pharmaceuticals Inc. In addition, he has served as a partner in several pharmaceutical firms in foreign countries and is currently a director of VivoRx, Inc., Santa Monica, California; West Virginia University Foundation, Morgantown, West Virginia; and Duquesne University, Pittsburgh, Pennsylvania. Mr. Puskar has served as President of the Company since 1976 and as Vice Chairman of the Board since 1980. He was elected Chairman of the Board and Chief Executive Officer in November 1993.

Mr. Barnett was employed by the Company in 1966. His responsibilities have covered production, quality control and product development. Mr. Barnett became Vice President in 1974, Senior Vice President in 1978 and Executive Vice President in 1987. He was elected President and Chief Executive Officer of Somerset in June 1991, and in August 1995, he was elevated to Chairman and Chief Executive Officer.

Mr. DeBone has been employed by the Company since September 1987. Prior to assuming his present position in May 1999, he served as Vice President-Operations and Vice President-Quality Control. Since February 1997, he has also served as President of Mylan Technologies Inc. He was previously employed with the Company from March 1976 until June 1986 as Director of Manufacturing.

Mr. Foster has been employed by the Company since May 1984. Prior to assuming his present position in June 1995 as Vice President and General Counsel he served as Director of Legal Services and as Director of Governmental Affairs.

Mr. Jackson has been employed by the Company since March 1986. Prior to assuming his present position in October 1992 as Senior Vice President, he served as Vice President-Marketing and Sales.

Mr. Donald C. Schilling has been employed by the Company since October 1997. Prior to assuming his present position as Vice President-Finance, he was Vice President of Finance & Administration for Plastics Manufacturing Inc. in Harrisburg, NC from 1991 to 1997.

Mrs. Sunseri has served as a Director of the Company since April 1997, as Vice President-Investor and Public Relations of the Company since 1989 and as Director of Investor Relations of the Company from 1984 to 1989.

Mr. Smiley has been the Secretary and a member of the Board of Directors of the Company for over 23 years. He joined the law firm of Doepken Keevican & Weiss Professional Corporation in October, 1992, which law firm provided legal services to the Company in fiscal 1999. Previously, he was a partner of Smiley, McGinty & Steger for more than five years.

No family relationships exist between any of the above executive officers. Officers of the Company serve at the pleasure of the Board of Directors.

PART II

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

The information required by Item 5 is hereby incorporated by reference to pp. 21 and 49 of the accompanying Annual Report to Shareholders for the year ended March 31, 1999.

Item 6. Selected Financial Data

The information required by Item 6 is hereby incorporated by reference to p. 21 of the accompanying Annual Report to Shareholders for the year ended March 31, 1999.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Item 7 is hereby incorporated by reference to pp. 22-29 of the accompanying Annual Report to Shareholders for the year ended March 31, 1999.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk The information required by Item 7A is hereby incorporated by reference to p. 28 of the accompanying Annual Report to Shareholders for the year ended March 31, 1999. Item 8. Financial Statements and Supplementary Data The information required by Item 8 is hereby incorporated by reference to pp. 30-49 of the accompanying Annual Report to Shareholders for the year ended March 31, 1999.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information as to directors required by Item 10 is hereby incorporated by reference to pp. 2 and 3 of the Company's 1999 Proxy Statement. Information concerning executive officers is provided in PART I of this report under the caption "Executive Officers of the Registrant".

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference to pp. 8-10 of the Company's 1999 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management The information required by Item 12 is hereby incorporated by reference topp. 4 and 5 of the Company's 1999 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is hereby incorporated by reference to p. 2 of the Company's 1999 Proxy Statement.

PART IV

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

(a) 1. List of Financial Statements

	Annual Report Page Number
INCLUDED IN ANNUAL REPORT TO SHAREHOLDERS:	
Consolidated Balance Sheets	30-31
Consolidated Statements of Earnings	32
Consolidated Statements of Shareholders' Equity and Comprehensive Earnings	33
Consolidated Statements of Cash Flows	34-35
Notes to Consolidated Financial Statements	36-48
Independent Auditors' Report	48

2. Financial Statement Schedules

The information required by this Item is incorporated herein by reference to Exhibit 99. All other schedules have been omitted because they are not required or the information can be derived from the Consolidated Financial Statements included in the accompanying Annual Report to Shareholders for the year ended March 31, 1999.

3. Exhibits

(3)(a) Amended and Restated Articles of Incorporation of the registrant, filed by the Company as Exhibit 4.2 to the Form S-8 on December 23, 1997 (registration number 333-43081) and incorporated herein by reference.

(b) By-laws of the registrant, as amended to date, filed by the Company as Exhibit 4.3 to the Form S-8 on December 23, 1997 (registration number 333-43081) and incorporated herein by reference.

(4)(a) Rights Agreement dated as of August 22, 1996, between the Company and American Stock Transfer & Trust Co., filed as Exhibit 4.1 to Form 8-K dated August 30, 1996 and incorporated herein by reference.

(10)(a) Mylan Laboratories Inc. 1986 Incentive Stock Option Plan, as amended to date, filed as Exhibit 10(b) to Form 10-K for fiscal year ended March 31, 1993 and incorporated herein by reference.

(b) "Salary Continuation Plan" with Milan Puskar, Dana G. Barnett and C.B. Todd each dated January 27, 1995 and filed as Exhibit 10(b) to Form 10-K for fiscal year ended March 31, 1995 and incorporated herein by reference.

(c) "Salary Continuation Plan" with Louis J. DeBone dated March 14, 1995 filed as Exhibit 10(c) to Form 10-K for fiscal year ended March 31, 1995 and incorporated herein by reference.

(d) Employment contract with Milan Puskar dated April 28, 1983, as amended to date, filed as Exhibit 10(e) to Form 10-K for fiscal year ended March 31, 1993 and incorporated herein by reference.

(e) Split Dollar Life Insurance Arrangement with McKnight Irrevocable Trust filed as Exhibit 10(g) to Form 10-K for fiscal year ended March 31, 1994 and incorporated herein by reference.

(f) "Service Benefit Agreement" with Laurence S. DeLynn, John C. Gaisford, M.D., and Robert W. Smiley, Esq. each dated January 27, 1995 and filed as Exhibit 10(g) to Form 10-K for fiscal year ended March 31, 1995 and incorporated herein by reference.

(g) Split Dollar Life Insurance Arrangement with Milan Puskar
Irrevocable Trust filed as Exhibit 10(h) to Form 10-K for the fiscal year ended March 31, 1996 and incorporated herein by reference.

(h) Split Dollar Life Insurance Arrangement with the Todd Family Irrevocable Trust filed as Exhibit 10(i) to Form 10-K for the fiscal year ended March 31, 1997 and incorporated herein by reference.

(i) Split Dollar Life Insurance Arrangement with the Dana G. Barnett Irrevocable Family Trust filed as Exhibit 10(j) to Form 10-K for the fiscal year ended March 31, 1997 and incorporated herein by reference.

(j) "Salary Continuation Plan" with Patricia Sunseri dated March 14, 1995 filed as Exhibit 10(k) to Form 10-K for the fiscal year ended March 31, 1997 and incorporated herein by reference.

(k) Mylan Laboratories Inc. 1997 Incentive Stock Option Plan filed as Annex A to the 1998 Proxy Statement and incorporated herein by reference.

(l) Mylan Laboratories Inc. 1992 Nonemployee Director Stock Option Plan, as amended to date, filed as Exhibit 10(l) to Form 10-K for the fiscal year ended March 31, 1998 and incorporated herein by reference.

(m) "Salary Continuation Plan" with Roderick P. Jackson dated March 14, 1995 and Amendment No. 1 dated April 1, 1999, filed herewith.

(13) Fiscal 1999 Annual Report to Shareholders which, except for those portions incorporated by reference, is furnished solely for the information of the Securities and Exchange Commission and is not deemed to be "filed".

(21) Subsidiaries of the registrant, filed herewith.

(23) Consents of Independent Auditors, filed herewith.

(27) Financial Data Schedule, filed herewith.

(99) Consolidated financial statements of Somerset Pharmaceuticals, Inc. for years ended December 31, 1998, 1997, and 1996, filed herewith.

(b) Reports on Form 8-K

The Company was not required to file a report on Form 8-K during the quarter ended March 31, 1999.

SIGNATURES

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

Date: June 23, 1999

by /S/ MILAN PUSKAR
Milan Puskar
Chairman, Chief Executive Officer and President

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

/S/ MILAN PUSKAR June 23, 1999
Milan Puskar
Chairman, Chief Executive Officer and President
(Principal executive officer)

/S/ DANA G. BARNETT June 23, 1999
Dana G. Barnett
Executive Vice President
and Director

/S/ LAURENCE S. DELYNN June 23, 1999
Laurence S. DeLynn
Director

/S/ ROBERT W. SMILEY June 23, 1999
Robert W. Smiley
Secretary and Director

/S/PATRICIA A. SUNSERI June 23, 1999
Patricia A. Sunseri
Vice President and Director

/S/JOHN C. GAISFORD,M.D. June 23, 1999
John C. Gaisford,M.D.
Director

/S/ C.B. TODD June 23, 1999
C.B. Todd
Director

/S/ DONALD C. SCHILLING June 23, 1999
Donald C. Schilling
Vice President-Finance
(Principal financial officer)

/S/ Frank A. DeGeorge June 23, 1999
Frank A. DeGeorge
Director of Corporate Finance
(Principal accounting officer)

Amendment No. 1 to the
Retirement Benefit Agreement

This Amendment No. 1 is made and effective this 1st day of April, 1999.

WHEREAS, Mylan Laboratories Inc. ("Mylan") and Roderick P. Jackson ("Employee") entered into that certain Retirement Benefit Agreement as of March 14, 1995 (the "Agreement") and now wish to amend the Agreement as provided herein to induce Employee to continue his employment with Mylan.

NOW, THEREFORE, the Agreement is hereby amended as follows:

1. A new Section 3.7 is added to the Agreement, and old Sections 3.7 through 3.9 are renumbered accordingly:

"3.7 Should Employee Retire after March 31, 2002 he shall receive two hundred fifty thousand dollars ($250,000) each year for fifteen (15) years."

2. A new sentence is added at the end of Section 3.8 (formerly Section 3.7):

"Should Employee become unable to perform the material and substantial duties of his position on or after March 31, 1999, he shall receive, pursuant to ss. 4.1, two hundred fifty thousand dollars ($250,000) per year for fifteen (15) years in lieu of any benefit specified in Sections 3.2 through 3.7"

3. Section 6.1 is restated as follows:

"6.1 Upon a Change of Control prior to March 31, 1999, Jackson shall receive, in lieu of the annual payments provided for under Article III, the NPV of One Hundred Thousand Dollars ($100,000.00) per year for ten (10) years; provided Jackson is employed by the Company at or immediately prior to the Change of Control.

Upon a Change of Control on or after March 31, 1999, Jackson shall receive, in lieu of the annual payments provided for under Article III, the NPV of Two Hundred Fifty Thousand Dollars ($250,000.00) per year for fifteen (15) years; provided Jackson is employed by the Company at or immediately prior to the Change of Control."

4. A new Section 10.4 is added as follows:

"10.4 Notwithstanding any provision of this Agreement to the contrary, if a Change in Control occurs at any time (before or after Retirement), then this Article X will become inoperative.

5. Section 25.1(a) is amended as follows:

"(a) The maximum benefit to which Employee is entitled under Article III shall not exceed two hundred fifty thousand dollars ($250,000) per year for fifteen (15) years.

IN WITNESS WHEREOF, in accordance with Article XVI of the Agreement, and intending to be legally bound, the parties hereto have signed (or caused their authorized agents to sign) this Amendment effective as of the date first above noted.

MYLAN LABORATORIES INC.

By: /s/ Milan Puskar CEO
Title

RODERICK P. JACKSON

/s/ Roderick P. Jackson

Mylan.

A company diversified.

Mylan is a company on the move. Through acquisitions and alliances, we have expanded our product mix and moved beyond the solid dosage form of tablets and capsules.

About Mylan Laboratories Inc.

Mylan Laboratories Inc. and its subsidiaries are engaged in the development, licensing, manufacturing, marketing and distributing of generic and proprietary pharmaceutical, wound care and dermatological products. We are a diversified pharmaceutical company with a core generic business, a growing branded presence and varied drug delivery capabilities. Mylan Pharmaceutical Inc., the generic division of the company, has a growing product portfolio consisting of more than 105 prescription products covering 33 therapeutic categories. The Company sells these products to proprietary and ethical pharmaceutical wholesalers and distributors, drug store chains, drug manufacturers and public and governmental agencies. The branded division of the Company, Bertek Pharmaceuticals Inc., markets eight proprietary products through its detail sales force. Bertek is responsible for the development and promotion of all branded products including wound care, dermatology, branded transdermal patches and solid oral medications. Mylan is a pharmaceutical company with expanding capabilities in research and development, marketing and distribution. We are exploring a full range of delivery channels for a widening range of products. We are building the company through strategic alliances, acquisitions and agreements, and we are aggressively focused on new product development. For the past 38 years our reputation has been built on integrity and on the ability to provide quality, service and prompt delivery to our customers. Mylan has become a leading player in the marketplace and it is our intention to be an even stronger presence in the future.

Bertek Branded Products

Bertek Pharmaceuticals Inc., the branded drug division of Mylan, was formed in late 1996, to market acquired and internally developed branded pharmaceuticals. The three therapeutic areas of concentration include cardiology, neurology and dermatology. The cardiology focus is built upon the Maxzide(R) franchise, and has expanded to now include Clorpres(TM) (anti-hypertensive), and Nitrek(R) (Nitroglycerin Transdermal), which are sold by Bertek's sales force to general practitioners, internists and cardiologists. Mylan has several compounds in development such as Dotarizine for migraine headaches, and Apomorphine for the on/off fluctuations associated with Parkinson's disease, that upon approval, will be key components in the area of neurology. The key driver to Mylan's presence in dermatol-ogy is Penederm, which adds three marketed dermatology products, near-term and long-term R&D opportunities and topical drug delivery technologies. Penederm is a great strategic fit for Bertek. In addition to selling the three Penederm products to dermatologists, these products are also detailed by the primary care sales force. Bertek also markets burn and wound care products via their institutional sales force and has a dedicated managed care group to service that arena. As products are added to Bertek's branded portfolio, the primary care sales force must expand. Therefore, Bertek has implemented the hiring of 25 sales reps per quarter for the primary care group until the sales force grows to approximately 250-300 reps. The Company believes a force of that size should provide the critical mass for the products currently marketed and in development.

Mylan Acquires Exclusive Rights to Zagam(R)

Mylan acquired the exclusive U.S. rights to manufacture and market Zagam(R) (Sparfloxicin) from Rhone-Poulenc Rorer in August 1998. Zagam(R) is a patent protected oral antibiotic indicated for the treatment of community-acquired pneumonia and chronic bronchitis. Bertek Pharmaceuticals Inc. launched Zagam(R) into theprimary care, institutional and managed care markets, October 23, 1998.

Penederm

Penederm Inc. specializes in the development and marketing of unique dermatology products. The current product portfolio consists of three topical prescription products Avita(R), Mentax(R) and Acticin(R). Avita(R) offers dermatologists and patients a milder formulation of retinoic acid for the treatment of acne with excellent efficacy utilizing their TopiCare Delivery Compounds(R). Avita(R) cream was launched in 1997, followed by the Avita(R) gel formulation in early 1998. Mentax(R), is a prescription topical antifungal cream for the treatment of athlete's foot (tinea pedis), groin fungus (tinea cruris) and ringworm (tinea corporis). Mentax(R) has been approved by the FDA for athlete's foot by treating twice a day for only one-we ek. This definitive one-week treatment strengthens the positioning of Mentax(R) in the antifungal market, providing a good point of differentiation from those antifungal products, which require treatment for up to four weeks. In 1998, Penederm launched Permethrin 5% cream under the Penederm brand-name Acticin(R). Acticin(R) is a topical prescription product for the treatment of scabies.

In October 1998, Mylan acquired Penederm Inc., an emerging specialty pharmaceutical company with emphasis in the field of dermatology. Penederm currently has three approved prescription products and a rich pipeline of promising products under active development utilizing their proprietary TopiCare Delivery Compounds(R).

Avita(R) is one of a new generation of topical retinoic acid treatments for acne. Avita(R) offers dermatologists and patients a mild formulation of retinoic acid with excellent efficacy. Acticin(R) is a topical application for the treatment of scabies infection. A single application of Acticin(R) applied to the entire body generally cures the scabies infection.

Penederm Technology

Penederm's pipeline represents promising near-term and long-term growth opportunities. Penederm's technology foundation offers many opportunities for new drug introduction in the future. These opportunities may include second generation Mentax(R) products in different formulations or for new indications. The Company is also making progress on two new therapies, a form of Mentax(R) for nail fungus and a vitamin D analog for psoriasis. Penederm also has active Phase II programs evaluating a Vitamin D derivative for the treatment of psoriasis and advanced retinoic acid formulations for the treatment of actinic keratosis and related indications. Mentax(R) is currently approved for three types of skin fungal infections. The fourth indication, tinea versicolor (a fungal infection characterized by irregular patches of lighter or darker pigmentation surrounding the skin), entered Phase III study in April. The protocol calls for two, 130 patient studies at ten trial sites for a 12-month duration. In addition to its approved use against skin fungal infections, Mentax(R) also has potential as a treatment for onychomycosis (nail fungus). It is estimated that 12 million people now suffer from this condition and side effects and difficulty of administration limit the only treatments currently available. It is anticipated that Penederm's current R&D efforts will not only continue, but will be expanded to include some of Mylan's research projects that have the potential to be improved by Penederm's drug delivery technology.

Mylan continues to increase its emphasis and make significant investments in research and development New product development is essential as the Company expands into the branded arena. Currently, there are four proprietary products in advanced clinical testing. Dotarizine is a novel product indicated for the prophylaxis of migraine head-aches. We have successfully completed a 429 patient, Phase II study and are presently preparing for two double blind, 800 patient Phase III efficacy trials. Phase III clinicals should begin in mid 1999, and take approximately 12 to 18 months for completion. The second compound, Sertaconazole, is a topical antifungal that was licensed from Ferrer in Barcelona, Spain. Sertaconazole is currently in advanced Phase III study with an anticipated NDA filing in calendar 1999. Apomorphine is indicated for the on/off fluctuations in late stage Parkinson's disease. The Phase II study has been completed and meetings have been held with the FDA to discuss the protocol for Phase III clinicals. The final compound in development is a wound care product for diabetic foot ulcers. This unnamed compound is a second-generation product with orphan drug status and novel delivery. The Phase II study has been completed and Phase III will consist of two parallel studies involving 400 patients each, with a projected completion of 12 to 18 months.

Cystagon(R)

Five years ago, in August of 1994, the FDA awarded Mylan Orphan Drug Approval for Cystagon(R). This novel compound is indicated for the treatment of Nephropathic Cystinosis, a very rare genetic disorder that afflicts children and adults. Prior to the advent of Cystagon(R), Cystinosis led to a progressive decline in renal function and often to end- stage renal failure. Therefore, Cystagon(R) is an important medical advance in the management of this condition. Approximately 250 patients in the United States are being treated for this disease. Due to the small patient population, Mylan utilizes Chronimed as the specialized U.S. distributor for this product.

Receiving FDA approval for Cystagon(R) was a particularly proud moment for everyone at Mylan. However, our commitment to the patients diagnosed with this devastating disease reached far beyond the U.S. to the hundreds of patients throughout the world who were in desperate need for a treatment. Through the efforts of Mylan and Orphan Europe, Cystagon(R) was the first orphan drug to be approved under the European Union Centralized System in June of 1997. Today 312 patients within the EU countries are being treated. Product is also available to patients in other European countries and the Middle East on a named patient basis.

It is estimated that approximately 355 patients are being treated with Cystagon(R) in Europe and the Middle East with the total patient population in those regions estimated to be 500-600 patients.

Mylan received FDA approval for Sulfamylon(R) Powder for 5% Topical Solution (Mafenide Acetate) June 15, 1998. Sulfamylon(R) is indicated for use as an adjunctive topical anti-microbial agent to control bacterial infection when used under moist dressing over meshed autografts on excised burn wounds.

Sulfamylon(R) is the first drug approved for this indication and it has orphan drug status. The Bertek Institutional sales force launched Sulfamylon(R) July 15, 1998, targeting 144 burn centers throughout the U.S.

Mylan, your partner in quality, the name you can trust. With American's health and well being at stake, quality must always be the primary consideration in dispensing the pharmaceutical products that bear our label. For more than 38 years, Mylan has considered quality before all else in everything we do from research and development to manufacturing and distribution. That is why our name is synonymous with quality throughout the pharmaceutical industry.

Sulfamylon

Product opportunities often require certain drug delivery or manufacturing technologies. Mylan has a network of strategic alliances that provide access to these unique technologies.

Mylan has had an ongoing product development collaboration with Penwest Ltd.; whereby the companies develop oral controlled release formulations utilizing Penwest's patented TIMERx(R) delivery technology. This collaboration covers three products: Procardia XL(R), Glucotrol XL(R) and Adalat CC(R). Mylan filed the first ANDA for 30mg. Nifedipine ER (Procardia XL(R)) utilizing TIMERx(R) in June of 1997 and received tentative approval for the product March 15, 1999. As the first company to file its application with the FDA for this product, Mylan will be entitled to 180 days of exclusivity upon product launch.

Mylan has also signed an exclusive licensing agreement with Meridian Medical Technologies, a worldwide leader in the development of auto-injector drug delivery systems. Under the agreement, Meridian will license, manufacture and supply a line of generic injectable drugs to Mylan for marketing and distribution. Meridian had submitted three product applications to the FDA for hospital use, and on March 9, 1999, the FDA approved Meridian's application for Acyclovir injection, a generic drug for the treatment of herpes and shingles. Bertek Pharmaceuticals Inc. will be responsible for the marketing of this product upon its launch.

TopiCare delivery technology delivers larger polymer molecules in the upper layers of the skin (A), while smaller molecules are deposited in the deeper layers (B). This unique system can reduce skin irritation and can enhance the duration of the medication.

Penederm, based in Foster City, California, is a drug delivery company with a market focus in dermatology. Through its proprietary TopiCare Delivery Compounds(R), Penederm develops and markets topically administered prescription dermatological products. The patented TopiCare delivery technology consists of a group of liquid polymers designed to hold skin care agents at targeted levels on and in the upper layers of the skin. These compounds have been shown to have the potential to prevent wash off by repeated contact with water, enhance the duration of action of active ingredients, reduce dosage requirements, and reduce irritation common to many dermatological medications.

Because of their efficacy, safety, flexibility and ease of development, TopiCare delivery technology can be applied to a number of compounds Mylan currently has in development, as well as Penederm's own pipeline of prescription dermatological products. This provides Mylan with proven effective technology for topical pharmaceutical delivery.

strategic alliances

Mylan Technologies Inc. is a leading manufacturer of transdermal drug delivery systems with unique state-of-the-art technologies for producing finished pharmaceutical products. Transdermal drug delivery has proven to be more effective than traditional oral delivery in certain pharmaceutical applications. It offers many advantages over existing delivery such as ease of use, improved compliance and market expansion for existing drugs. The patches developed by Mylan are smaller and more cosmetically elegant than traditional patches and since they cover less area, they can reduce common side effects such as skin irritation.

Mylan Technologies is actively involved in a variety of R&D projects utilizing transdermal drug delivery technology to provide new products for marketing by Mylan subsidiaries. The first product to be approved and marketed utilizing this unique delivery system was the Nitroglycerin Transdermal System, marketed by Mylan Pharmaceuticals, which is bioequivalent and therapeutically equivalent to Transderm Nitro(R), and also marketed by Bertek Pharmaceuticals Inc. as Nitrek(R). Mylan has applied this advanced delivery technology to other products that are currently filed with the FDA and in development.

Transdermal drug delivery, the delivery of medication into the skin or through the skin into the bloodstream has proven to be more efficacious for certain applications than traditional oral drug delivery. Transdermal Drug Delivery Systems by Mylan Technologies offers a completely integrated source from the initial concept through final manufacturing.

Prescription products dispensed in unit-dose packaging provide a distinct marketing advantage in the institutional marketplace. The UDL Laboratories division of Mylan manufactures, repackages and markets multi-source and single-source pharmaceutical products in unit-dose packaging to the institutional marketplace. UDL offers a broad range of multi-source products, more than 450 line items, including oral solid, oral liquid and injectable dosage forms, and special use packaging such as Emergi-script, Bingo, Control-A-Dose, and Robot Ready. A nine-person detail sales force, targeting more than 6000 hospitals throughout the U.S., markets the full product line.

UDL augments Mylan's generic business by not only repackaging Mylan generic products but also contracting products from other manufactures for packaging. UDL is dedicated to the development of generic liquid products. Via their specialized liquid manufacturing facility in Largo, Florida, UDL produces more than 80 liquid products for the institutional market. In June of 1998, the Company received FDA approval for Nystatin Oral Suspension which compares to Mycostatin(R) Mark Oral Suspension, and in March of 1999, the Company received approval for Albuteral Sulfate Oral Solution, which compares to Proventil(R). Presently, there are three applications filed with the FDA and an additional seven products are in various stages of development.

Extended Release

Drug delivery has become one of the fastest growing areas of the pharmaceutical industry. Branded pharmaceutical companies are using drug delivery as a means of extending patent life, differen-tiating their products and increasing market share. In today's pharmaceutical marketplace many products whose patents have expired or will expire have complicated drug delivery systems.

Mylan's growth strategy has been to target these complex "niche" opportunities. Mylan has made a commitment to complex drug formulation and manufacturing by internally developing specialized bead technologies. Mylan has the ability to formulate products with complex extended release drug delivery such as Verapamil HCl ER Capsules, which compares to Verelan(R).

Complex extended release formulations often require specialized equipment for manufacturing. Therefore, the Company has dedicated a 27,000 square foot manufacturing facility in which it houses state-of-the-art equipment such as the technical machinery that is essential to manufacture Diltiazem HCl ER Capsules, which compares to Dilacor XR(R) and Diltiazem HCl ER Capsules which compares to Cardizem SR(R).

Mylan's leadership position in the generic drug industry is strengthened by the Company's expertise in developing and commercially manufacturing extended release and delayed release generic pharmaceuticals.

To date, Mylan has introduced four compounds utilizing its extended release bead and matrix technology. Additionally, there are 12-14 compounds in various stages of development that target branded sales of approximately $7 billion.

The environment for Mylan's core generic business has never been better. Patent expirations are the catalyst driving the generic industry as a source of new product opportunities. According to industry analysts, approximately $41 billion in branded drug sales will be coming off patent throughout the next decade. Additionally, there are products valued at $7 billion that are off patent with no generic competition.

MylanPharmaceuticals consistently ranked #1 in the number of new and refilled prescriptions dispensed among all pharmaceutical companies, brand or generic as tracked by the 1998 IMS National Prescription Audit.

Strategic Alliances

Mylan has been actively seeking strategic alliances to expand its product line and geographic reach in the market place. In January the company reached an agreement with Genpharm Inc. of Canada, whereby the companies will co-develop and Mylan will exclusively market and distribute in the U.S. certain products Genpharm has in research. The agreement includes 15 branded and generic products in a variety of dosage forms, including immediate release tablets and capsules, injectables, controlled and sustained release tablets, nasal sprays and sublingual sprays. The first product submission has been filed and additional filings are anticipated to occur in the near future. This agreement furthers a strategy of Mylan's which is to have products that cover niche areas in the marketplace.

Mylan's agreement with Draxis Pharmaceutial of Canada provides the framework for an ongoing collaboration under which Draxis will introduce certain Mylan products in Canada. Draxis has two appli-cations filed in Canada based on this alliance. Mylan's alliance with Draxis will enable the Company to expand the geographic reach of its products into Canada and share the profits from these Canadian sales without the investments that would otherwise be required to enter the Canadian market.

Two new generic products now carry the Mylan label via an exclusive licensing agreement with 3M Pharmaceuticals, Orphenadrine Citrate ER Tablets and Orphenadrine Citrate, Aspirin and Caffeine Tablets. Orphenadrine Citrate ER is therapeutically equivalent to Norflex(TM), and is used as a skeletal muscle relaxant, as is Orphenadrine Citrate, Aspirin and Caffeine Tablets, which is therapeutically equivalent to Norgesic(TM) and Norgesic(TM) Forte.

Looking to the future As we approach the 21st century, greater emphasis is placed on our innovator products and drug delivery capabilities as a source of growth. However, it has been our commitment to quality, reliability and innovation that has made us a market leader in generic pharmaceuticals in the 20th century. Therefore, we are not looking to the future without regard to our past. Mylan is a market leader and remains dedicated to being a market leader in the generic drug industry.

The Business of Approvals

New product introductions are a key ingredient to sustain above average sales and earnings growth in the generic pharmaceutical industry. Therefore, Mylan has been aggressively researching and developing compounds to ensure a steady stream of approvals. Over the past three years Mylan has received approval for 26 generic products. In fiscal 1999, Mylan submitted 18 ANDAs to the FDA and received final approval for eleven products, Clomipramine HCl, Hydroxychloroquine Sulfate, Sulfamylon(R) for 5% Topical Solution, Nystatin Oral Suspension, Glyburide, Ranitidine, Acyclovir, Clonazepam, Etodolac 500 mg., Albuteral Sulfate Syrup and Extended Phenytoin Sodium. Additionally, Mylan received tentative approval for Terazosin HCl, Buspirone, Astemizole, Fluoxetine, Verapamil HCl ER, Carbidopa & Levodopa ER and Nifedipine ER 30 mg.

Presently the Company has 35 ANDAs filed with the FDA targeting combined branded sales of $9-$10 billion. Eight of these are tentatively approved and will be launched upon the settlement of legal issues with the original NDA holders or upon their patent expirations. Twenty additional applications have been targeted for FDA filing in calendar 1999, with combined branded sales of approximately $6 billion.

Mylan Pharmaceuticals Inc. Generic Product Line

Generic Name	Trade Name
Analgesic	
Indomethacin	Indocin (R)
Propoxyphene Compound	Darvon (R)
Compound-65	
Propoxyphene HCl	Darvon (R)
Propoxyphene HCl & Acetaminophen	Wygesic (R)
Propoxyphene Napsylate & Acetaminophen	Darvocet-N (R) 100
Anti-Inflammatory	
Etodolac (Capsules)	Lodine (R)
Etodolac	Lodine (R)
Fenoprofen Calcium	Nalfon (R)
Flurbiprofen	Ansaid (R)
Ibuprofen	Motrin (R)
	Rufen (R)
Ketoprofen	Orudis (R)
Ketorolac Tromethamine	Toradol (R)
Meclofenamate Sodium	Meclomen (R)
Naproxen	Naprosyn (R)
Naproxen Sodium	Anaprox (R)
Piroxicam	Feldene (R)
Sulindac	Clinoril (R)
Tolmetin Sodium	Tolectin (R) DS
Tolmetin Sodium	Tolectin (R) 600
Anti-malarial	
*Hydroxychloroquine Sulfate	Plaquenil (R)
Anti-obsessional	
*Clomipramine HCI	Anafranil(R)
Antiangina	
Atenolol	Tenormin (R)
Nadolol	Corgard (R)
Nitroglycerin Transdermal System(Patches)	Transderm Nitro (R)
Verapamil HCl	Isoptin (R)
Antianxiety	
Alprazolam	Xanax (R)
Diazepam	Valium (R)
Lorazepam	Ativan (R)
Perphenazine & Amitriptyline HCl	Triavil (R)
Antianxiety/antipsychotic	
Trifluoperazine HCl	Stelazine (R)
Antibacterial Agent	
Nitrofurantoin	Macrodanti (R)
Antibiotic	
Cefaclor	Ceclor (R)
Cefaclor (Oral Suspension)	Ceclor (R)
Cephalexin	Keflex (R)
Doxycycline Hyclate	Vibramycin (R)
Doxycycline Hyclate	Vibra-tabs (R)
Erythromycin Ethylsuccinate	E.E.S. 400 (R)
Erythromycin Stearate	Erythrocin (R) Stearate
Tetracycline HCl	Achromycin V (R)
	Sumycin (R)

Generic Name	Trade Name
Anticonvulsant	
*Clonazepam	Klonopin (R)
* Extended Phenytoin Sodium	Dilantin (R)
	Kapseals (R)
Antidepressant	
Amitriptyline HCl	Elavil (R)
Chlordiazepoxide & Amitriptyline HCl	Limbitrol (R)
Doxepin HCl	Sinequan (R)
Maprotiline HCl	Ludiomil (R)
Nortriptyline HCl	Pamelo (R)
Antidiabetic	
Chlorpropamide	Diabinese (R)
Glipizide	Glucotrol (R)
*Glyburide	Glynase (R)
	Pres-Tab (R)
Tolazamide	Tolinase (R)
Tolbutamide	Orinase (R)
Antidiarrheal	

Diphenoxylate HCl & Atropine Sulfate	Lomotil (R)
Loperamide HCl	Imodium (R)
Antiemetic	
Prochlorperazine Maleate	Compazine (R)
Antigout	
Allopurinol	Zyloprim (R)
Antihypertensive	
Amiloride HCl & Hydrochlorothiazide	Moduretic (R)
Captopril	Capoten (R)
Captopril and Hydrochlorothiazide	Capozide (R)
Clonidine	Catapres (R)
Guanfacine HCl	Tenex (R)
Indapamide	Lozol (R)
Methyldopa	Aldomet (R)
Methyldopa & Hydrochlorothiazide	Aldoril (R)
Metoprolol Tartrate	Lopressor (R)
Prazosin HCl	Minipress (R)
Propranolol HCl	Inderal (R)
Propranolol HCl & Hydrochlorothiazide	Inderide (R)
Triamterene and Hydrochlorothiazide	Dyazide (R)
Triamterene and Hydrochlorothiazide	MAXZIDE (R)-25MG MAXZIDE (R)
Antilipemic	
Gemfibrozil	Lopid (R)
Antineoplastic	
Methotrexate	Methotrexate (R) Rheumatrex (R)
Antipsychotic	
Fluphenazine HCl	Prolixin (R)
Haloperidol	Haldol (R)
Thioridazine HCl	Mellaril (R)
Thiothixene	Navane (R)
Antiviral	
Acyclovir (Capsules)	Zovirax (R)
*Acyclovir	Zovirax (R)

Generic Name	Trade Name
Anxiolytic	
Clorazepate Dipotassium	Tranxene (R)
Beta Blocker	
Acebutolol HCl	Sectral (R)
Pindolol	Visken (R)
Timolol Maleate	Blocadren (R)
Beta Blocker with Diuretic	
Atenolol and Chlorthalidone	Tenoretic (R)
Bronchial Dilator	
Albuterol	Proventil (R) Ventolin (R)
Calcium Channel Blocker	
Diltiazem HCl	Cardizem (R)
Diltiazem HCl ER	Cardizem SR (R)
Diltiazem HCl ER	Dilacor XR (R)
Nicardipine	Cardene (R)
Verapamil HCl ER	Isoptin (R) SR
Diuretic	
Bumetanide	Bumex (R)
Chlorothiazide	Diuril (R)
Chlorthalidone	Hygroton (R)
Furosemide	Lasix (R)
Methyclothiazide	Enduron (R)
Spironolactone	Aldactone (R)
Spironolactone & Hydrochlorothiazide	Aldactazide (R)
H2 Antagonist	
Cimetidine	Tagamet (R)
Ranitidine HCl	Zantac (R)
Hemorrheologic Agent	
Pentoxifylline ER	Trental (R)
Hypnotic Agent	
Flurazepam HCl	Dalmane (R)
Temazepam	Restoril (R)

Laxative	
Lactulose Solution	Chronulac (R)
Muscle Relaxant	
Cyclobenzaprine HCl	Flexeril (R)
*Orphenadrine Citrate ER	Norflex TM
Skeletal Muscle Relaxant	
*Orphenadrine Citrate,Aspirin and Caffeine	Norgesi TM Norgesic TM Forte
Uricosuric	
Probenecid	Benemid (R)

* Indicates fiscal 1999 introduction

Selected Financial Data

Mylan Laboratories Inc.

Year ended March 31,	1999	1998	1997	1996	1995	1994	1993	1992
Total revenues	$721,123	$555,423	$440,192	$392,860	$396,120	$251,773	$211,964	$ 131,936
Net earnings	$115,409	$100,777	$ 63,127	$102,325	$120,869	$ 73,067	$ 70,621	$ 40,114
Earnings per common share-basic	$ .92	$ .83	$ .52	$ .86	$ 1.02	$ .62	$ .61	$ .35
Earnings per common share-diluted	$ .91	$ .82	$ .51	$ .85	$ 1.01	$ .61	$ .60	$ .35
Shares used in computation-basic	125,584	122,094	121,926	119,530	118,963	118,423	115,651	114,726
Shares used in computation-diluted	127,156	123,043	122,727	120,706	119,912	119,502	116,986	115,927
At year end								
Working capital	$486,598	$379,726	$323,942	$351,536	$296,990	$197,164	$159,748	$ 106,222
Total assets	$1,206,661	$847,753	$777,580	$692,009	$546,201	$403,325	$351,105	$ 226,720
Long-term obligations	$ 26,827	$ 26,218	$ 32,593	$ 18,002	$ 7,122	$ 4,609	$ 5,125	$ 3,600
Shareholders' equity	$1,059,905	$744,465	$659,740	$616,441	$482,728	$379,969	$295,972	$ 203,452
Book value per share-diluted	$ 8.34	$ 6.05	$ 5.38	$ 5.11	$ 4.03	$ 3.18	$ 2.53	$ 1.76

Numbers in thousands except per share amounts.

From June 1990 through July 1992 the Company had a quarterly dividend program totaling $.067 per share per year. From October 1992 to July 1993 the Company had a quarterly dividend program totaling $.08 per share per year. From October 1993 to July 1994 the Company had a quarterly dividend program totaling $.107 per share per year. From October 1994 to July 1995 the Company had a quarterly dividend program totaling $.133 per share per year. Since October 1995 the Company has had a quarterly dividend program totaling $.16 per share per year. In addition, the Company paid a special one-time dividend of $.067 per share on January 13, 1995. The above financial data gives retroactive effect to the two-for-one stock split effective August 1, 1992 and the three-for-two stock split effective August 15, 1995.

Overview

Mylan Laboratories Inc. ("the Company" or "Mylan") recorded net earnings of $115.4 million for the year ended March 31, 1999, despite recording $29.0 million in charges for acquired in-process research and development during the year. This represents a 14% increase over net earnings for fiscal 1998 of $100.8 million. Fiscal 1997 net earnings were $63.1 million.

The favorable results of the past two years are indicative of both the contin-uing evolution of the Company marked by the expansion of the Company's branded presence and the Company's historical leading role in the generic pharmaceutical industry.

Historically, earnings from new generic product approvals and increased generic volume more than offset the loss in net earnings resulting from price deterioration in the generic market. Beginning in fiscal 1996, however, an increasingly difficult regulatory environment was compounded by a new wave of patent litigation by branded pharmaceutical companies under the Drug Price Competition and Patent Term Restoration Act of 1984 (the "Hatch-Waxman Act"). These two factors significantly increased the cost of bringing new generic products to market and have in many cases diminished the eventual commercial success of new products by delaying their introduction.

Against this backdrop, the Company decided to accelerate its planned expansion into the branded markets to meet long-term corporate objectives. Additionally, despite a promising pipeline of products in development, management determined the Company would need to further investigate innovative strategic alliances aimed at expanding both its branded and generic product lines.

Accordingly, the Company entered into several strategic alliance relationships in the past two years, some of which resulted in the introduction of new generic products, including Ranitidine in fiscal 1998 and Orphenadrine Citrate ER in fiscal 1999, and some of which have broadened the Company's growing pipeline of products pending FDA approval. In addition, the Company's acquisition of Penederm Inc. in October of 1998, significantly broadened the Company's branded capabilities in terms of sales force, existing product line and branded product pipeline.

In addition to the uncertainty of new product approvals, price deterioration during fiscal 1996 and 1997 was more severe than at any other time in the Company's history. The Company estimates that price deterioration in the generic industry reduced net earnings by approximately $55 million in fiscal 1996 and $75 million in fiscal 1997. Accordingly, the Company recognized that action, in addition to the above mentioned efforts, needed to be considered. After an extensive evaluation of its operations, the Company determined that changes in Mylan's generic pricing practices were in order.

In the second half of fiscal 1998, the Company raised prices on seven generic products. During fiscal 1999, the Company raised prices on 22 additional products. The Company estimates that the price increases accounted for $25 million of the increase in net earnings from fiscal 1997 to fiscal 1998 and $71 million of the increase in net earnings from fiscal 1998 to fiscal 1999.

In December 1998, actions were commenced by the Federal Trade Commission ("FTC") in connection with two products, Clorazepate and Lorazepam, each of which were included in the Company's fiscal 1998 price increases. At issue in the FTC litigation are contracts executed in 1997 between the Company and its raw material supplier for these products. The FTC claims that the exclusivity provisions of these contracts violate antitrust laws. These exclusivity provisions have been rescinded.

The two products under FTC investigation combined for approximately 9% of the Company's consolidated net sales in fiscal 1998 and 21% in fiscal 1999. Since June 1998, the Company has seen price deterioration on both of these

products and expects to see continued price deterioration in the future. Additionally, the Company has been informed that significantly higher prices will be charged by the supplier for future purchases of the raw materials. Accordingly, the Company expects that net sales and resulting gross margin for these products in the fiscal year ending March 31, 2000 will be less than that recognized in the fiscal year ended March 31, 1999. See "Forward Looking Statements."

The Company intends to continue to work closely with its customers and suppliers to ensure that Mylan's full line of generic products continues to be available to the American public as a cost effective alternative to the innovator products.

Results of Operations

Net Sales and Gross Margin

The following table outlines net sales, gross margin (net sales less cost of sales) and the corresponding change from the previous year:(dollars in millions)

Year ended	Net Sales		Gross Margin		Gross Margin
March 31,	Dollars	Change	Dollars	Change	as % of Sales
1999	$721.1	36%	$384.3	60%	53%
1998	528.6	20%	240.3	33%	45%
1997	440.2	12%	180.5	-8%	41%

Generic products represented 88% of consolidated net sales in fiscal 1999, 90% in fiscal 1998 and 87% in fiscal 1997. Accordingly, the changes in net sales, gross margin and gross margin as a percent of net sales are primarily indicative of the highly competitive nature of the generic pharmaceutical industry, the Company's history of obtaining new product approvals and the impact of price increases and strategic alliances on certain products.

With regard to the Company's generic product line, nine products were added in fiscal 1997 accounting for $34.1 million in net sales in fiscal 1997 and 13 products were added in fiscal 1998 with aggregate net sales of $61.5 million in fiscal 1998. In fiscal 1999 the Company added nine products with aggregate net sales of $37.1 million. Included in the fiscal 1999 new products is Glyburide, a product for which the Company had received an approval from the FDA and begun marketing in fiscal 1997, but was required to suspend commercial shipments pending the outcome of certain patent related issues.

Two of the fiscal 1998 new products, Ranitidine and Acyclovir, and two of the fiscal 1999 new products, Orphenidrine Citrate ER and Orphenadrine Citrate, Aspirin and Caffeine, are manufactured by other companies and distributed by the Company under distribution arrangements. Under the terms of the distribution arrangement on Ranitidine, the Company, in 1998, recognized $26.8 million recorded under the caption "Other revenues" (See note N to the consolidated financial statements).

The Company estimates that price deterioration in the generic industry resulted in reductions in net sales and gross margins of approximately $104 million in fiscal 1997, $32 million in fiscal 1998 and $39 million in fiscal 1999. Selective price increases increased net sales by $47 million and gross margins by $37 million in fiscal 1998 and increased net sales by $130 million and gross margins by $109 million in fiscal 1999.

As described under "Overview," the Company has experienced price deterioration on certain significant generic products on which it increased prices and anticipates that it will experience further price deterioration on these and other products in the future. Accordingly, net sales and gross margin percentages realized in fiscal 1999 are not necessarily indicative of future results.

Total unit volume of generic product shipments, excluding unit dose shipments, increased by 18% in fiscal 1997, 8% in fiscal 1998 and 10% in fiscal 1999. The higher levels of volume create manufacturing efficiencies which were realized in each of the three past fiscal years.

Net sales for the Company's branded segment declined from fiscal 1997 to fiscal 1998 as a result of a realignment of the sales force effort away from the institutional wound care products which have seen continual price deterioration and towards physician based products including MAXZIDERegistration Mark, NITREKRegistration Mark and ClorpresTM. These efforts, coupled with the addition of ZagamRegistration Mark and SulfamylonRegistration Mark Powder provided for a 25% increase in net sales and gross profit in fiscal 1999 for the Company's Bertek Pharmaceuticals Inc. Division.

Continued growth in the branded segment is a primary objective for the Company. Accordingly, on October 2, 1998, the Company completed its acquisition of Penederm Inc. a Foster City, California corporation which develops and markets patented topical prescription products. Sales of Penederm products during the six months post acquisition were approximately $17 million. The Company has begun to combine the marketing efforts of the Penederm and Bertek sales forces and anticipates continued improvements in the branded segment throughout fiscal 2000. The Company also plans to continue to examine external growth opportunities in the branded arena as internal research and development projects for branded products continue on their paths towards commercialization.

Research and Development

Research and development expenditures were $61.8 million in fiscal 1999, $46.3 million in fiscal 1998 and $42.6 million in fiscal 1997. These amounts represent approximately 9% of net sales in fiscal 1999 and 1998 and 10% in fiscal 1997.

The following table outlines the approximate allocation of research and development expenditures: (dollars in millions)

Year ended March 31,	1999	1998	1997
Generic related projects	$25.7	$22.0	$20.5
Innovative compound projects	29.2	18.4	16.1
Transdermal patch related	6.9	5.9	6.0

During fiscal 1999, the Company entered into an agreement with Genpharm Inc. to co-develop 15 branded and generic products. Charges related to this agreement have been allocated evenly to generic and innovative compound projects. This expenditure represents a majority of the increase in generic related expenditures.

In addition to half of the charges relating to the Genpharm agreement, fiscal 1999 expenditures for innovative compound projects include $2.8 million of expenditures incurred by Penederm subsequent to the date of acquisition and approximately $10.0 million in accrued funding obligations resulting from an arbitration award relating to VivoRx (see note S to the consolidated financial statements). Charges related to the Company's funding of VivoRx in fiscal 1998 were $6.3 million and in fiscal 1997 were $7.8 million.

Under the terms of the arbitration award, the Company has elected to terminate the licensing arrangement with VivoRx, and will be entitled to recover approximately $18.0 million from VivoRx through five annual installment payments commencing in October 2000.

Acquired In-Process Research and Development
In connection with its acquisition of Penederm Inc. in October 1998, the Company allocated $29.0 million of the purchase price to in-process research and development. (See note B to the consolidated financial statements.)

Selling and Administrative
Selling and administrative expenses were $125.0 million in fiscal 1999, $96.7 million in fiscal 1998 and $79.9 million in fiscal 1997. These amounts represent 17% of net sales in fiscal 1999 and 18% of net sales for both fiscal 1998 and fiscal 1997.

The following table identifies the major components of selling and adminis-trative expenses: (dollars in millions)

Year ended March 31,	1999	1998	1997
Sales and Marketing Expenses:			
Generic:			
Payroll and related	$4.9	$4.5	$4.3
Advertising and promotions	12.7	16.3	3.2
Branded:			
Payroll and related	12.8	9.4	8.0
Advertising and promotions	9.2	4.7	3.0
Other sales and marketing	9.9	8.4	9.2
Total Sales and Marketing Expenses	$49.5	$43.3	$27.7
Administrative Expenses:			
Payroll and related	$27.5	$21.9	$19.0
Legal and professional fees	22.2	12.0	6.8
Goodwill amortization	4.0	1.6	1.6
Other administrative	21.8	17.9	24.8
Total Administrative Expenses	$75.5	$53.4	$52.2

The significant change in generic advertising and promotions from fiscal 1997 to fiscal 1998 relates primarily to costs associated with the launch of new generic products including Ranitidine. Such costs included payments of stocking fees to customers to assist in the conversion and promotion of the new generic products. Similar programs of lesser magnitude were provided in fiscal 1999. In prior years such costs were insignificant.

The majority of the increases in branded and other sales and marketing expenses from fiscal 1998 to fiscal 1999 relate to Penederm, which incurred $6.9 million of expenses in the second half of fiscal 1999.

Administrative payroll and related expenses increased from fiscal 1998 to fiscal 1999 primarily as a result of expansion of corporate infrastructure and from the addition of Penederm.

Legal and professional fees relating to patent issues were approximately $6.0 million in fiscal 1999, $7.2 million in fiscal 1998 and $1.7 million in fiscal 1997. The significant increase in total legal and professional fees from fiscal 1998 to fiscal 1999 is related principally to antitrust matters and the VivoRx litigation.

Equity in Earnings of Somerset
Equity in earnings of Somerset was $5.5 million in fiscal 1999, $10.3 million in fiscal 1998 and $18.8 million in fiscal 1997. Somerset's contribution to the Company's net earnings per share was $.04 in fiscal 1999, $.07 in fiscal 1998 and $.14 in fiscal 1997.

Somerset continues research efforts to discover alternative indications for EldeprylRegistration Mark and the development of other compounds. Unless such new indications or compounds are approved for commercialization the impact of generic competition will continue to adversely affect Somerset's contribution to the Company's net earnings.

Other Income

Other income was $18.3 million in fiscal 1999, $14.0 million in fiscal 1998 and $10.4 million in fiscal 1997. These amounts are derived principally from investment earnings and gains and losses on the sale of fixed assets net of estimated provisions (approximating $12.5 million and $2.5 million in 1999 and 1998 respectively) for adjustments to the carrying value of Other assets, principally related to investments in strategic alliances and non-publicly traded companies, including VivoRx.

Income Taxes

The effective tax rate for fiscal 1999 was 40% compared to 32% in fiscal 1998 and 28% in fiscal 1997. Approximately 5% of the fiscal 1999 rate is a result of the $29 million charge for acquired in-process research and development which is not deductible for tax purposes. The remainder of the increase in both fiscal 1999 and fiscal 1998 is attributable to increased domestic taxable income subject to full federal and state taxation.

During fiscal 1998, the Company reached a negotiated settlement with the Internal Revenue Service regarding audits of the Company's income tax returns for the years 1992 through 1996. As part of the settlement, the Company agreed to change the method employed for determining taxable income of its Puerto Rican operations from the cost sharing method to the profit-split method for all years after 1996.

Changes in the Federal Tax Code enacted in 1993 reduced tax credits previously available for operating in Puerto Rico by 50% in fiscal 1997, 55% in fiscal 1998 and 60% in fiscal 1999. Under current tax law, the amount of income subject to the Puerto Rican tax credit will be limited for a period of seven years before complete termination of the credits.

Liquidity and Capital Resources

In fiscal 1999, the Company surpassed the billion-dollar plateau in total assets and shareholders' equity. Total assets are $1,206.7 million at March 31, 1999 compared to $847.8 million at March 31, 1998. Working capital increased from $379.7 million in 1998 to $486.6 million in 1999 and the ratio of current assets to current liabilities decreased from 6.3 to 1 to 6.0 to 1.

Net cash provided from operating activities was $163.4 million in 1999, $52.7 million in 1998 and $46.5 million in 1997. The primary reasons for the increase in 1999 were improved operating results and inventory management. Other contributing factors were the timing of tax payments and collection of accounts receivable. The increase in operating cash flows also out paced net earnings growth in 1999 as a result of higher non-cash expense items, including the increase in allowances on accounts receivable and acquired in-process research and development.

The Company completed several major capital projects in 1999 that were started in prior years while continuing to expand its facilities in Morgantown, West Virginia. The Company's net investment in property, plant and equipment was $16.7 million in 1999, $28.9 million in 1998 and $26.9 million in 1997. The expansion at the Morgantown location includes additional manufacturing capacity and a sales and administrative building. All capital expenditures have been made with the general funds of the Company and without any bank financing.

In 1999, the Company implemented cash management initiatives by investing more funds into marketable securities, accounting for the increase in cash used for investing activities. Generally these funds are invested in short-term government and corporate securities.

Payments on long-term obligations include obligations assumed in connection with the acquisition of UDL and installment payments made on certain product acquisitions. The Company paid cash dividends of $.16 per share in 1999, 1998 and 1997 totaling $58.8 million.

The Company's current cash position will not necessarily be indicative of its position in future periods. As described under "Overview," the Company has experienced price deterioration on certain significant generic equivalent products on which it increased prices and anticipates that it will experience further price deterioration on these and other products in the future, which could impact future cash flows. In addition, the Company expects to incur significant legal fees and costs in defending against the various lawsuits referenced under "Overview" and described under Item 3 of the Company's Annual Report on Form 10-K for the year ended March 31, 1999, which could also impact future cash flows. See also "Forward Looking Statements."

Year 2000

The Company has completed a review of its critical information technology ("IT") and non-IT operating systems for Year 2000 ("Y2K") compliance. Y2K compliance refers to the issue of systems and equipment having date sensitive components being able to recognize the year 2000. On the basis of this review and the processes described below, management believes that the costs of remediation and potential losses related to Y2K issues are unlikely to have a material effect on the Company's financial position, results of operations or cash flows.

In assessing potential Y2K issues, the Company has taken or is taking the following steps to address its IT and non-IT operating systems:

- -Formed a project team across functional departments to complete a review and identify nonconforming systems.
- -Communicated to employees throughout the Company to increase awareness of issues and activate the identification process.
- -Identified critical IT and non-IT nonconforming operating systems and developed a plan to bring these systems into compliance.
- -Established a testing program to ensure that such systems are compliant.
- -Corresponded with customers, vendors, service suppliers and financial institutions to verify their readiness.
- -Developed contingency plans where practical in the event of system failures.

Because of the continued growth of the Company over the last several years and prior to the formation of the project team, the Company initiated major system conversions to accommodate the physical expansion and increased transaction volume associated with this growth. Many factors were considered during the selection process. While Y2K compliance was one of the factors considered, other factors were equally and significantly more important. Any new systems selected were expected to be and are believed to be Y2K compliant.

The Company has recently completed the system conversions for all major operating and financial systems. All such systems have been certified by the vendor to be Y2K compliant. The Company has substantially completed its own testing on these systems and verified their Y2K compliance.

Due to the recent independent upgrades and replacements of its computer systems to accommodate its growth, the Company has not been required to spend, nor does it anticipate spending, significant incremental funds to become Y2K compliant. The funds for system conversions have been financed through operating revenue of the Company. The Company has neither delayed, nor anticipates delaying, any significant information system projects prior to the year 2000.

The project team continues to evaluate and update contingency plans. These plans are developed based on correspondence with customers, vendors, raw material suppliers, service suppliers and financial institutions regarding the status of their Y2K readiness and the results of testing performed on the Company's internal systems. With the testing of the Company's own systems substantially complete, more emphasis will be placed on obtaining and verifying third party responses. Contingency plans will evolve and change with each favorable or unfavorable response. As part of this process and due to the critical nature of the Company's products, the Company has also initiated steps to monitor customers' orders and buying patterns. The Company has taken these steps to ensure the availability of its products to all its customers as the millennium approaches.

While the project team continues to develop contingency plans for the more likely scenarios of possible business interruptions, there can be no assurance that the project team will identify and develop successful contingency plans for all of the business interruptions that could possibly occur.

Management believes that the Company has acted with appropriate diligence to address potential Y2K issues. The Company is, however, dependent on third parties, such as its customers, vendors, raw material suppliers, service suppliers which include energy, water, communication and transportation and financial institutions, to make their own systems Y2K compliant. If these entities fail to remedy their Y2K issues, the Company could potentially suffer interruptions in its business operations. These interruptions could potentially delay the Company in its manufacturing or distribution of some or all its products for an undeterminable amount of time. In addition, the Company could experience the corruption of data in its own internal information systems. Such corruption could lead to temporary interruptions in certain isolated business operations. These interruptions may or may not lead to an adverse impact on the Company's overall business operations.

Other Matters

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). This statement is effective for fiscal years beginning after June 15, 2000. The Company is currently evaluating the impact that SFAS No. 133 will have on its financial position and results of operations.

Market Risk

The Company is exposed to market risk primarily from changes in market values on its investments in marketable debt and equity securities, including marketable securities owned indirectly through certain pooled asset funds. Market prices on debt securities generally bear an inverse relationship to changes in interest rates. The Company also invests in overnight deposits and money market funds and marketable securities with maturities of less than three months. These instruments are classified as cash or cash equivalents for financial reporting purposes and have minimal or no interest rate risk. The Company also invests in non-public securities, often in consideration of its strategic interests. The Company does not consider these investments to be market risk sensitive.

The Company attempts to mitigate its exposure to market risk by assessing the relative proportion of its investments in cash and cash equivalents and the relatively stable and risk minimized returns available on such investments with the risks attendant to its investments in debt and equity securities. The Company's objective in managing its exposure to changes in the market value of its investments in debt and equity securities is to balance the risk of the impact of such changes on earnings and cash flows with the Company's expectations for investment returns. The Company's pooled asset funds and certain of its other investments in debt and equity securities are managed by professional portfolio managers. The Company was not a party to any forward or derivative option contract related to interest rates or equity security prices during fiscal 1999.

The fair market value of the debt securities held by the Company at March 31, 1999 was $60.2 million, of which $42.4 million had maturities of less than one year (the market values of which are generally less sensitive to interest rate fluctuations than is the case with longer term debt instruments). The fair market value of the equity securities held by the Company at March 31, 1999 was $48.9 million. Such investments collectively represent 9% of the Company's total assets as of March 31, 1999 and 36% of the aggregate value of debt and equity securities and cash and cash equivalents held by the Company at such date. Assuming an instantaneous 10% decrease in the market values of the Company's debt and equity securities, the change in the aggregate fair market value of these securities would be $10.9 million.

Forward Looking Statements

Various statements in this Report state or suggest that the Company expects to increase revenues and to continue to be profitable in the future by employing various strategies which include continuing to seek, among other things, to introduce new lines of generic equivalent products, to enter into alliances with other

manufacturers, to strengthen the development of branded products and to increase prices on select generic equivalent products in its line. These are forward-looking statements. The Company's actual results could differ materially from those projected or suggested in any forward-looking statement due to various important factors, including, but not limited to, the following:

The Company's results of operations depend to a significant extent on its ability to develop and bring to market new generic equivalent products. Generally, following the expiration of patents and other FDA exclusivity periods, the first manufacturers to bring a generic equivalent to the market achieve higher revenues and gross profits than competitors that subsequently enter the market. As competing products enter the market, prices, sales volume and profit margins of the first generic equivalents decline significantly. Furthermore, since 1997, the Company has increased prices on selected older generic equivalent products, including in some cases generic equivalents which were largely abandoned by competitors, which has encouraged other generic manufacturers to reenter the market. These conditions have also resulted or are expected to result in price deterioration on these products.

In addition to suffering price deterioration on its generic equivalent products generally, the Company's results of operation for fiscal 1999 continued to be impacted by delays in its ability to introduce new generic equivalent products due to litigation initiated by branded manufacturers under the Hatch-Waxman Act to extend the exclusivity periods of drugs on which patents were expiring. The failure of Congress or the courts to address the present abuses of the Hatch-Waxman Act could diminish the comme rcial success of new products introduced by the Company, resulting in both lower revenues and gross margins.

The Company is seeking to strengthen its development of branded products. Obtaining approval from the FDA to market new (branded) pharmaceutical products in the United States is a lengthy, complex and expensive process. Products which appear promising in the research laboratories may fail to survive the testing phase due to ineffectiveness or as a result of unforeseen side effects. Even if the Company is successful in obtaining approval for new products, no assurance can be given that such products will be accepted in the medical community as being as effective as alternative forms of treatment for indicated conditions.

The Company's principal customers include wholesale drug distributors and major drug store chains. A continuation of the consolidation, which has been experienced in these pharmaceutical distribution networks in recent years, is likely to result in an increase in pricing pressures on pharmaceutical manufacturers.

As described under Item 3 of the Company's Annual Report on Form 10-K for the year ended March 31, 1999, the Company is involved in numerous lawsuits, including anti-trust and anti-competition litigation brought by the Federal Trade Commission, the Attorneys General for 33 states and numerous private litigants, as well as a class action lawsuit alleging that the Company violated federal securities laws by failing to disclose the alleged monopolization of certain raw materials used to manufacture drugs. An unfavorable outcome in these suits could have a potentially adverse effect on the Company's financial position and results of operation or, in certain circumstances, the manner in which the Company is permitted to conduct its future operations.

The statements under "Year 2000" of "Management's Discussion and Analysis of Financial Condition and Results of Operations" which express the Company's belief that Y2K problems will not have a material adverse effect on the Company may also be forward-looking statements. Factors which could cause the Company to be unable to avoid any material Y2K problems include the failure of its Y2K project team to identify latent or other non-compliant codes or technologies, the failure of any of the customers, vendors, service suppliers or financial institutions with which the Company deals to address their own Y2K problems or the ineffectiveness of any contingency plans put in place by the Company to mitigate the effects of interruptions in its businesses due to Y2K problems.

See also the discussion of the Company's business, including the regulatory environment, customers, markets and competitive conditions included in Item 1 of the Company's Annual Report on Form 10-K for the year ended March 31, 1999.

Consolidated Balance Sheets

Mylan Laboratories Inc.

(dollars in thousands except per share data) March 31	1999	1998
Assets		
Current assets		
Cash and cash equivalents	$ 189,849	$ 103,756
Marketable securities	69,872	41,941
Accounts receivable	148,896	136,864
Inventories	136,493	146,041
Deferred income tax benefit	18,199	7,845
Prepaid and refundable income taxes	88	7,946
Other current assets	19,562	6,679
Total current assets	582,959	451,072
Property, plant and equipment - net of accumulated depreciation	154,636	151,412
Intangible assets - net of accumulated amortization	336,003	128,745
Other assets	98,949	86,803
Investment in and advances to Somerset	34,114	29,721
Total assets	$ 1,206,661	$ 847,753

See notes to consolidated financial statements.

Consolidated Balance Sheets

Mylan Laboratories Inc.

(dollars in thousands except per share data)

March 31,	1999	1998
Liabilities and shareholders' equity		
Current liabilities		
Trade accounts payable	$ 12,142	$ 15,957
Current portion of long-term obligations	16,941	8,477
Income taxes payable	821	5,377
Other current liabilities	61,279	36,635
Cash dividend payable	5,178	4,900
Total current liabilities	96,361	71,346
Long-term obligations	26,827	26,218
Deferred income tax liability	23,568	5,724
Shareholders' equity		
Preferred stock, par value $.50 per share, authorized 5,000,000 shares, issued and outstanding - none	-	-
Common stock, par value $.50 per share, authorized 300,000,000 shares, issued 129,968,514 at March 31, 1999 and 123,050,172 at March 31, 1998	64,984	61,525
Additional paid-in capital	311,995	92,405
Retained earnings	690,003	594,847
Accumulated other comprehensive earnings	1,105	1,570
	1,068,087	750,347
Less treasury stock at cost - 888,578 shares at March 31, 1999 and 849,858 shares at March 31, 1998	8,182	5,882
Total shareholders' equity	1,059,905	744,465
Total liabilities and shareholders' equity	$ 1,206,661	$ 847,753

Consolidated Statements of Earnings

Mylan Laboratories Inc.

(dollars in thousands except per share data) Year ended March 31,	1999	1998	1997
Net sales	$721,123	$ 528,601	$440,192
Other revenues	-	26,822	-
Total revenues	721,123	555,423	440,192
Cost and expenses			
Cost of sales	336,846	288,290	259,666
Research and development	61,843	46,278	42,633
Acquired in-process research and development	29,000	-	-
Selling and administrative	124,964	96,708	79,948
	552,653	431,276	382,247
Equity in earnings of Somerset	5,482	10,282	18,342
Other Income	18,342	13,960	10,436
Earnings before income taxes	192,294	148,389	87,195
Income taxes	76,885	47,612	24,068
Net earnings	$115,409	$ 100,777	$63,127
Earnings per common share			
Basic	$ .92	$ .83	$ .52
Diluted	$ .91	$ .82	$ .51
Weighted average common shares outstanding			
Basic	125,584,000	122,094,000	121,926,000
Diluted	127,156,000	123,043,000	122,727,000

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Earnings

Mylan Laboratories Inc.

(dollars in thousands except per share data)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity	Total Comprehensive Earnings
April 1, 1996	122,524,789	$ 61,262	(694,950)	($2,528)	$85,996	$ 470,136	$1,575	$ 616,441	-
Net earnings	-	-	-	-	-	63,127	-	63,127	$63,127
Net unrealized loss on marketable securities	-	-	-	-	-	-	(2,522)	(2,522)	(2,522)
Stock options exercised	290,167	145	(75,000)	(1,266)	3,266	-	-	2,145	-
Reissuance of treasury stock	-	-	17,000	62	-	-	-	62	-
Cash dividend $.16 per share	-	-	-	-	-	(19,513)	-	(19,513)	-
March 31, 1997	122,814,956	61,407	(752,950)	(3,732)	89,262	513,750	(947)	659,740	60,605
Net earnings	-	-	-	-	-	100,777	-	100,777	100,777
Net unrealized gain on marketable securities	-	-	-	-	-	-	2,517	2,517	2,517
Stock options exercised	235,216	118	(513)	(12)	3,143	(141)	-	3,108	-
Purchase of treasury stock	-	-	(144,900)	(2,459)	-	-	-	(2,459)	-
Reissuance of treasury stock	-	-	48,505	321	-	-	-	321	-
Cash dividend $.16 per share	-	-	-	-	-	(19,539)	-	(19,539)	-
March 31, 1998	123,050,172	61,525	(849,858)	(5,882)	92,405	594,847	1,570	744,465	103,294
Net earnings	-	-	-	-	-	115,409	-	115,409	115,409
Net unrealized loss on marketable securities	-	-	-	-	-	-	(465)	(465)	(465)
Stock options exercised	1,013,313	507	(85,270)	(2,642)	16,916	(141)	-	14,640	-
Reissuance of treasury stock	-	-	46,550	342	-	-	-	342	-
Cash dividend $.16 per share	-	-	-	-	-	(20,112)	-	(20,112)	-
Penederm acquisition	5,905,029	2,952	-	-	202,674	-	-	205,626	-
March 31, 1999	129,968,514	$ 64,984	(888,578)	($8,182)	$311,995	$ 690,003	1,105	$1,059,905	$ 114,944

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mylan Laboratories Inc.

(dollars in thousands except supplemental disclosure) Year ended March 31,	1999	1998	1997
Cash flows from operating activities			
Net earnings	$115,409	$ 100,777	$63,127
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Depreciation and amortization	26,911	21,708	17,347
Deferred income tax (benefit) expense	(10,314)	(3,207)	47
Equity in earnings of Somerset	(5,482)	(10,282)	(18,814)
Cash received from Somerset	1,089	5,674	20,038
Allowances on accounts receivable	19,300	8,754	2,422
Acquired in-process research and development	29,000	-	-
Loss on sale of assets	-	-	1,171
Other noncash expenses	(646)	1,574	290
Changes in operating assets and liabilities:			
Accounts receivable	(30,411)	(30,565)	(45,198)
Inventories	11,328	(45,007)	(1,495)
Trade accounts payable	(4,282)	(2,082)	4,000
Income taxes	8,549	(8,949)	773
Other operating assets and liabilities	2,998	14,255	2,829
Net cash provided from operating activities	163,449	52,650	46,537
Cash flows from investing activities			
Additions to property, plant and equipment	(16,736)	(28,853)	(26,854)
Increase in intangible and other assets	(7,915)	(7,984)	(30,674)
Purchase of investment securities	(79,816)	(16,785)	(23,221)
Proceeds from investment securities	50,151	17,309	18,060
Proceeds from sale of assets	-	-	3,500
Cash acquired net of acquisition costs	1,396	-	-
Net cash used in investing activities	(52,920)	(36,313)	(59,189)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mylan Laboratories Inc.

(dollars in thousands except supplemental disclosure)

Year ended March 31,	1999	1998	1997
Cash flows from financing activities			
Payments on long-term obligations	$(14,740)	$ (19,198)	$(19,788)
Cash dividends paid	(19,833)	(19,525)	(19,491)
Repurchase of common stock	-	(2,459)	-
Proceeds from exercise of stock options	10,137	2,445	1,107
Net cash used in financing activities	(24,436)	(38,737)	(38,172)
Net increase (decrease) in cash and cash equivalents	86,093	(22,400)	(50,824)
Cash and cash equivalents - beginning of year	103,756	126,156	176,980
Cash and cash equivalents - end of year	$ 189,849	$103,756	$ 126,156

Supplemental Disclosure

For purposes of presentation in the statements of cash flows, cash, overnight deposits and money market funds and marketable securities with original matu-rities of less than three months have been classified as cash and cash equivalents.

Cash payments for interest were $1,800,000 in 1999, $3,426,000 in 1998, and $1,977,000 in 1997. Cash payments for income taxes were $78,650,000 in 1999, $59,770,000 in 1998, and $23,245,000 in 1997.

Certain stock option transactions result in a reduction of income taxes payable and a corresponding increase in additional paid in capital. The amounts for the years ended March 31, 1999, 1998, and 1997 were $4,302,000, $652,000 and $205,000 respectively.

In consideration for the exercise of stock options, the Company received and recorded into treasury stock 85,270 shares valued at $2,642,000 in fiscal 1999, 513 shares valued at $12,000 in fiscal 1998, and 75,000 shares valued at $1,266,000 in fiscal 1997.

During fiscal 1999 the Company acquired all of the outstanding stock of Penederm (see note B). The purchase price of approximately $207,938,000 was satisfied principally through the issuance of the Company's common stock.

During fiscal 1999 in connection with product license agreements the Company recorded intangible assets and the related obligations of $22,300,000 in excess of amounts paid. In fiscal 1997 the Company recorded intangible assets and long-term obligations of $49,666,000 in excess of amounts paid related to the acquisition of MAXZIDE Registration Mark.

A. Summary of Significant Accounting Policies 1. Nature of Operations and Principles of Consolidation The consolidated financial statements include the accounts of Mylan Laboratories Inc. ("the Company") and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company is 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 and public and governmental agencies within the United States.

2. Marketable Securities
The Company's investments are classified as "available for sale" and are recorded at market value with net unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive earnings in 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.

3. Accounts Receivable and Revenue Recognition
The Company recognizes revenue from product sales upon shipment to customers. Provisions for estimated discounts, rebates, price adjustments, returns and other adjustments are provided for in the same period as the related sales are recorded.

Accounts receivable are presented net of provisions which amounted to $43,584,000 and $23,385,000 at March 31, 1999 and 1998, respectively.

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

5. Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation is provided in amounts sufficient to relate cost of depreciable assets to operations over the estimated service lives, principally on a straight-line basis.

6. Intangible Assets
Intangible assets are stated at cost. Amortization is provided for on a straight-line basis over estimated useful lives not to exceed forty years. Intangible assets are periodically reviewed to determine recoverability by comparing carrying value to expected future cash flows.

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

8. 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 have already been recognized by the Company 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 tax law is enacted.

9. Concentrations of Credit Risk
Financial instruments that potentially subject the Company to credit risk consist principally of interest-bearing investments and accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Three of the Company's customers accounted for 15%, 14%, and 11% of net sales in fiscal 1999 and 13%, 12%, and 11% of nets sales in fiscal 1998. No single customer represented more than 10% of net sales in fiscal 1997. At March 31, 1999, approximately 48% of the accounts receivable balance represented amounts due from three customers.

The Company invests its excess cash in deposits 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.

10. Earnings per Share
During fiscal 1998 the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share." This statement establishes standards for computing and presenting basic and diluted earnings per share. Basic earnings per share is computed by dividing net earnings by the weighted average common shares outstanding for the period. Diluted earnings per share is computed by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of options granted under the Company's stock option plans. Prior periods have been restated to reflect this new statement.

A reconciliation of diluted earnings per share is as follows: (in thousands except per share amounts)

March 31,	1999	1998	1997
Net earnings	$115,409	$100,777	$ 63,127
Weighted average common shares	125,584	122,094	121,926
Assumed exercise of stock options	1,572	949	801
Diluted weighted average common shares	127,156	123,043	122,727
Diluted earnings per share	$ .91	$ .82	$ .51

11. Accounting Standards
Effective April 1, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for recording and disclosing comprehensive income and its components in the financial statements. Comprehensive income includes all changes in shareholders' equity except those resulting from investments by owners and distributions to owners. The Company's comprehensive earnings are comprised of net earnings and the unrealized gain and loss on marketable securities, net of income taxes.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No.133 establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet at fair value. This statement is effective for fiscal years beginning after June 15, 2000. The Company is currently evaluating the impact that SFAS No.133 will have on its financial position and its results of operations.

12. Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in those financial statements and accompanying notes. Actual results could differ from those estimates.

13. Reclassification
Certain prior year amounts have been reclassified to conform to the 1999 presentation.

B. Acquisitions
On October 2, 1998, a wholly-owned subsidiary of the Company acquired 100% of the outstanding stock of Penederm Inc. ("Penederm"). Penederm primarily develops and markets patented topical prescription products. Penederm maintains administrative and research and development facilities in Foster City, California.

The business combination has been accounted for under the purchase method of accounting. Payment of approximately $207,938,000 was made principally through the issuance of 5,905,029 shares of the Company's common stock and the assumption of 877,367 stock options granted prior to the transaction. Goodwill and various intangible assets acquired total approximately $193,000,000 and are being amortized on a straight-line basis over periods not to exceed 20 years.

The Company allocated a portion of the purchase price to in-process research and development ("IPR&D"). IPR&D represents on going research and development projects acquired by the Company which have not yet been approved by the

Food and Drug Administration ("FDA") and would have no alternative future use. The Company used independent professional valuation consultants to assess and allocate values to IPR&D.

The Company acquired five IPR&D projects of which two were significant to the IPR&D valuation. One project is for the treatment of inflammatory fungal conditions while the other project is for a nail antifungal product. In accessing the value to be allocated to only these two projects it was estimated that they were 42% complete and would require approximately $9,100,000 of additional Company funding to complete. Estimated future cash flows for each project were discounted to their present value using a rate of 31%. These discounted cash flow projections were then adjusted by the estimated completion percentage for each project. The total value allocated to all IPR&D projects was $29,000,000.

At the date of acquisition, the Company believes that the assumptions used in the valuation process were reasonable. No assurance can be given, however, that the underlying assumptions used in the valuation of these projects will be realized. Pharmaceutical product development has inherent risks in the formulation, manufacture, approval process and marketplace environment which could affect or prevent each of these projects from achieving commercial success.

The results of Penederm's operations have been included in the Company's Consolidated Statement of Earnings from the date of acquisition. Unaudited pro forma information assuming the acquisition had occurred on April 1, 1997 is as follows, excluding the one-time charge of the $29,000,000 relating to acquired IPR&D: (in thousands except per share amounts)

Year ended March 31,	1999	1998
Total revenues	$731,641	$565,378
Net earnings	$140,948	$ 85,532
Diluted earnings per common share	$ 1.08	$ .66
Diluted weighted average common shares outstanding	130,241	129,075

The pro forma financial information is presented for comparative purposes only and does not purport to be indicative of the operating results or financial position that would have occurred had the merger been consummated at the beginning of the periods presented, nor is such information necessarily indicative of the future operating results of the combined company after the merger.

During fiscal 1999, the Company purchased various product and marketing rights with an aggregate purchase price of $30,300,000. The purchase agreements require fixed payments and royalties on product sales in future periods.

C. Inventories

Inventories consist of the following components: (in thousands)

March 31,	1999	1998
Raw materials	$57,414	$63,308
Work in process	20,813	27,858
Finished goods	58,266	54,875
	$136,493	$146,041

D. Property, Plant and Equipment

Property, plant and equipment consists of the following components: (in thousands)

March 31,	Useful Lives	1999	1998
Land and land improvements	-	$ 6,583	$ 6,909
Buildings and improvements	20 - 40	86,898	72,893
Machinery and equipment	5 - 10	137,716	122,572
Construction in progress	-	13,596	23,945
		244,793	226,319
Less accumulated depreciation		90,157	74,907
		$154,636	$151,412

E Investment in and Advances to Somerset

The Company owns 50% of the outstanding common stock of Somerset Pharmaceuticals, Inc. ("Somerset") and uses the equity method of accounting for its investment.

Equity in Earnings of Somerset includes the Company's 50% portion of Somerset's net earnings and expense for amortization of intangible assets resulting from the acquisition of Somerset. Such intangible assets are amortized over a 15 year period. Amortization expense amounted to $924,000 in fiscal 1999, 1998, and 1997. Additionally, the Company's charges to Somerset for management services and product development activities are included in Equity in Earnings of Somerset. These charges have been recorded by Somerset as a reduction of its net earnings.

Condensed audited balance sheet information of Somerset is as follows: (in thousands)

December 31,	1998	1997	1996
Current assets	$70,929	$53,973	$45,871
Non-current assets	2,040	3,466	7,006
Current liabilities	16,584	15,660	19,075
Payable to owners	595	1,433	1,621

Condensed audited income statement information of Somerset is as follows: (in thousands)

Year ended December 31,	1998	1997	1996
Net sales	$43,557	$66,956	$101,512
Cost and expenses	19,316	30,055	46,895
Income taxes	9,635	12,924	18,815
Net earnings	$14,606	$23,977	$35,802

The above information represents 100% of Somerset's operations of which the Company has a 50% interest.

Somerset's marketing exclusivity for EldeprylRegistration Mark under the Orphan Drug Act expired on June 6, 1996. Somerset has experienced increased competition since August 1996, due to the approval of several generic tablet forms of EldeprylRegistration Mark by the FDA. This has resulted in a decrease in sales and net earnings since 1996.

In 1997 Somerset was notified by the Internal Revenue Service ("IRS") that it had initiated a challenge related to issues concerning Somerset's Code Section 936 credit for tax years 1993 through 1995. As of December 31, 1998, the proposed adjustments by the IRS amounted to approximately $14,000,000 of additional income tax and interest charges over amounts accrued, of which 50% would be the Company's share. Management of Somerset believes it has appropriately claimed the Code Section 936 credit and intends to vigorously defend its position on this matter.

F Marketable Securities

The amortized cost and estimated market values at March 31, 1999 and 1998 are as follows: (in thousands)

March 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Debt securities	$60,071	$ 303	$187	$ 60,187
Equity securities	8,101	2,144	560	9,685
	$68,172	$2,447	$747	$ 69,872

March 31, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Debt securities	$28,942	$ 380	$ 32	$ 29,290
Equity securities	10,584	3,852	1,785	12,651
	$39,526	$4,232	$1,817	$ 41,941

Maturities of debt securities at market value at March 31, 1999 are as follows: (in thousands)

Mature in one year or less	$42,413
Mature after one year through five years	6,152
Mature after five years	11,622
	$60,187

Proceeds from sales of marketable securities were $50,151,000, $17,233,000 and $11,369,000 during fiscal 1999, 1998 and 1997. Gross gains of $942,000, $767,000 and $565,000 and gross losses of $205,000, $82,000, and $271,000, were realized during fiscal 1999, 1998 and 1997. The cost of investments sold is determined by the specific identification method.

G. Intangible Assets

Intangible assets consist of the following components: (in thousands)

March 31,	Useful Lives	1999	1998
Patents and technologies	10 - 20	$122,985	$ 27,281
License fees and agreements	2 - 12	33,086	7,587
MaxzideRegistration Mark intangibles	25	69,666	69,666
Goodwill	20 - 40	128,480	31,732
Other	5 - 20	28,462	25,719
		382,679	161,985
Less accumulated amortization		46,676	33,240
		$ 336,003	$128,745

The MAXZIDE Registration Mark intangibles relate to trademark, tradedress and marketing rights. The balance in Other consists principally of an assembled workforce, non-compete agreements, customer lists and contracts. Goodwill, patents and technologies and various other intangible assets of approximately $193,000,000 were acquired in the Penederm transaction.

H. Other Assets

Other assets consist of the following components: (in thousands)

March 31,	1999	1998
Pooled asset funds	$46,611	$25,368
Cash surrender value	29,742	26,569
Other investments	22,596	34,866
	$98,949	$86,803

Pooled asset funds include the Company's interest in various limited partnership funds which consist of common and preferred stocks, bonds, and money market funds. Earnings on these investments included under the caption Other income amounted to $19,530,000, in 1999, $6,572,000, in 1998, and $1,184,000, in 1997. At March 31, 1999 and 1998 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 current and former executive officers of the Company.

Other investments are comprised principally of investments in non-publicly traded equity securities and are accounted for under the cost method. Management periodically reviews the carrying value of these investments for impairment. The change in other investments from 1998 reflects adjustments made to reduce the carrying value of these investments to their estimated fair value.

I. Other Current Liabilities

Other current liabilities consist of the following components: (in thousands)

March 31,	1999	1998
Payroll and employee benefit plan accruals	$20,672	$16,726
VivoRx funding (See note S)	10,302	3,000
Medicaid	8,305	4,412
Legal and professional	3,811	2,100
Royalties	4,958	6,164
Product license fees	8,802	1,125
Other	4,429	3,108
	$61,279	$36,635

J. Long-Term Obligations

Long-term obligations include accruals for postretirement compensation pursuant to agreements with certain key employees and directors of approximately $13,463,000, and $11,494,000, at March 31, 1999 and 1998. Under these agreements, benefits are to be paid over periods of 10 to 15 years commencing at retirement.

The Company's obligation on 10.5% senior promissory notes is $4,000,000, and $5,100,000, at March 31, 1999 and 1998. Future principal payments on these notes are in amounts ranging from $1,000,000 to $2,000,000, per year through 2002. At March 31, 1999 and 1998, the Company was in compliance with all of its debt covenants.

The present value of the Company's obligations for product acquisitions was $24,605,000 at March 31, 1999 and $16,316,000 at March 31, 1998. Future payments including minimum royalty payments for these agreements will be approximately $18,500,000 in fiscal 2000, $2,000,000 in fiscal 2001, $3,750,000 in fiscal 2002 and $2,000,000 in fiscal 2003.

K. Income Taxes

Income taxes consist of the following components: (in thousands)

Year ended March 31,	1999	1998	1997
Federal			
Current	$77,546	$45,601	$19,176
Deferred	(9,617)	(2,993)	68
	67,929	42,608	19,244
State			
Current	9,653	5,218	4,845
Deferred	(697)	(214)	(21)
	8,956	5,004	4,824
Income taxes	$76,885	$47,612	$24,068
Pre-tax earnings	$192,294	$148,389	$87,195
Effective tax rate	40.0%	32.1%	27.6%

Temporary differences and carryforwards which give rise to the deferred tax assets and liabilities are as follows: (in thousands)

March 31,	1999	1998
Deferred tax assets:		
Employee benefits	$ 5,090	$4,397
Intangible assets	3,627	4,080
Asset allowances	17,841	8,230
Inventory	1,069	411
Investments	5,411	4,188
Tax loss carryforwards	18,198	-
Tax credit carryforwards	3,683	-
Other	266	(69)
Total deferred tax assets	55,185	21,237
Deferred tax liabilities:		
Plant and equipment	10,373	8,702
Intangible assets	43,675	6,829
Investments	6,506	3,585
Total deferred tax liabilities	60,554	19,116
Deferred tax asset (liability) - net	($5,369)	$2,121
Classification in the consolidated balance sheets:		
Deferred income tax benefit - current	$18,199	$7,845
Deferred income tax liability - non-current	23,568	5,724
Deferred tax asset (liability) - net	($5,369)	$2,121

Deferred tax assets relating to net operating loss carryforwards and R&D tax credit carryforwards were acquired during fiscal 1999 upon the acquisition of Penederm Inc. Future utilization of these assets is subject to certain limitations set forth in the Internal Revenue Code. The Company has approximately $49,000,000 of federal and state tax loss carryforwards and $3,683,000 of tax credits to offset future taxable income. The loss carryforwards and tax credits expire in fiscal years 2002 through 2013.

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

Year ended March 31,	1999	1998	1997
Statutory tax rate	35.0%	35.0%	35.0%
IPR&D	5.3%	-	-
State income taxes-net	3.1%	2.3%	4.8%
Tax exempt earnings-primarily dividends	(1.1%)	(2.4%)	(6.4%)
Tax credits	(2.6%)	(3.0%)	(5.9%)
Other items	0.3%	0.2%	0.1%
Effective tax rate	40.0%	32.1%	27.6%

Tax credits result principally from the Company's operations in Puerto Rico and from qualified research and development expenditures.

State income taxes include provisions for tollgate tax resulting from the future repatriation of funds from the Company's operation in Puerto Rico to the United States. Such provisions have been made to the minimum extent provided under Puerto Rican tax law based on the Company's intent to reinvest Puerto Rican source earnings in qualifying investments within Puerto Rico.

The Company's federal tax returns have been audited by the IRS through March 31, 1996.

L. Common Stock

On August 23, 1996, the Company's Board of Directors adopted a Shareholder Rights Plan ("the Rights Plan"). The Rights Plan was adopted to provide the Company's Directors with sufficient time to assess and evaluate any takeover bid, and explore and develop a reasonable response. The Rights Plan will expire on September 5, 2006 unless a triggering event has occurred.

M. Commitments

The Company has entered into various contractual agreements, principally licensing arrangements, whereby the Company has obtained, in exchange for funding of drug development activities, rights to manufacture and/or distribute certain drugs, which are presently in various stages of development. In the event that all projects are successful, milestone payments totaling $23,375,000, would be made over the next five years. Approximately ninety-five percent of this total is due upon the filing and approval of an Abbreviated New Drug Application or New Drug Application with the FDA.

N. Other Revenues

Under the terms of the Company's supply and distribution agreement with Genpharm Inc. ("Genpharm") relating to sales of Ranitidine HCL Tablets, the Company also benefits from an agreement between Genpharm and Novopharm Limited ("Novopharm"). The Company recognized revenue of $26,822,000, in fiscal 1998 in connection with the Genpharm Novopharm agreement. Based on an independent audit, Genpharm initiated a lawsuit against Novopharm to resolve contract interpretation issues and collect any additional funds due. In response to Genpharm's suit, Novopharm filed counterclaims against both Genpharm and the Company claiming damages of up to $60,000,000. The Company believes the counterclaims against Genpharm and the Company are without merit and will vigorously defend its position.

O. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, approximate fair value due to the short-term maturity of these instruments. Marketable securities are recorded at fair value based on quoted market prices. The carrying value of other financial instruments approximates their fair value based on other appropriate valuation techniques.

P. Stock Option Plans

On January 23, 1997, the Board of Directors adopted the "Mylan Laboratories Inc. 1997 Incentive Stock Option Plan" ("the Plan") which was approved by the shareholders on July 24, 1997.

Under the Plan the Company may grant up to 10,000,000 shares of its commo n stock to officers, employees and nonemployee 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 options generally vest on date of grant. Incentive stock options granted have the following vesting schedule: 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. As of March 31, 1999, 8,625,000 shares are available for future grants.

On June 23, 1992, the Board of Directors adopted the "1992 Nonemployee Director Stock Option Plan" ("the Directors' Plan") which was approved by the shareholders on April 7, 1993. A total of 600,000 shares of the Company's common stock are reserved for issuance upon exercise of stock options which 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, 1999, 354,000 shares have been granted pursuant to the Directors' Plan.

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

A summary of the activity resulting from all plans is as follows:

	Number of shares under option	Weighted average exercise price per share
Outstanding as of April 1, 1996	2,720,014	$11.87
Options granted	217,000	14.75
Options exercised	(290,167)	11.05
Options cancelled	(75,970)	15.70
Outstanding as of March 31, 1997	2,570,877	$12.10
Options granted	1,322,000	17.08
Options exercised	(235,216)	11.09
Options cancelled	(41,175)	14.17
Outstanding as of March 31, 1998	3,616,486	$13.96
Options acquired - Penederm	877,367	15.30
Options granted	186,500	19.74
Options exercised	(1,013,313)	12.16
Options cancelled	(117,886)	16.96
Outstanding as of March 31, 1999	3,549,154	$15.11

	Options outstanding			Options exercisable	
Range of exercise price per share	Number outstanding as of 3/31/99	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable as of 3/31/99	Weighted average exercise price per share
$ .81-$11.58	391,045	3.57	$7.19	391,045	$ 7.19
$12.00-$12.00	1,023,953	3.23	$12.00	1,023,953	$12.00
$12.32-$16.36	260,228	7.25	$14.66	146,228	$14.58
$16.69-$16.69	763,000	8.32	$16.69	326,000	$16.69
$16.73-$30.15	1,110,928	8.25	$19.60	778,678	$19.23
$ .81-$30.15	3,549,154	6.25	$15.11	2,665,904	$14.12

At March 31, 1999, options were exercisable for 2,665,904 shares at a weighted average exercise price of $14.12 per share. The corresponding amounts were 2,557,856 shares at $13.20 per share at March 31, 1998 and 1,831,061 shares at $11.06 per share at March 31, 1997.

In accordance with the provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company will continue to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and, accordingly, does not recognize compensation costs for its existing stock option plans. If the Company had elected to recognize compensation costs based on the alternative fair value method prescribed by SFAS No. 123, net earnings and earnings per share (on both a basic and diluted basis) would have been reduced by $1,613,000, or $.01 per share, $6,489,000, or $.04 per share and $1,174,000, or $.01 per share for the years ended March 31, 1999, 1998 and 1997. These calculations only take into account options issued since April 1, 1995.

The weighted average fair value of options granted during the years ended March 31, 1999, 1998 and 1997 was $9.37, $6.47, and $6.15. The fair value was estimated using the Black-Scholes option pricing model based on the following assumptions:

March 31,	1999	1998	1997
Volatility	42%	35%	35%
Risk-free interest rate	5.0%	6.07%	6.73%
Dividend yield	1.0%	1.0%	1.1%
Expected term of options (in years)	5.2	5.4	6.1

Q. Employee Benefits

The Company maintains profit sharing and/or 401(k) retirement plans covering essentially all of its employees.

Contributions to the profit sharing plans are made at the discretion of the Board of Directors. Contributions to the 401(k) plans are based upon employee contributions or service hours. Total contributions to all plans for the years ended March 31, 1999, 1998 and 1997 were $4,776,000, $3,889,000 and $3,620,000 respectively.

In fiscal 1999, the Company adopted a plan covering substantially all its employees to provide for limited reimbursement of supplemental postretirement medical coverage. The plan provides benefits to employees retiring after April 5, 1998, who meet minimum age and service requirements. The Company has provided for the costs of these benefits, which are not material. The future obligation related to these benefits is insignificant.

R. Segment Reporting

Effective April 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information," which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by senior management. The Company has two reportable operating segments, Generic and Branded Pharmaceuticals, based on differences in products, marketing and regulatory approval.

Generic pharmaceutical products are off-patented products, therapeutically equivalent to a branded name product, marketed to pharmaceutical wholesalers and distributors, drug store chains and public and governmental agencies by multiple suppliers. These products have been approved by the FDA through an Abbreviated New Drug Application process.

Branded pharmaceutical products are generally, when new, patent protected products marketed directly to health care professionals by a single provider.

These products have been approved by the FDA primarily through a New Drug Application process.

The accounting policies of the operating segments are the same as those descibed in note A. In the following table segment revenues represent sales to unrelated third parties with corresponding corporate wide cost of sales used to determine segment profits. Segment profits represent earnings from continuing operations before a provision for income taxes.

March 31, (dollars in thousands)		Generic	Branded	Corporate/ Other	Consolidated
Total revenues	1999	$638,122	$83,001	-	721,123
	1998	501,320	54,103	-	555,423
	1997	381,495	58,697	-	440,192
Segment profit (1)	1999	228,529	14,941	(51,176)	192,294
	1998	145,618	6,728	(3,957)	148,389
	1997	74,264	11,718	1,213	87,195
Segment assets (2)	1999	396,293	257,860	552,508	1,206,661
	1998	398,189	126,878	322,686	847,753
	1997	318,367	129,796	329,417	777,580
Property, plant and equipment additions	1999	11,646	3,991	1,099	16,736
	1998	24,843	3,925	85	28,853
	1997	25,904	828	122	26,854
Deprecation and amortization (1)&(2)	1999	11,452	10,246	5,213	26,911
	1998	10,950	8,084	2,674	21,708
	1997	9,013	5,717	2,617	17,347

(1) Corporate and Other Segment Profit includes consolidated non-operating income less corporate expenses including, legal expenditures, IPR&D and goodwill amortization.

(2) Generic and Branded Segment Assets include property, plant and equipment, trade accounts receivable, inventory and intangible assets other than goodwill. Corporate and Other Segment Assets includes consolidated cash and cash equivalents, marketable securities,the Company's investment in Somerset and other assets, goodwill and all income tax related assets.

S. Contingencies

The Company is involved in various legal proceedings that are considered normal to its business. The majority of these proceedings involve intellectual property rights related to products under development and prior to FDA approval. These proceedings are initiated by branded pharmaceutical companies and often result in delaying the introduction of generic products. As more of these suits have been initiated against the Company, the cost to defend these suits in outside legal fees and internal resource commitments has risen dramatically. While it is not feasible to predict the ultimate outcome of such proceedings, it is the opinion of management that the ultimate outcome will not have a material adverse effect on the Company's operations or its financial position.

In August 1997, Key Pharmaceuticals, Inc. filed suit against the Company and certain subsidiaries claiming patent infringement relating to the marketing of its Nitroglycerin Transdermal System. The relief sought included a preliminary and permanent injunction, treble damages along with interest and attorneys fees and expenses. All claims and counterclaims were dismissed pursuant to a settlement between the companies. The Company continues to manufacture and market its Nitroglycerin Transdermal System in accordance with the settlement.

A subsidiary of the Company is involved in a dispute relating to a license and supply contract for Nitroglycerin Transdermal Patches which both parties claim has been breached by the other. The other company seeks damages in excess of $20 million. The dispute is subject to binding arbitration before a three member panel which commenced in March 1999 and is scheduled to continue in June 1999. Although the Company believes that the complaint against it is without merit, there can be no assurance that the Company will prevail in this matter.

In addition to the above, on December 22, 1998, the Federal Trade Commission ("FTC") filed suit in federal district court for the District of Columbia against the Company. The FTC alleges that the Company violated Section 5(a) of the Federal Trade Commission Act (the "FTC Act") with respect

to two generic drugs manufactured and sold by the Company (Lorazepam and Clorazepate). Specifically, the FTC's complaint alleges 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 these drugs. The FTC also sued in the same case the foreign supplier of the raw materials, the supplier's parent company and its United States distributor. Under the terms of the agreements related to these raw materials, the Company has agreed to indemnify these parties. The relief sought includes an injunction barring the Company from engaging in conduct that violates Section 5(a) of the FTC Act, rescission of certain agreements and disgorgement in excess of $120 million.

In a parallel case also filed on the same day, Attorneys General for ten states, Connecticut, Florida, Illinois, Minnesota, New York, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin (the "States"), joined together to file a single lawsuit against the Company in the same court. The complaint filed by the States asserts claims pursuant to Section 1 and 2 of the federal Sherman Act against the same parties as those named in the FTC suit and one other distributor not named by the FTC. These claims are analogous to the claims brought by the FTC under Section 5(a) of the FTC Act, and are based on similar factual allegations. The States' complaint also alleges violations of the respective states' competition and consumer protection laws. The States further allege a per se violation of Section 1 of the Sherman Act with respect to the pricing of raw material used in the manufacture of Lorazepam (an allegation not made by the FTC). Without specifying a dollar amount, the States seek relief similar to that sought by the FTC, treble damages and attorneys' fees. The complaint was amended in February 1999 to include 22 additional states as plaintiffs. In addition, the State of Maryland has

filed a similar but independent suit.

The Company is aware of more than 20 class actions filed by private parties in various state and federal courts involving the same conduct alleged in the complaints brought by the FTC and the States, as well as alleged violations of state consumer protection laws. The lawsuits seek unspecified amounts of damages.

In addition, on January 11, 1999, a class action suit was filed in federal district court for the Western District of Pennsylvania alleging violations of federal secu-rities laws by the Company and certain directors and officers of the Company.

The suit alleges that the Company failed to disclose monopolization of certain raw materials used to manufacture Lorazepam and Clorazepate pursuant to Sections 10(b) and 20 of the Securities and Exchange Act of 1934 and Rule 10 b-5 of the Securities and Exchange Commission. The alleged class period is from February 17, 1998 to December 5, 1998. Without specifying a dollar amount, the suit seeks compensatory damages.

The Company has filed motions to dismiss the FTC and State Attorneys' General cases as well as the federal securities case filed in U.S. Federal District Court for the Western District of Pennsylvania. In addition, two of these private actions have been dismissed.

The Company believes that it has meritorious defenses to the claims in all remaining suits and intends to vigorously defend them. Although the Company believes it has meritorious defenses to the claims, an adverse result in these suits could have a material adverse effect on the Company's financial position and results of its operations.

The Company is currently involved in negotiations with a State agency concerning certain contract pricing matters. Management believes the resolution of this matter will not have a material adverse effect on the Company's operations or its financial position.

Since 1994, the Company had been providing funding to VivoRx Inc. ("VivoRx"), a California based research and development company which is pursuing diabetes related research. The Company suspended cash funding to VivoRx for periods after March 31, 1998, pending resolution of accounting and

other issues raised by the Company. In June, 1998, the Company commenced litigation against VivoRx, certain VivoRx officers and directors and certain companies owned or controlled by those officers and directors. In March, 1999, VivoRx filed counterclaims against the Company seeking compensatory and punitive damages in an unspecified amount. Upon motions made by the Company, it was ordered that certain of the disputes relating to the exclusive licensing agreement between the parties were to be decided in a separate arbitration proceeding. This proceeding was concluded in April, 1999 and on May 18, 1999, the Company received notice of the arbitrator's decision.

Under the terms of the arbitration award, the Company must fund approximately $10 million for research and development performed by VivoRx subsequent to March 31, 1998. In turn, the Company was permitted, at its election, either to (1) continue in effect and continue funding the exclusive licensing agreement between the parties, or (2) terminate its rights under the agreement and receive payment from VivoRx of approximately $18 million, representing 50% of the amounts it has funded for research and development to date

(including the $10 million discussed above). The Company elected to terminate the agreement and, therefore, VivoRx must pay to it the amounts due, plus interest, in five annual installments commencing October 1, 2000. This obligation will be secured by a security interest in VivoRx's diabetes-related U.S. patents.

As a result of this award, the Company has recorded the effects of the $10 million funding obligation discussed above in its fiscal 1999 financial statements as research and development expense. The $18 million required to be paid by VivoRx will be recognized as income when realized.

Various disputes between the Company and VivoRx and other parties remain the subject of on-going litigation. While it is not feasible to predict the ultimate outcome of this litigation, it is the opinion of management that the ultimate outcome will not have a material adverse effect on the Company's operations or financial position.

- - ---

Independent Auditors' Report

Mylan Laboratories Inc.

Board of Directors and Shareholders
Mylan Laboratories Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of Mylan Laboratories Inc. and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of earnings, shareholders' equity and comprehensive earnings, and cash flows for each of the three years in the period ended March 31, 1999, appearing on pages 30 through 48. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mylan Laboratories Inc. and subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

/s/Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
May 14, 1999 (May 18, 1999 as to note S)

Market Information

Mylan Laboratories Inc.

Quarterly Financial Data

(Amounts in thousands except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Fiscal 1999					
Total revenues	$166,718	$177,592	$186,195	$190,618	$721,123
Gross profit	85,154	92,044	99,716	107,363	384,277
Net earnings	34,182	37,215	8,154	35,858	115,409
Earnings per share-basic	.28	.30	.06	.28	.92
Earnings per share-diluted	.28	.30	.06	.27	.91
Fiscal 1998					
Total revenues	$109,188	$153,955	$129,517	$162,763	$555,423
Gross profit	47,809	55,932	54,440	82,130	240,311
Net earnings	16,598	30,390	21,983	31,806	100,777
Earnings per share-basic	.14	.25	.18	.26	.83
Earnings per share-diluted	.13	.25	.18	.26	.82

Total revenues for fiscal 1998 include $26,822,000 recognized in the 2nd quarter relating to the Genpharm License Agreement (see note N to the consolidated financial statements).

Market Prices

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 1999				
High	32 3\4	35 1\8	35 15\16	32
Low	22 1\16	22 1\8	24 5\16	26 1\4
Fiscal 1998				
High	16 7\8	24 3\4	25 1\4	24 5\16
Low	11 1\8	14 5\8	17 7\16	17 1\16

New York Stock Exchange Symbol: MYL
On April 30, 1999 the Company had approximately 74,842 shareholders.

Split Date

	Amount	Split Price	Presplit Price
July 20, 1979	5/4	10 3\4	13 1\2
November 13, 1981	2/1	13 1\2	27 1\8
June 30, 1983	2/1	16 1\4	32 1\2
March 1, 1984	3/2	14	21
July 31, 1984	3/2	19 7\8	29 3\4
February 15, 1985	2/1	17 7\8	35 3\4
August 1, 1986	3/2	14	21
August 1, 1992	2/1	21 3\4	43 1\2
August 15, 1995	3/2	21	31 1\2

EXHIBIT 21

Subsidiaries

Name	State of Incorporation
Milan Holding, Inc.	Delaware
Mylan Inc.	Delaware
Mylan Pharmaceuticals Inc.	West Virginia
Mylan Caribe Inc.	Vermont
Bertek Pharmaceuticals, Inc.	Texas
Mylan Technologies, Inc.	West Virginia
American Triumvirate Insurance Company	Vermont
Roderick Corporation	Delaware
UDL Laboratories, Inc.	Illinois
Penederm Inc.	California

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 333-65329, 333-65327, 333-35887, 333-43081, 33-65916, 33-65918 of Mylan Laboratories Inc. on Form S-8 of our report dated May 14, 1999 (May 18, 1999 as to Note S), incorporated by reference in this Annual Report on Form 10-K of Mylan Laboratories Inc. for the year ended March 31, 1999.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
June 24, 1999

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-65329, 333-65327, 333-35887, 333-43081, 33-65916, 33-65918 of Mylan Laboratories Inc. on Form S-8 of our report dated January 29, 1999, relating to the consolidated financial statements of Somerset Pharmaceuticals, Inc. and subsidiaries for each of the three years in the period ended December 31, 1998, included in the Annual Report on Form 10-K of Mylan Laboratories Inc. for the year ended March 31, 1999.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
June 24, 1999

Exhibit 27

Financial Data Schedule
Mylan Laboratories Inc. and Subsidiaries
Article 5 of Regulation S-X

The schedule contains summary financial information extracted from the Consolidated Balance Sheets at March 31, 1999 and the Consolidated Statement of Earnings for the twelve months ended March 31, 1999 and is qualified in its entirety by reference to such financial statements.

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Exhibit 27
1,000

12-MOS
MAR-31-1998

MAR-31-1998

189,849
69,872
192,480
43,584
136,493
582,959
244,793
90,157
1,206,661
96,361
30,305
0
0
64,984
994,921
1,206,661
721,123
721,123
336,846
336,846
215,807
872
1,793
192,294
76,885
115,409
0
0
0
115,409
0.92
0.91

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

Consolidated Financial Statements for the
Years Ended December 31, 1998, 1997 and 1996, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Somerset Pharmaceuticals, Inc.:

We have audited the accompanying consolidated balance sheets of Somerset Pharmaceuticals, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Somerset Pharmaceuticals, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania

January 29, 1999

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

ASSETS	1998	1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,672,000	$ 32,141,000
Investment securities	41,412,000	15,963,000
Accounts receivable (net of allowance for doubtful accounts of $206,000 and $250,000, respectively)	6,085,000	3,526,000
Inventories	2,350,000	1,077,000
Prepaid expenses and other current assets	2,410,000	1,266,000
Total current assets	70,929,000	53,973,000
PROPERTY AND EQUIPMENT - Net	514,000	752,000
INTANGIBLE ASSETS - Net	868,000	1,066,000
OTHER ASSETS	658,000	1,648,000
	$ 72,969,000	$ 57,439,000

LIABILITIES AND STOCKHOLDERS' EQUITY	1998	1997
CURRENT LIABILITIES:		
Accounts payable	$ 1,281,000	$ 516,000
Royalty payable	799,000	1,172,000
Medicaid payable	578,000	687,000
Other accrued expenses	587,000	853,000
Accrued research and development	2,924,000	4,394,000
Income taxes payable	8,280,000	5,099,000
Accrued sales returns	800,000	906,000
Accrued compensation	740,000	600,000
Amounts due to related parties	595,000	1,433,000
Total current liabilities	16,584,000	15,660,000
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; 13,719 shares authorized, 11,297 shares issued	-	-
Retained earnings	56,837,000	42,231,000
Less treasury stock, 644 shares at cost	(452,000)	(452,000)
Total stockholders' equity	56,385,000	41,779,000
	$ 72,969,000	$ 57,439,000

See notes to consolidated financial statements.

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
NET SALES	$ 43,557,000	$ 66,956,000	$ 101,512,000
COSTS AND EXPENSES:			
Cost of sales	4,623,000	6,622,000	12,672,000
Marketing	4,587,000	5,757,000	6,263,000
Research and development	7,269,000	13,073,000	20,118,000
Administrative	6,449,000	7,338,000	9,574,000
	22,928,000	32,790,000	48,627,000
	20,629,000	34,166,000	52,885,000
OTHER INCOME - Net	3,612,000	2,735,000	1,732,000
INCOME BEFORE INCOME TAXES	24,241,000	36,901,000	54,617,000
PROVISION FOR INCOME TAXES	9,635,000	12,924,000	18,815,000
NET INCOME	$ 14,606,000	$ 23,977,000	$ 35,802,000

See notes to consolidated financial statements.

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Stock		Treasury Stock		Retained	Stockholders'
	Shares	Amount	Shares	Amount	Earnings	Equity
BALANCE, DECEMBER 31, 1995	11,297	$ -	644	$ (452,000)	$ 34,452,000	$ 34,000,000
Net income	-	-	-	-	35,802,000	35,802,000
Dividends	-	-	-	-	(36,000,000)	(36,000,000)
BALANCE, DECEMBER 31, 1996	11,297	-	644	(452,000)	34,254,000	33,802,000
Net income	-	-	-	-	23,977,000	23,977,000
Dividends	-	-	-	-	(16,000,000)	(16,000,000)
BALANCE, DECEMBER 31, 1997	11,297	-	644	(452,000)	42,231,000	41,779,000
Net income	-	-	-	-	14,606,000	14,606,000
BALANCE, DECEMBER 31, 1998	11,297	$ -	644	$ (452,000)	$ 56,837,000	$ 56,385,000

See notes to consolidated financial statements.

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 14,606,000	$ 23,977,000	$ 35,802,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	429,000	952,000	1,048,000
Deferred tax expense (benefit)	232,000	(8,000)	(736,000)
Loss on sale of property and equipment	5,000	422,000	-
Deferred revenue	-	-	(63,000)
Changes in operating assets and liabilities:			
Accounts receivable	(2,559,000)	2,646,000	7,703,000
Inventories	(1,273,000)	627,000	4,847,000
Prepaid expenses and other current assets	(1,144,000)	2,415,000	(1,438,000)
Accounts payable	765,000	(135,000)	(861,000)
Royalty payable	(373,000)	(454,000)	(3,050,000)
Medicaid payable	(109,000)	-	-
Accrued research and development	(1,470,000)	(184,000)	2,657,000
Other accrued expenses	(232,000)	(1,521,000)	2,084,000
Income taxes payable	3,181,000	(933,000)	1,642,000
Amounts due to related parties	(838,000)	(188,000)	(454,000)
Net cash provided by operating activities	11,220,000	27,616,000	49,181,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in investment securities	(25,449,000)	(14,955,000)	(828,000)
Purchases of property and equipment	(12,000)	(42,000)	(251,000)
Proceeds from sale of property and equipment	14,000	2,000,000	-
Decrease in other assets	758,000	45,000	60,000
Net cash used in investing activities	(24,689,000)	(12,952,000)	(1,019,000)

(Continued)

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES -			
Dividends paid on common stock	$ -	$ (16,000,000)	$(36,000,000)
Cash used in financing activities	-	(16,000,000)	(36,000,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,469,000)	(1,336,000)	12,162,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	32,141,000	33,477,000	21,315,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,672,000	$ 32,141,000	$ 33,477,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -			
Cash paid during the year for income taxes	$ 7,762,000	$ 12,092,000	$ 20,409,000

See notes to consolidated financial statements.

SOMERSET PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

1. PRINCIPLES OF CONSOLIDATION AND OPERATIONS

The consolidated financial statements include the accounts of Somerset Pharmaceuticals, Inc. (the "Company") and its wholly owned subsidiaries, Somerset Pharmaceuticals Holding Company and Somerset Caribe, Inc. The Company is jointly owned by Mylan Laboratories, Inc. and Watson Pharmaceuticals, Inc. ("Watson"), with each owning 50% of the outstanding common stock of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company, incorporated in February 1986, is engaged in the development, testing and marketing of drugs to be used in the treatment of various human disorders. Currently, the Company manufactures (at its facility in Puerto Rico), markets and sells Eldepryl, which is used as a treatment for Parkinson's Disease. The Company had exclusivity relating to the chemical compound Eldepryl for use as a treatment for late stage Parkinson's Disease through June of 1996. In May 1996, the Company received approval from the Food and Drug Administration for Eldepryl capsules and withdrew the tablet form from the marketplace. Competitors entered the marketplace with a generic version of the tablet in August 1996. The loss of exclusivity and the introduction of competitive products has had and could continue to have a material impact on the Company's future operating results.

The Company is party to an exclusive 14-year agreement (through November 22, 2003) with Chinoin Pharmaceutical Company ("Chinoin") of Budapest, Hungary under which Eldepryl and other new potential drugs resulting from Chinoin research are made available for licensing by the Company. The license agreement required the Company to pay royalties equal to 7% of net sales of Eldepryl including sub-license revenues. During 1996, the license agreement was amended to reduce the Eldepryl royalties to 3.5% of net sales subsequent to May 31, 1996. The Company incurred royalty expense of approximately $1,730,000, $2,716,000, and $5,917,000 for the years ended December 31, 1998, 1997 and 1996, respectively. The license agreement also requires the Company to purchase the main raw material used in the manufacture of Eldepryl from Chinoin through June 1999.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Cash and Cash Equivalents - The Company generally considers debt instruments purchased with a maturity of three months or less and investments in money market accounts to be cash equivalents.

b. Investment Securities - The Company accounts for investment securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1998 and 1997, the investment securities were available-for-sale, and there were no material unrealized gains or losses. Proceeds from sales and maturities of investments were $116,712,000 and $44,973,000, in 1998 and 1997, respectively. In 1998 there were $1,356,000 of realized gains and $23,400 of realized losses. There were no material realized gains or losses in 1997. There were no sales or maturities of investments in 1996. The gain or loss on sale is based on the specific identification method.

c. Inventories - Inventories are stated at the lower-of-cost or market, with cost determined on a first-in, first-out basis.

d. Property and Equipment - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. Estimated useful lives are five to seven years.

e. Intangible Assets - Intangible assets are amortized on a straight-line basis over 14 years.

f. Research and Development - Research and development costs are expensed as incurred.

g. Concentration of Credit Risk - The Company's product is sold throughout the United States principally to distributors and wholesalers in the pharmaceutical industry. The Company performs ongoing credit evaluation of its customers' financial condition and generally requires no collateral from its customers.

h. Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

3. INVENTORIES

Inventories consist of the following at December 31, 1998 and 1997:

	1998	1997
Raw material	$ 1,853,000	$ 461,000
Work in process	-	1,000
Finished goods	497,000	615,000
Total	$ 2,350,000	$ 1,077,000

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 1998 and 1997:

	1998	1997
Machinery and equipment	$ 1,216,000	$ 1,263,000
Furniture and fixtures	90,000	97,000
	1,306,000	1,360,000
Less accumulated depreciation	792,000	608,000
Property and equipment - net	$ 514,000	$ 752,000

5. SUB-LICENSE OF RIGHTS

On February 9, 1988, the Company granted a sub-license to its exclusive right and license to use its technology to Draxis Health Inc. (formerly Deprenyl Research Limited) to commercialize certain drugs in Canada for 15 years. The Company receives a royalty of 11% of Draxis Health Inc.'s net sales over the license period.

Royalty income, net of related royalty expense payable to Chinoin, included in other income for the years ended December 31, 1998, 1997 and 1996 was approximately $97,000, $261,000 and $175,000, respectively.

6. INTANGIBLE ASSETS

Intangible assets primarily represent the cost of a modification to the terms of the Chinoin Agreement, less accumulated amortization of $1,832,000, and $1,639,000 at December 31, 1998 and 1997, respectively.

7. CO-PROMOTIONAL AGREEMENT

In 1990, the Company entered into an agreement with Sandoz Pharmaceuticals Corporation ("Sandoz") to co-promote the product Eldepryl. The agreement required Sandoz, among other things, to expend, at a minimum, a predetermined amount for advertising during each year of the agreement. In December 1994, the Company amended its co-promotional agreement with Sandoz. The amended agreement eliminated certain residual period payments to Sandoz, shortened the term to March 31, 1996, eliminated certain sales force detail requirements and required certain payments to be made to the Company if a predetermined level of sales was not achieved.

The Company had previously entered into an agreement with CoCensys, Inc. ("CoCensys") for the promotion of Elderpryl. The agreement was effective January 1, 1996 and had an initial term of two years. Under the terms of the original agreement, the Company would have compensated CoCensys, based on a predetermined formula that considered both the number of new prescriptions written and the net sales dollars achieved in each quarter. During 1996 and 1997, the agreement was modified with respect to term, new prescriptions and detail calls. During 1997, CoCensys was acquired by Watson. The Company paid Watson $4.7 million for the promotion and marketing of Elderpryl during 1998. During 1997 and 1996, the Company expensed $3,800,000 and $1,230,000, respectively, pursuant to these agreements with CoCensys. Additionally, certain co-promotional fees paid by Sandoz at the commencement of the 1990 agreement were recognized ratably by the Company during the term of the agreement (six years, expiring on March 31, 1996), and certain costs associated with the procurement, negotiating and execution of the agreement by the owners of the Company were incurred by the Company in approximately the same amount.

8. OTHER INCOME

In November 1994, the Company prevailed in litigation it brought against foreign defendants who were selling and marketing chemical compounds similar to Eldepryl without FDA approval. In late 1997, a final judgment was rendered by the United States Federal District Court. In November 1997, the Company received and recorded as other income approximately $1,225,000 for settlement of the litigation and reimbursement of related costs.

During November 1997, the Company sold its research and development facility and related equipment with a net book value of approximately $3,422,000 for $3,000,000. The resulting loss of $422,000 is recorded as a reduction in other income. The Company financed in the form of a note $1,000,000 of the sales price. The note receivable is collateralized by the facility and will be collected in 60 monthly installments bearing interest at 8%. Current and non-current portions are included with prepaid expenses and other current assets and other assets, respectively, in the consolidated balance sheet at December 31, 1997. In September 1998, the total outstanding portion of this note receivable was received in full.

9. INCOME TAXES

The income tax provision consists of the following for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Current tax expense:			
Federal	$ 7,800,000	$10,283,000	$15,257,000
State	1,603,000	2,549,000	4,194,000
Foreign	-	100,000	100,000
	9,403,000	12,932,000	19,551,000
Deferred tax expense (benefit):			
Federal	211,000	(7,000)	(669,000)
State	21,000	(1,000)	(67,000)
	232,000	(8,000)	(736,000)
Total provision for income taxes	$ 9,635,000	$12,924,000	$18,815,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's deferred taxes (which are included in "Other Assets" in the consolidated balance sheet) at December 31, 1998 and 1997 are as follows:

	1998	1997
Deferred tax assets:		
Chargeback and rebate allowances	$ 510,000	$ 593,000
Deferred compensation	229,000	223,000
Inventory valuation allowance	-	243,000
Other	100,000	95,000
	839,000	1,154,000
Deferred tax liabilities - different methods of accounting between financial and income tax reporting for depreciation and amortization	243,000	326,000
Net deferred tax assets	$ 596,000	$ 828,000

The statutory federal income tax rate is reconciled to the effective tax rate as follows for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Tax at statutory rate	35.0 %	35.0 %	35.0 %
State income tax (net of federal benefit)	3.6	3.8	3.6
Tax credits	(6.2)	(7.9)	(9.5)
Tollgate tax	3.1	3.4	4.0
Other	4.2	0.7	1.3
Effective tax rate	39.7 %	35.0 %	34.4 %

Tax credits result principally from operations in Puerto Rico. See Note 13.

10.RELATED PARTY TRANSACTIONS

The Company incurs expenses for ongoing management services and over a six-year period (which ended March 31, 1996) for specific services related to the procurement, negotiation and execution of the original co-promotion agreement by one of the owners of the Company. The Company also has other transactions with one or both of its owners as detailed below for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Management fees	$ 2,167,000	$ 3,348,000	$ 5,076,000
Marketing and advertising	4,714,000	775,000	-
Research and development	232,000	90,000	1,250,000
Inventory handling and distribution fees	524,000	465,000	519,000
Rent - equipment and facilities	14,000	640,000	1,217,000

11.SIGNIFICANT CUSTOMERS

The Company had sales to certain customers which individually exceeded 10% of sales. In 1998 sales to three major customers were $8,983,000, $8,013,000 and $6,953,000, respectively. In 1997 sales to five major customers were $15,878,000, $13,498,000, $11,427,000, $8,658,000 and $7,746,000, respectively. In 1996 sales to three major customers were $23,200,000, $21,259,000 and $18,692,000, respectively.

12.EMPLOYEE BENEFIT PLANS

Effective January 1, 1998, the Company created a new defined contribution profit sharing plan covering substantially all employees. Contributions are made at the discretion of the Board of Directors. The defined contribution profit sharing plan in effect prior to 1998 was terminated as of December 31, 1997. Additionally, during 1994, the Company initiated a deferred compensation plan for certain key employees which was terminated during 1997. During 1998, 1997 and 1996, the Company recorded expense of $120,000, $-0- and $954,000, respectively, under these plans.

13.CONTINGENCIES

IRS

In connection with an examination of the Company's Federal tax returns for the three years ended December 31, 1995, representatives of the Internal Revenue Service, in June 1997, issued to the Company a report that contains proposed adjustments to the Company's use of tax credits under Internal Revenue Code section 936.

Under the proposed adjustments, the Company could be subject to approximately $14 million of additional income tax and interest charges that have not been accrued at December 31, 1998.

Management believes that the Company has met all of the requirements to qualify for the tax credits available under Internal Revenue Code section 936, and intends to vigorously defend its position on this matter.

FoxMeyer

The Company has been named as a defendant in a complaint filed by the trustee to the bankruptcy estates of FoxMeyer Corporation and its related entities in the U.S. Bankruptcy Court for the District of Delaware. The complaint alleges that the Company received preferential payments of approximately $3.4 million from the bankruptcy estates and seeks reimbursement from the Company of such amounts. The Company has filed an answer to the complaint denying the allegations.

In the opinion of management, the outcome of these proceedings should not have a material adverse effect on the Company's financial position or results of operations.

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