Audited Combined Financial Statements
Purdue Pharma L.P. and Associated Companies, PRA Holdings, Inc. and Subsidiaries, Purdue Pharma Inc., AB Generics L.P., Purdue Associates Inc., Purdue Associates L.P., and Norwell Land Company Referred to Herein as The "Companies"

Years ended December 31, 1997 and 1996
with Report of Independent Auditors

Audited Combined Financial Statements and Other Financial Information

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Contents

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Report of Independent Auditors

To the Borrowers Under a Credit Agreement
Dated as of October 20, 1997,
with The Chase Manhattan Bank, The Bank of New York,
Fleet National Bank, Morgan Guaranty Trust Company of New York,
Bank Boston N.A., Republic National Bank of New York
and Bank Polska Kasa Opieki, SA

We have audited the accompanying combined balance sheet of Purdue Pharma L.P. and Associated Companies, PRA Holdings, Inc. and Subsidiaries, Purdue Pharma Inc., AB Generics L.P., Purdue Associates Inc., Purdue Associates, L.P., and Norwell Land Company (the "Companies"), as of December 31, 1997 and 1996, and the related combined statements of income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Companies' managements. 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, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Companies at December 31, 1997 and 1996, and the combined results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

April 9, 1998

The Companies' Combined Balance Sheet

	December 31, 1997	December 31, 1996
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 168	$ 7,657
Accounts receivable–trade (net of allowances of $1,386 and $631)	60,361	37,249
Accounts receivable–associated companies	4,715	2,538
Other receivables	2,925	579
Inventories	16,193	16,774
Prepaid expenses and other assets	10,483	7,728
Deferred income taxes	–	494
Total current assets	94,845	73,019
Property and equipment, net	88,990	66,662
Intangibles, net	35,743	32,053
Other assets	3,586	1,620
Deferred income taxes	677	–
Total assets	$223,841	$173,354
Liabilities		
Current liabilities:		
Accounts payable	$ 31,512	$ 19,682
Accrued expenses and income taxes payable	53,752	39,008
Current portion of long-term debt	18,400	10,033
Deferred income taxes	657	–
Due to associated companies	3,840	8,133
Total current liabilities	108,161	76,856
Long-term debt, less current portion	3,200	38,872
Deferred income taxes	–	21
Other liabilities	8,153	4,106
Equity		
Common stock, $1 par value – PRA Holdings, Inc.:		
Authorized shares – 500		
Issued and outstanding shares – 500 in 1997 and 1996	1	1
Common stock, $1 par value – Purdue Pharma Inc.:		
Authorized shares – 1,000		
Issued and outstanding shares – 1,000 in 1997 and 1996	1	1
Common stock, $1 par value – Purdue Associates Inc.:		
Authorized shares – 1,000		
Issued and outstanding shares – 1,000 and 0 in 1997 and 1996	1	–
Additional paid-in capital	844	820
Partners' capital	47,822	1,106
Retained earnings	57,319	52,036
Minimum pension liability adjustment	(1,661)	(465)
Total equity	104,327	53,499
Total liabilities and equity	$223,841	$173,354

See accompanying notes.

The Companies' Combined Statement of Income

For the years ended December 31, 1997 and 1996

	1997	1996
	(In thousands)	
Net sales	**$377,191**	$287,712
Cost of sales	**77,092**	71,769
Gross profit	**300,099**	215,943
Operating expenses:		
Selling and promotion	**113,668**	88,376
General and administrative (includes impairment loss of $607 in 1997)	**66,951**	53,108
Research and development	**77,335**	52,437
Total operating expenses	**257,954**	193,921
Operating income	**42,145**	22,022
Other expenses (income):		
Interest	**5,245**	5,687
Other	**(1,037)**	(1,015)
Total other expenses	**4,208**	4,672
Income before income taxes	**37,937**	17,350
Provision for income taxes	**5,138**	5,799
Net income	**$32,799**	$11,551

See accompanying notes.

The Companies' Combined Statement of Equity

(In thousands)

	Common Stock	Additional Paid-in Capital	Partners' Capital	Retained Earnings	Minimum Pension Liability Adjustment	To
Balance at December 31, 1995	$2	$820	$(351)	$44,486	$(192)	$44,
Net income for 1996	–	–	4,001	7,550	–	11,
Partners' capital distributions:						
Norwell Land Company	–	–	(300)	–	–	(
Purdue Pharma L.P.	–	–	(2,244)	–	–	(2,
Minimum pension liability adjustment	–	–	–	–	(273)	(
Balance at December 31, 1996	2	820	1,106	52,036	(465)	53,
Net income for 1997	–	–	27,516	5,283	–	32,
Issuance of common stock Purdue Associates Inc.	1	24	–	–	–	
Capital contribution Purdue Pharma L.P.	–	–	30,000	–	–	30,
Partners' capital distributions:						
Norwell Land Company	–	–	(360)	–	–	(
Purdue Pharma L.P.	–	–	(10,440)	–	–	(10,
Minimum pension liability adjustment	–	–	–	–	(1,196)	(1,1
Balance at December 31, 1997	$3	$844	$47,822	$57,319	$(1,661)	$104,

See accompanying notes.

The Companies' Combined Statement of Cash Flows

For the years ended December 31, 1997 and 1996

	1997	1996
	(In thousands)	
Operating activities		
Net income	$32,799	$11,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,156	6,101
Amortization	1,481	1,485
Impairment charge	607	–
Deferred income taxes	453	221
Pension intangible	(5,171)	–
Realized gain on sale of investments	–	(63)
Changes in operating assets and liabilities:		
Accounts receivable	(23,112)	(6,015)
Other receivables	(2,339)	499
Inventories	581	(230)
Prepaid expenses and other assets	(4,728)	(3,528)
Accounts payable	11,830	7,081
Accrued expenses and other liabilities	17,595	8,662
Total cash provided by operating activities	39,152	25,764
Investing activities		
Capital expenditures	(32,091)	(28,441)
Proceeds from sale of investments	–	1,084
Purchase of product rights	–	(500)
Total cash used in investing activities	(32,091)	(27,857)
Financing activities		
Payments – associated companies, net	(6,470)	256
Line of credit advances	47,000	48,100
Line of credit payments	(34,400)	(44,100)
Proceeds from issuance of notes	20,000	–
Payment of long-term debt	(59,905)	(1,226)
Capital contribution	30,000	–
Issuance of common stock	25	–
Distributions to partners	(10,800)	(2,544)
Total cash (used in) provided by financing activities	(14,550)	486
Decrease in cash and cash equivalents	(7,489)	(1,607)
Cash and cash equivalents at beginning of year	7,657	9,264
Cash and cash equivalents at end of year	$168	$7,657

Supplemental cash flow information:

Income taxes paid	$3,001	$5,463
Interest paid	$8,957	$7,444

See accompanying notes.

1. Organization and Significant Accounting Policies

The accompanying combined financial statements include Purdue Pharma L.P. ("PPLP") and Associat Companies, all of which are wholly owned or 99% owned, PRA Holdings, Inc. and Subsidiaries, all which are wholly owned, Purdue Pharma Inc., AB Generics L.P., Purdue Associates Inc., Purd Associates L.P., and Norwell Land Company (a New York general partnership, "Norwell") (combin as the "Companies"), which are combined as required by their credit agreement. All significa intercompany transactions and accounts have been eliminated. The Companies develop, manufactu and sell pharmaceutical products, which products are marketed primarily to the medical and healthca industries in the United States.

Summary of Significant Accounting Policies

Inventories are stated at the lower of cost or market, as computed using the first-in, first-out (FIF method.

Property and equipment are stated at cost. Depreciation is provided principally using the straight-li method over the estimated useful lives of the related assets, as follows:

Buildings	20 to 40 years
Machinery and equipment	5 to 12 years
Furniture and fixtures	12 years
Computer equipment	5 years
Leasehold improvements	10 to 20 years

Leasehold improvements are depreciated over the lesser of the assets' useful lives or the term of t lease.

Intangible assets consist principally of goodwill, which is amortized on a straight-line basis principal over 30 years and product rights and purchased patents, which are amortized on a straight-line ba: principally over 5 years.

Revenue from sales of products is recognized at the time products are shipped.

Research and development costs are charged to expense as incurred.

Advertising costs are charged to operations in the year incurred and totaled $15.5 million and $12 million in 1997 and 1996, respectively.

1. Organization and Significant Accounting Policies (continued)

Income Taxes

PRA Holdings, Inc. files a consolidated federal income tax return with its subsidiaries. State income tax returns are filed individually by each corporation with the exception of New York State, where a combined return is filed by The Purdue Frederick Company, The P.F. Laboratories, Inc., Blair Laboratories, Inc. and The Purdue Frederick Company International, Inc.. Earnings and losses of the partnerships flow through to the partners' tax returns. The partnerships are not liable for any federal or state income taxes, nor are they entitled to any tax benefits resulting from operating losses. Income taxes, which may be payable by the partners based upon their share of taxable income, have not been reflected in the accompanying financial statements.

Deferred taxes for PRA Holdings, Inc. are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates.

Cash Flows

For purposes of the statement of cash flows, the Companies consider all highly liquid money market instruments, with a maturity of less than 90 days when acquired, to be cash equivalents.

Credit Concentrations

There is no single geographic concentration of sales or related accounts receivable in the United States. The Companies sell a significant portion of their products through third-party resellers and, as a result, maintain individually significant receivable balances with major distributors. The Companies perform periodic credit evaluations of their customers' financial condition and generally do not require collateral. The three largest customers accounted for approximately 47% of 1997 and 42% of 1996 net sales and 44% and 51% of accounts receivable-trade as of December 31, 1997 and 1996, respectively. Receivables generally are due within 31 days. Credit losses are provided for in the financial statements and credit insurance is maintained.

Use of Estimates

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

Fair Value

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximates their fair value.

Debt: The $21,600,000 carrying amount of the Companies' borrowings under its revolving credit and letter of credit facility approximates its fair value.

2. Inventories

	December 31, 1997	December 31, 1996
	(In thousands)	
Raw materials	$ 6,382	$ 6,006
Work in process	2,558	1,949
Finished goods	8,389	10,153
Obsolescence reserve	(1,136)	(1,334)
	$ 16,193	$ 16,774

3. Property and Equipment

	December 31, 1997	December 31, 1996
	(In thousands)	
Land and buildings	$ 29,340	$ 27,431
Machinery and equipment	51,605	36,894
Furniture and fixtures	5,062	3,623
Computer equipment	17,699	12,794
Leasehold improvements	29,496	11,620
Construction in progress	547	9,903
	133,749	102,265
Accumulated depreciation	(44,759)	(35,603)
	$ 88,990	$ 66,662

As of December 31, 1997, the Companies have commitments for capital expenditures aggregati approximately $ 4.1 million.

During 1997, the Companies incurred interest costs aggregating $1.4 million in connection w construction projects. Such interest was capitalized as part of the cost of the projects.

In 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounti Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets be Disposed Of." The Statement, which was adopted in 1996, requires companies to investigate potent impairments of long-lived assets on an exception basis, when there is evidence that events or changes circumstances have made recovery of an asset's carrying value unlikely.

In January 1997, the Companies purchased a new research and development facility in Ardsley, Ne York. The move to this building is expected to be completed by the end of July 1998. In 1997, impairment reserve of $607,000 was recorded against the old research and developments facility locat in Yonkers, New York reducing the carrying value of these assets to approximately $981,000. The fi value of the land, buildings and leasehold improvements was determined based upon estimates of the fair market values.

4. Investments

In May 1996, the Companies sold all of their stock in Interferon Sciences, Inc. ("ISI") for approximate $1,084,000 and entered into an agreement with ISI, whereby the Companies would continue to distribu Alferon N Injection for an annual fee of $240,000 through May 1997 and at ISI's sole option throu May 1998 for a fee up to $450,000.

4. Investments (continued)

In May 1997, ISI did not exercise the option to continue to have the Companies distribute Alferon N Injection . The Companies have recorded $80,000 of income for services provided to ISI in 1997.

5. Intangibles

	December 31, 1997	December 31, 1996
	(In thousands)	
Goodwill	**$45,676**	$45,676
Unrecognized prior service cost - pension	**5,171**	–
Product rights and patents	**1,245**	1,245
Organization expense	**30**	30
Accumulated amortization	**(16,379)**	(14,898)
	$35,743	$32,053

6. Debt

	December 31, 1997	December 31, 1996
	(In thousands)	
8.93% Promissory note payable	**$ –**	$ 465
11.75% to 14% Note payable to Estate of A.M. Sackler, MD	**–**	19,654
Subordinated debt 14.27% in 1997	**–**	10,000
Revolver 8.50% in 1997 and 8.25% in 1996	**21,600**	9,000
Term notes payable to banks 7.1% in 1997	**–**	3,400
9% to 10.3% Notes payable to associated companies	**–**	6,254
Industrial Revenue Bonds (IRB) 5.5% in 1996	**–**	132
	21,600	48,905
Less current portion	**(18,400)**	(10,033)
	$ 3,200	$38,872

The promissory note payable represented the discounted present value of required $500,000 annual payments due through 1997. This obligation was discounted, at its inception, at an effective interest rate of 8.93% per annum, and Mortimer D. Sackler, MD and Raymond R. Sackler, MD each guaranteed one-half of the amount due. The balance of the note was paid off on October 24, 1997.

The note payable to the Estate of A.M. Sackler, MD bore interest at approximately 14% per annum, payable quarterly through November 13, 1996, at which time the interest rate decreased to 11.75% per annum through November 13, 1997. The note was secured by 250 shares of PRA Holdings, Inc.'s common stock, and Mortimer D. Sackler, MD and Raymond R. Sackler, MD each guaranteed one-half of all amounts due. The balance of the note was paid off on November 14, 1997.

6. Debt (continued)

On September 29, 1995, certain entities included in the combined financial statements entered into a $ million ($9 million borrowed by The Purdue Frederick Company, and $1 million by PPLP) subordinat loan agreement with certain Trusts and members of the Sackler family. This debt was subordinate right and payment to borrowings under the 1995 credit facility with a group of banks, described belo The subordinated debt was due to mature on September 28, 2005, and interest of approximately 14% p annum was to be payable quarterly over the life of the loan. On both April 22, 1997, and May 27, 199 PPLP entered into $10 million subordinated loan agreements with certain Trusts, companies a members of the Sackler family. These agreements had substantially the same terms and maturity as t agreement dated September 29, 1995. On September 30, 1997, The Purdue Frederick Company repa its $9 million of outstanding subordinated debt to the lenders, who in turn lent the $9 million to PPLP. addition, during 1997, Purdue Pharma GmbH withdrew as a general partner of PPLP, leaving Purd Pharma Inc. as the sole general partner, and the limited partners of PPLP contributed their limit partnership interests to Purdue Pharma LLC. Purdue Pharma LLC is entitled to 100% of the profits a losses of PPLP. Purdue Pharma LLC is not a party to the 1997 credit agreement and is therefore n included in the combined financial statements. Additionally, on September 30, 1997, the balance of t subordinated debt ($30 million) was assumed by Purdue Pharma LLC, and Purdue Pharma LLC made $30 million capital contribution to PPLP.

On September 29, 1995, certain entities included in the combined financial statements entered into credit agreement with a group of banks to replace the Companies' prior credit agreement. The 19 credit agreement provided for a $4 million term loan facility and a $31 million revolving credit and lett of credit facility. The 1995 credit agreement was replaced on October 20, 1997 with a $110 milli revolving credit and letter of credit facility (the "1997 revolving credit and letter of credit facility" Borrowings under the 1997 revolving credit and letter of credit facility expire on September 30, 200 Principal payments are made entirely at the Companies' discretion prior to expiration. The 19 revolving credit and letter of credit facility provides the Companies a choice of paying interest at LIBC plus the applicable margin based on the Companies financial ratios or at the ABR, as defined. Intere on loans outstanding at December 31, 1997 was based on the ABR (8.5% at December 31, 1997).

The 1997 revolving credit and letter of credit facility contains various restrictive covenants, includi limitations on other indebtedness, dividends, and capital expenditures, plus the requirement to mainta certain minimum levels of net worth and other financial ratios, and is unsecured.

The notes payable to associated companies were due monthly ($55,000 including interest at 9% 10.3% per annum) through 2026. The balances of these notes were paid off on December 31, 199 Principal on the IRB notes was due quarterly ($67,000 per quarter through June 30, 1997). The not bore interest at 65% of the prime rate (approximately 5.5% at December 31, 1996 and June 30, 1997 and were collateralized by real property owned by Norwell with a net carrying amount at December 3 1996 of $15.2 million. The IRB notes matured on June 30, 1997 at which time the final quarter payment of $67,000 plus accrued interest was paid.

The Companies had $1.2 million and $2.4 million, respectively, of standby letters of credit outstandi as of December 31, 1997 and 1996 which collateralize various trade activities.

7. Income Taxes

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

	1997	1996
	(In thousands)	
Current:		
Federal	$3,628	$4,329
State	1,057	1,249
	4,685	5,578
Deferred:		
Federal	351	171
State	102	50
	453	221
	$5,138	$5,799

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 1997 and 1996 are as follows:

	1997	1996
	(In thousands)	
Deferred tax assets:		
Employee benefit programs	$1,696	$1,104
Accrued liabilities and reserves	848	1,609
Other	623	626
Total deferred tax assets	3,167	3,339
Deferred tax liabilities:		
Property and equipment	1,523	1,464
Pension	964	717
Other	660	685
Total deferred tax liabilities	3,147	2,866
Net deferred tax assets	$ 20	$ 473

Total income tax expense in 1997 and 1996 differs from the amount computed at the statutory U.S. federal income tax rate principally due to state income taxes, partnership income or losses which increased during 1997 and which are not included in the combined entities' tax returns and non-deductible goodwill amortization.

8. Pension and Other Benefit Plans

In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Companies adopted the disclosure provisions in their 1997 financial statements.

8. Pension and Other Benefit Plans (continued)

Certain entities included in the combined financial statements provide retirement benefits substantially all U.S. non-union employees through a noncontributory defined benefit pension pl Additionally, such plan includes certain employees of an associated company, which amounts are : significant. A separate defined benefit plan is maintained for employees covered under a collect bargaining agreement that is based on negotiated benefits and years of service.

Certain entities included in the combined financial statements also have benefit plans that prov medical, dental, and life insurance for retirees and eligible dependents. Additionally, such plans incl certain employees of an associated company, which amounts are not significant.

Reconciliation of funded status	**Pension Benefits**		**Other Benefits**	
	1997	**1996**	**1997**	**1996**
	(In thousands)			
Benefit obligation at beginning of year	**$ 32,761**	$ 27,895	**$ 8,456**	$ 9,013
Service cost	**2,312**	1,874	**371**	443
Interest cost	**2,526**	2,081	**454**	518
Amendments	**3,457**	–	**–**	–
Actuarial (gain)/loss	**4,839**	2,673	**(1,691)**	(1,228)
Benefits paid	**(1,433)**	(1,762)	**(209)**	(290)
Benefit obligation at end of year	**$ 44,462**	$ 32,761	**$ 7,381**	$ 8,456
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 27,127**	$ 23,913	**$ –**	$ –
Actual return on plan assets	**5,265**	2,356	**–**	–
Employer contribution	**3,051**	2,620	**209**	290
Benefits paid	**(1,433)**	(1,762)	**(209)**	(290)
Fair value of plan assets at end of year	**34,010**	27,127	**–**	–
Funded status of plan – (underfunded)	**(10,452)**	(5,634)	**(7,381)**	(8,456)
Unrecognized actuarial (gain)/loss	**9,097**	7,486	**(2,915)**	(1,382)
Unrecognized prior service cost	**5,530**	2,266	**(300)**	(321)
Unrecognized net (asset)/obligation existing at January 1987 being recognized over 15 years (pension benefits) and 20 years (other benefits)	**(760)**	(931)	**5,467**	5,832
Accumulated other comprehensive income (expense)	**(1,673)**	(465)	**–**	–
Prepaid (accrued) benefit costs	**$ 1,742**	$ 2,722	**$ (5,129)**	$ (4,327)

8. Pension and Other Benefit Plans (continued)

Set forth below is a summary of the amounts reflected in the Company's statement of financial position for pensions at the end of the last two fiscal years:

	December 31, 1997	December 31, 1996
	(In thousands)	
Prepaid Pension Cost	$ 3,415	$ 3,417
Accrued Benefit Liability	(7,203)	(695)
Intangible Asset (Unrecognized Prior Service Cost)	5,530	–
Net Amount Recognized	$ 1,742	$ 2,722

	Pension Benefits		Other Benefits	
	1997	1996	1997	1996
Weight-average assumptions as of December 31:				
Discount rate	**7.0%**	7.5%	**7.0%**	7.5%
Expected return on plan assets – non Union pension	**9.0%**	9.0%		
Expected return on plan assets – Union pension	**7.7%**	7.0%		
Rate of compensation increase	**5.5%**	5.5%		

For measurement purposes, an 8 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998, declining to 7% by 2004, declining to 5% by 2011 and remaining at that level thereafter.

	Pension Benefits		Other Benefits	
	1997	1996	1997	1996
		(In thousands)		
Components of net periodic benefit cost				
Service cost	**$ 2,312**	$ 1,874	**$ 371**	$ 443
Interest cost	**2,526**	2,081	**454**	518
Expected return on plan assets	**(2,368)**	(2,080)	**–**	–
Amortization of unrecognized obligation at transition date	**(171)**	(171)	**365**	365
Amortization of prior service cost	**193**	183	**(21)**	(21)
Amortization of prior experience gains	**331**	166	**(158)**	(72)
Benefit cost	**$ 2,823**	$ 2,053	**$ 1,011**	$ 1,233

8. Pension and Other Benefit Plans (continued)

The assumed health care cost trend rate has a significant effect on the amounts reported. A o percentage-point change in the assumed health care cost trend rate would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands)	
Effect on total of service and interest cost components in 1997	$ 164	$ (126)
Effect on accumulated postretirement benefit obligation as of 12-31-97	$ 944	$ (741)

Certain entities included in the combined financial statements also sponsor a defined contribution 401 saving plan available to domestic non-union employees who meet certain minimum age and serv requirements. Additionally, such plan includes certain employees of an associated company, whi amounts are not significant. Contributions and cost are determined as 50% of each employe contributions to the Plan, to a maximum of 6% of each employee's covered earnings. A separate plan maintained for employees covered by a collective bargaining agreement. Contributions and costs determined as 50% of each employee's contributions to the Plan, to a maximum of 6% of ea employee's covered earnings. The net cost of these plans totaled $2.2 million and $1.8 million in 19 and 1996, respectively.

9. Related Party Transactions

Certain entities included in the combined financial statements are parties to license/roya arrangements, for the manufacture and sale of various products, with entities owned directly or indirec by the families of certain officers of the Companies. Such royalty expense (included in cost of sal approximated $8.9 million and $14.7 million in 1997 and 1996, respectively. On September 30, 19 Purdue Pharma LLC assumed PPLP's MS Contin royalty obligations to an associated company a granted PPLP the right to distribute MS Contin without a royalty payment. Had the royalty not be assumed by Purdue Pharma LLC, the Companies royalty expense for 1997 would have increased approximately $5.5 million.

Inventory purchased from associated companies in 1997 and 1996 aggregated approximately $305,0 and $622,000, respectively.

10. Commitments and Contingencies

Certain entities included in the combined financial statements lease automobiles and office equipment under operating leases, expiring on various dates through 2002. Aggregate future lease payments of $13.7 million at December 31, 1997 are payable as follows:

	(In thousands)
Year ending December 31,	
1998	$ 4,142
1999	3,841
2000	3,143
2001	1,988
2002	589
	$ 13,703

Lease expense for the years ended December 31, 1997 and 1996 was approximately $3,400,000 and $2,741,000, respectively.

The Companies are parties to certain legal actions, which in the opinion of management, including in-house counsel, will not have a material adverse effect on the Companies' financial condition.

11. Year 2000 Issue – Unaudited

The Companies have developed a plan to modify its Information Technology to be ready for the Year 2000 and has begun converting critical data processing systems. The Companies currently expect the project to be substantially complete by mid 1999 and to cost between $1.9 million and $6.1 million. This estimate includes internal costs, but excludes the costs to upgrade and replace systems in the normal course of business. As of December 31, 1997, less than $1 million had been expended. The Companies will continue to implement systems with strategic value though some projects may be delayed due to resource constraints.

Other Financial Information

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Report of Independent Auditors on Other Financial Information

To the Borrowers Under a Credit Agreement
Dated as of October 20, 1997,
with The Chase Manhattan Bank, The Bank of New York,
Fleet National Bank, Morgan Guaranty Trust Company of New York,
Bank Boston N.A., Republic National Bank of New York
and Bank Polska Kasa Opieki, SA

Our audit was conducted for the purpose of forming an opinion on the 1997 basic combined financial statements taken as a whole. The accompanying combining financial information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 1997 combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the 1997 basic combined financial statements of the Companies taken as a whole.

Ernst + Young LLP

April 9, 1998

The Companies' Combining Balance Sheet

December 31, 1997
(In thousands)

	CT Ave. Realty	Gray Pharmaceutical	CBC Diagnostics	Blair Laboratories	The Purdue Frederick Company	P.F. Laboratories	ABG Laboratories
Assets							
Current assets:							
Cash and cash equivalents	$ 2	$ 4	$ 2	$ 4	$ 110	$ (40)	$ 13
Accounts receivable – trade	–	–	–	–	14,039	94	–
Accounts receivable – associated companies	–	2,861	–	–	133,552	9,654	1,656
Other receivables	–	–	–	–	510	110	–
Inventories	–	19	–	3	4,631	8,909	–
Prepaid expenses	20	10	–	–	4,847	1,169	10
Deferred income taxes	–	–	–	–	–	–	–
Total current assets	22	2,894	2	7	157,689	19,896	1,679
Investments in associated companies	1,653	–	–	–	363	1	–
Property and equipment, net	–	–	–	–	11,844	21,114	–
Intangibles, net	2,033	–	–	–	3,764	1,070	–
Other assets	–	–	–	–	2,956	216	–
Deferred income taxes	–	–	–	–	677	–	–
Total assets	$3,708	$2,894	$ 2	$ 7	$177,293	$42,297	$1,679
Liabilities and equity							
Current liabilities:							
Accounts payable	$ –	$ 18	$ –	$ 1	$ 10,762	$ 6,738	$ 10
Accrued expenses and income taxes payable	3	14	–	1	17,190	2,388	–
Current portion of long-term debt	–	–	–	–	18,400	–	–
Deferred income taxes	–	–	–	–	657	–	–
Due to associated companies	4,933	890	2,123	1,127	30,382	28,955	1,222
Total current liabilities	4,936	922	2,123	1,129	77,391	38,081	1,232
Long-term debt, less current portion	–	–	–	–	3,200	–	–
Other liabilities	–	–	–	–	5,900	1,157	–
Total liabilities	4,936	922	2,123	1,129	86,491	39,238	1,232
Equity:							
Capital stock – common	10	–	1	1	195	10	1
Capital stock – preferred	–	–	–	–	163	–	–
Additional paid-in capital	–	–	–	49	32	–	–
Partners' capital (deficiency)	–	1,972	–	–	–	–	–
Retained earnings	(1,238)	–	(2,122)	(1,172)	90,431	4,057	446
Minimum pension liability adjustment	–	–	–	–	(19)	(1,008)	–
Total equity	(1,228)	1,972	(2,121)	(1,122)	90,802	3,059	447
Total liabilities and equity	$3,708	$2,894	$ 2	$ 7	$177,293	$42,297	$1,679

For purposes of this combining balance sheet, the cost method of accounting for investments in certain associated companies has been used by PRA Holdings, Inc.

EDLA Laboratories	Purdue Frederick International	PRA Holdings Inc.	Inactive Companies	PRA Holdings Consol.	Adjustments and Eliminations	Total PRA Holdings, Inc. and Subsidiaries Consol.
$ 2	$ 43	$ 9	$ –	$ 149	$ –	$ 149
–	147	–	–	14,280	–	14,280
247	2,319	(1)	275	150,563	(107,979)	42,584
–	–	–	–	620	–	620
–	–	–	–	13,562	154	13,716
1	–	21	–	6,078	–	6,078
–	–	–	–	–	–	–
250	2,509	29	275	185,252	(107,825)	77,427
–	–	2,426	369	4,812	(3,144)	1,668
–	–	–	–	32,958	–	32,958
–	–	27,292	–	34,159	–	34,159
–	–	–	–	3,172	–	3,172
–	–	–	–	677	–	677
$250	$2,509	$ 29,747	$ 644	$261,030	$(110,969)	$150,061
$127	$ 3	$ 20	$ –	$ 17,679	$ –	$ 17,679
–	1	1	–	19,598	(1)	19,597
–	–	–	–	18,400	–	18,400
–	–	–	–	657	–	657
106	2,517	59,794	210	132,259	(107,979)	24,280
233	2,521	59,815	210	188,593	(107,980)	80,613
–	–	–	–	3,200	–	3,200
–	–	–	–	7,057	–	7,057
233	2,521	59,815	210	198,850	(107,980)	90,870
1	1	1	103	324	(322)	2
–	–	–	267	430	(430)	–
–	(4)	315	348	740	(419)	321
–	–	–	–	1,972	(1,972)	–
16	(9)	(30,384)	(284)	59,741	154	59,895
–	–	–	–	(1,027)	–	(1,027)
17	(12)	(30,068)	434	62,180	(2,989)	59,191
$250	$2,509	$ 29,747	$ 644	$261,030	$(110,969)	$150,061

The Companies' Combining Balance Sheet (continued)

December 31, 1997
(In thousands)

	Total PRA Holdings, Inc. and Subsidiaries Consol.	Purdue Pharma L.P.	The Purdue Pharma Company	Purdue Pharma Inc.	Norwell Land Company	Mundipharma LLC	Other Companies
Assets							
Current assets:							
Cash and cash equivalents	$ 149	$ (553)	$ 76	$ 4	$ 283	$ 54	$ 51
Accounts receivable – trade	14,280	21,443	23,444	–	–	–	–
Accounts receivable – associated companies	42,584	30,467	21,147	73	–	850	49
Other receivables	620	2,096	175	18	–	36	–
Inventories	13,716	923	1,786	–	–	–	–
Prepaid expenses	6,078	1,867	2,527	11	8	(62)	–
Deferred income taxes	–	–	–	–	–	–	–
Total current assets	77,427	56,243	49,155	106	291	878	100
Investments in associated companies	1,668	6,010	(6)	22	–	–	(18)
Property and equipment, net	32,958	39,971	19	–	16,026	16	–
Intangibles, net	34,159	1,584	–	–	–	–	–
Other assets	3,172	414	–	–	–	–	–
Deferred income taxes	677	–	–	–	–	–	–
Total assets	$150,061	$104,222	$ 49,168	$128	$16,317	$ 894	$ 82
Liabilities and equity							
Current liabilities:							
Accounts payable	$ 17,679	$ 9,480	$ 4,275	$ 12	$ 15	$ 16	$ –
Accrued expenses and income taxes payable	19,597	21,689	11,528	36	42	57	–
Current portion of long-term debt	18,400	–	–	–	–	–	–
Deferred income taxes	657	–	–	–	–	–	–
Due to associated companies	24,280	27,061	31,578	134	14,271	1,435	72
Total current liabilities	80,613	58,230	47,381	182	14,328	1,508	72
Long-term debt, less current portion	3,200	–	–	–	–	–	–
Other liabilities	7,057	1,096	–	–	–	–	–
Total liabilities	90,870	59,326	47,381	182	14,328	1,508	72
Equity:							
Capital stock – common	2	–	–	1	–	–	–
Capital stock – preferred	–	–	–	–	–	–	–
Additional paid-in capital	321	–	–	499	–	–	–
Partners' capital (deficiency)	–	45,530	1,787	–	1,989	(614)	10
Retained earnings	59,895	–	–	(554)	–	–	–
Minimum pension liability adjustment	(1,027)	(634)	–	–	–	–	–
Total equity	59,191	44,896	1,787	(54)	1,989	(614)	10
Total liabilities and equity	$150,061	$104,222	$49,168	$128	$16,317	$ 894	$82

For purposes of this combining balance sheet, the cost method of accounting for investments in certain associated companies has been used by PRA Holdings, Inc.

Purdue Associates Inc.	Purdue Associates L.P.	AB Generics L.P.	Adjustments And Eliminations	Total Combined Companies
$25	$1	$ 78	$ –	$ 168
–	–	1,194	–	60,361
–	–	4,863	(95,318)	4,715
–	–	(20)	–	2,925
–	–	96	(328)	16,193
–	–	54	–	10,483
–	–	–	–	–
25	1	6,265	(95,646)	94,845
–	–	–	(7,676)	–
–	–	–	–	88,990
–	–	–	–	35,743
–	–	–	–	3,586
–	–	–	–	677
$25	$1	$6,265	$(103,322)	$223,841
$ –	$–	$ 35	$ –	$ 31,512
–	–	800	3	53,752
–	–	–	–	18,400
–	–	–	–	657
–	–	327	(95,318)	3,840
–	–	1,162	(95,315)	108,161
–	–	–	–	3,200
–	–	–	–	8,153
–	–	1,162	(95,315)	119,514
1	–	–	(1)	3
–	–	–	–	–
24	–	–	–	844
–	1	5,103	(5,984)	47,822
–	–	–	(2,022)	57,319
–	–	–	–	(1,661)
25	1	5,103	(8,007)	104,327
$25	$1	$6,265	$(103,322)	$223,841

The Companies' Combining Statement of Income

Year ended December 31, 1997
(In thousands)

	CT Ave. Realty	Gray Pharmaceutical	CBC Diagnostics	Blair Laboratories	The Purdue Frederick Company	P.F. Laboratories	ABG Laboratories
Net sales	$ –	$2,105	$ –	$ 52	$108,513	$ –	$ –
Partnership/investment income	130	–	–	–	229	–	–
Total income	130	2,105	–	52	108,742	–	–
Cost of sales	–	493	–	16	39,573	(1,381)	(268)
Gross profit	130	1,612	–	36	69,169	1,381	268
Selling and promotion	–	128	–	–	34,063	–	–
General and administrative	131	162	–	56	20,764	–	–
Research and development	–	–	–	–	4,261	–	–
Total operating expenses	131	290	–	56	59,088	–	–
Operating income (loss)	(1)	1,322	–	(20)	10,081	1,381	268
Interest expense (income)	24	–	–	–	(223)	–	–
Other expense (income)	–	–	–	–	(862)	–	–
Net income before taxes	(25)	1,322	–	(20)	11,166	1,381	268
Provision for Income tax	–	–	–	–	5,097	–	–
Net income (loss)	$ (25)	$1.322	$ –	$(20)	$ 6,069	$ 1.381	$ 268

For purposes of this combining statement of income, the cost method of accounting for investments in certain associated companies has been used by PRA Holdings, Inc.

EDLA Laboratories	Purdue Frederick International	PRA Holdings Inc.	Inactive Companies	PRA Holdings Consol.	Adjustments and Eliminations	Total PRA Holdings, Inc. and Subsidiaries Consol.
$ –	$216	$ –	$ –	$110,886	$ –	$110,886
–	–	1,308	–	1,667	(1,321)	346
–	216	1,308	–	112,553	(1,321)	111,232
(16)	139	–	–	38,556	(129)	38,427
16	77	1,308	–	73,997	(1,192)	72,805
–	18	–	–	34,209	–	34,209
–	57	1,413	–	22,583	–	22,583
–	–	–	–	4,261	–	4,261
–	75	1,413	–	61,053	–	61,053
16	2	(105)	–	12,944	(1,192)	11,752
–	–	1,992	–	1,793	–	1,793
–	–	–	–	(862)	–	(862)
16	2	(2,097)	–	12,013	(1,192)	10,821
–	–	–	–	5,097	–	5,097
$16	$ 2	$(2,097)	$ –	$ 6,916	$(1,192)	$ 5,724

The Companies' Combining Statement of Income (continued)

Year ended December 31, 1997

	Total PRA Holdings, Inc. and Subsidiaries Consol.	Purdue Pharma L.P.	The Purdue Pharma Company	Purdue Pharma Inc.	Norwell Land Company	Mundipharma LLC	Other Companies
Net sales	$110,886	$128,391	$132,259	$ –	$ –	$ –	$ –
Partnership/investment income	346	24,406	(7)	206	–	–	(2)
Total income	111,232	152,797	132,252	206	–	–	(2)
Cost of sales	38,427	19,764	17,447	–	–	–	–
Gross profit	72,805	133,033	114,805	206	–	–	(2)
Selling and promotion	34,209	13,531	65,526	–	–	662	–
General and administrative	22,583	29,945	13,645	34	1,375	65	–
Research and development	4,261	61,581	13,010	–	–	–	–
Total operating expenses	61,053	105,057	92,181	34	1,375	727	–
Operating income (loss)	11,752	27,976	22,624	172	(1,375)	(727)	(2)
Interest expense (income)	1,793	1,305	1,054	–	1,085	–	–
Other expense (income)	(862)	(163)	–	–	(2,802)	–	–
Income before taxes	10,821	26,834	21,570	172	342	(727)	(2)
Provision for income tax	5,097	–	–	41	–	–	–
Net income (loss)	$ 5,724	$ 26,834	$ 21,570	$131	$ 342	$(727)	$(2)

For purposes of this combining statement of income, the cost method of accounting for investments in certain associated companies has been used by PRA Holdings, Inc.

Purdue Associates Inc.	Purdue Associates L.P.	AB Generics L.P.	Adjustments And Eliminations	Total Combined Companies
$ –	$ –	$5,655	$ –	$377,191
–	–	–	(24,949)	–
–	–	5,655	(24,949)	377,191
–	–	1,530	(76)	77,092
–	–	4,125	(24,873)	300,099
–	–	210	(470)	113,668
–	–	156	(852)	66,951
–	–	–	(1,517)	77,335
–	–	366	(2,839)	257,954
–	–	3,759	(22,034)	42,145
–	–	8	–	5,245
–	–	(165)	2,955	(1,037)
–	–	3,916	(24,989)	37,937
–	–	–	–	5,138
$ –	$ –	$3,916	$(24,989)	$ 32,799