

CARACO PHARMACEUTICAL LABORATORIES LTD
Form PRE 14A
September 23, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement Confidential, for use of the Commission only (as permitted by Rule 14a-6 (e) (2)).
- Definitive proxy statement
- Definitive additional materials
- Soliciting material pursuant to Rule 14a-12

CARACO PHARMACEUTICAL LABORATORIES, LTD

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

(a) Title of each class of securities to which transaction applies:

N/A

(b) Aggregate number of securities to which transactions applies:

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(c) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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o Fee paid previously with preliminary materials.

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(a) Amount Previously Paid:

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(b) Form, Schedule or Registration Statement No.:

N/A

(c) Filing Party:

N/A

(d) Date Filed:

N/A

CARACO PHARMACEUTICAL LABORATORIES, LTD.

NOTICE OF
SPECIAL MEETING OF SHAREHOLDERS
AND
PROXY STATEMENT
2009

CARACO PHARMACEUTICAL LABORATORIES, LTD.
1150 Elijah McCoy Drive
Detroit, Michigan 48202

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
AND
PROXY STATEMENT
2009

October __, 2009

Dear Shareholder,

We invite you to attend our 2009 Special Meeting of Shareholders at 11:00 a.m., Eastern Daylight Saving Time, on October 26, 2009 at the executive offices of the Company at 1150 Elijah McCoy Drive, Detroit Michigan 48202.

Whether or not you plan to attend the Meeting, please complete and mail the enclosed proxy card promptly so that your shares will be voted as you desire. IF YOU WISH TO VOTE IN THE MANNER THE BOARD OF DIRECTORS RECOMMENDS, IT IS NOT NECESSARY TO SPECIFY YOUR CHOICES ON THE PROXY CARD. SIMPLY SIGN, DATE AND RETURN THE PROXY CARD.

Sincerely,

Jitendra N. Doshi
Chief Executive Officer

CARACO PHARMACEUTICAL LABORATORIES, LTD.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Date: October 26, 2009
Time: 11:00 a.m., Eastern Daylight Saving Time
Place: Caraco Pharmaceutical Laboratories, Ltd.
1150 Elijah McCoy Drive
Detroit, Michigan 48202

We invite you to attend the Caraco Pharmaceutical Laboratories, Ltd. Special Meeting of Shareholders to:

1. Approve the amendment to Article VI, paragraph 4 of the Company's Amended and Restated Articles of Incorporation to permit vacancies on the Board of Directors to also be filled by a vote of the Company's shareholders.
2. Ratify and elect one director for a term expiring in 2012 and upon the election and qualification of his successor.
3. Transact any other business that is properly submitted before the Special Meeting or any adjournment(s) of the Meeting.

The record date for the Meeting is September 21, 2009 (the "Record Date"). Only shareholders of record at the close of business on that date can vote at the Special Meeting. Caraco is mailing this Notice of Annual Meeting to those shareholders.

A proxy statement and proxy card are enclosed with this Notice. Whether or not you plan to attend the Meeting and whether you own a few or many shares of stock, the Board of Directors urges you to vote promptly. You may vote by signing, dating and returning the enclosed proxy card.

A list of shareholders who can vote at the Special Meeting will be available for inspection by shareholders at the Meeting and for ten days prior to the Meeting during regular business hours at the offices of Caraco, 1150 Elijah McCoy Drive, Detroit, MI 48202.

By Order of the Board of Directors,

Jitendra N. Doshi
Chief Executive Officer

October __, 2009

Important Notice Regarding the Availability of Proxy Materials for Special Meeting of Shareholders to Be Held on October 26, 2009.

This Notice of Special Meeting of Shareholders and Proxy Statement are available at <https://materials.proxyvote.com/14075T>.

You may obtain directions to the special meeting by sending a written request to Caraco Pharmaceutical Laboratories, Ltd., Attention: Director, Human Resources, 1150 Elijah McCoy Drive, Detroit, Michigan 48202.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.

1150 Elijah McCoy Drive

Detroit, Michigan 48202

SPECIAL MEETING OF SHAREHOLDERS

2009 PROXY STATEMENT

QUESTIONS AND ANSWERS

1. Q: What is a proxy?

A: A proxy is a document, also referred to as a proxy card (which is enclosed), by which you authorize someone else to vote for you in the way that you want to vote. Caraco's Board of Directors is soliciting this proxy. You may also abstain from voting.

2. Q: What is a proxy statement?

A: A proxy statement is the document the United States Securities and Exchange Commission (the "SEC") requires to explain the matters on which you are asked to vote on the proxy card. Caraco's proxy statement, together with its enclosed proxy card, was first mailed to shareholders on or about October __, 2009.

3. Q: Who can vote?

A: Only holders of Caraco's common stock at the close of business on September 21, 2009, the Record Date, can vote at the Special Meeting. Each shareholder of record has one vote for each share of common stock on each matter presented for a vote at the Meeting.

4. Q: How do I vote if my stock is held in "street name?"

A: If your Caraco common stock is held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of stock held in "street name." As a beneficial owner, you do not have the right to vote your stock. Only the "record holder" of the stock has such rights. If you wish to vote your stock, you should either (i) obtain a legal proxy from the record holder of the stock appointing you as its legal proxy or (ii) instruct the record holder how you would like the record holder to vote the stock you own.

5. Q: What will I vote on at the Meeting?

A: At the Special Meeting, shareholders will vote to:

1. Approve the amendment to Article VI, paragraph 4 of the Company's Amended and Restated Articles of Incorporation to permit vacancies on the Board of Directors to also be filled by a vote of the Company's shareholders.
2. Ratify and elect one director for a term expiring in 2012 and upon the election and qualification of his successor.
3. Transact any other business that is properly submitted before the Special Meeting or any adjournment(s) of the Meeting.

6. Q: Who can attend the Special Meeting?

A: You are entitled to attend the Special Meeting only if you were a Caraco shareholder as of the Record Date or you hold a valid proxy for the special meeting. You should be prepared to present valid government-issued photo identification for admittance. In addition, if you are a shareholder of record, your name will be verified against the list of shareholders of record on the Record Date prior to your being admitted to the Special Meeting. If you are not a shareholder of record but hold shares through a broker or nominee (i.e., in street name), you should provide proof of beneficial ownership on the Record Date, such as your most recent account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. If you do not provide valid government-issued photo identification or comply with the other procedures outlined above upon request, you may not be admitted to the Special Meeting.

The Meeting will begin promptly at 11:00 a.m., local time. Check-in will begin at 10:30 a.m., and you should allow ample time for the check-in procedures.

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7. Q: How does the Board of Directors recommend I vote on the proposals?

A: The Board of Directors recommends a vote “FOR” the approval of the amendment to Article VI, paragraph 4 of the Amended and Restated Articles of Incorporation of the Company and “FOR” the Director listed in Proposal 2.

8. Q: How can I vote?

A: You can vote in person or by proxy. To vote by proxy, sign, date and return the enclosed proxy card. If you return your signed proxy card to American Stock Transfer before the Special Meeting, the persons named as proxies on the card will vote your shares as you directed. You may revoke a proxy at any time before the proxy is exercised by:

1. giving written notice of revocation to Donna Griffith, Director, Human Resources, of Caraco, at 1150 Elijah McCoy Drive, Detroit, Michigan 48202;
2. submitting another proxy that is properly signed and later dated;
3. voting in person at the Meeting (but only if the shares are registered in Caraco’s records in the name of the shareholder and not in the name of a broker, dealer, bank or other third party).

9. Q: What is a quorum?

A: There were 39,090,194 shares of Caraco’s common stock outstanding on the Record Date. A majority of the outstanding shares, or 19,545,098 shares, present or represented by proxy, constitutes a quorum. For purposes of a quorum, abstentions and broker non-votes are included. A broker non-vote is a proxy a broker submits that does not indicate a vote for some or all the proposals because the broker does not have discretionary voting authority and the broker did not receive instructions as to how to vote on those proposals. A broker non-vote may also occur if your broker fails to vote your shares for any reason. A quorum must exist to conduct business at the Special Meeting.

10. Q: How does voting work?

A: If a quorum exists, Proposal 1, the amendment to Article VI, paragraph 4 of the Amended and Restated Articles of Incorporation, must receive the approval of sixty-six and two-thirds percent (66 2/3%) of the outstanding shares of the Company. Proposal 2, the ratification and election of the Director, must receive the favorable vote of a majority of the shares voted, present in person or represented by proxy, but excluding broker non-votes and abstentions.

Caraco will vote properly executed Proxies it receives prior to or at the Meeting in the way you direct. If you sign the proxy card but do not specify instructions, the shares represented by Proxies will be voted “FOR” the amendment to Article VI, paragraph 4 of the Amended and Restated Articles of Incorporation and “FOR” the Director. No other matters are currently scheduled to be presented at the Meeting. If any matter or matters are properly brought before the Meeting or any adjournment thereof, it is the intention of the persons named in the accompanying proxy card to vote the shares represented by the proxy card as they determine.

11. Q: Who pays for the costs of the Meeting?

A:

Caraco pays the cost of preparing and printing the proxy statement and soliciting proxies. Caraco will solicit proxies primarily by mail, but may also solicit proxies personally and by telephone. Caraco will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their out-of-pocket expenses for forwarding solicitation material to beneficial owners of Caraco's common stock.

12. Q: When are shareholder proposals for the 2010 Annual Meeting due?

A: All shareholder proposals to be considered for inclusion in next year's proxy statement for the annual meeting must be submitted in writing to the Secretary or Assistant Secretary of Caraco Pharmaceutical Laboratories, Ltd., 1150 Elijah McCoy Drive, Detroit, Michigan 48202, before April 9, 2010.

13. Q: How may a shareholder communicate with the Board of Directors?

A: Shareholders may communicate with the Board of Directors or any member of the Board of Directors by sending a letter addressed to the Board of Directors, c/o Donna Griffith, Director, Human Resources, at 1150 Elijah McCoy Drive, Detroit, Michigan 48202. The Board of Directors' policy is to have all shareholder communications compiled by the Director, Human Resources and forwarded directly to the Board or the director as indicated in the letter. All letters will be forwarded to the appropriate party. The Board of Directors reserves the right to revise this policy in the event that this process is abused, becomes unworkable or otherwise does not efficiently serve the purpose of the policy.

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PROPOSAL 1 – AMENDMENT TO AMENDED AND RESTATED ARTICLES OF INCORPORATION

Board Authorization

On September 9, 2009, our Board of Directors authorized an amendment to our Amended and Restated Articles of Incorporation (the “Amendment”), subject to shareholder approval, to revise Article VI paragraph 4, of the Company’s Amended and Restated Articles of Incorporation to provide that vacancies in the Board of Directors may also be filled by a majority vote of shares of common stock of the Company present in person or represented by proxy. Specifically, Article VI, paragraph 4 of the Amended and Restated Articles of Incorporation is proposed to be revised as follows (marked from the current Article VI, paragraph 4 by showing deletions in brackets and additions in bold and underlined):

“4. Subject to the rights of the holders of any series of Preferred Shares then outstanding, newly created directorships resulting from any increase in the authorized number of directors and any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled [only] by a majority vote of the remaining directors then in office, though less than a quorum, and/or by a vote to ratify or elect by a majority of the shares present in person or represented by proxy and voting on such ratification or election, and directors so chosen shall hold office for a term expiring at the annual meeting of shareholders at which the term of office of the class to which they have been elected expires or until their successors have been duly elected and qualified. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.”

Shareholder Approval

Under our Amended and Restated Articles of Incorporation, amendments to Article VI of the Amended and Restated Articles of Incorporation require the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the voting power of all then outstanding shares of the Company’s common stock entitled to vote in the election of Directors. Accordingly, the Amendment will pass if it receives the favorable vote of 26,060,130 shares of the Company’s common stock. Sun Pharmaceutical Industries Limited (“Sun Pharma”) and its affiliates own, in the aggregate, 29,380,680 shares of the Company’s common stock and have indicated that they intend to vote “For” Proposal 1.

Reasons for the Amendment

As discussed below, the Company examined Article VI, paragraph 4 and noted that it provides that only the Board may fill vacancies on the Board of Directors. For purposes of good corporate governance, and for the reasons explained below, the Board believes that it is appropriate to also provide that shareholders have the right to ratify and elect Directors to fill vacancies on the Board.

On August 27, 2009, the Company received a shareholder demand letter demanding that the Company take action against certain officers and Directors of the Company to recover certain damages caused by their alleged breach of

fiduciary duties by “knowingly causing or allowing Caraco to manufacture products in violation of the FDA’s GMP requirements, even after the FDA warned the Company about such deficiencies.” The demand letter also requests that the Board “correct the deficiencies in the Company’s internal controls that allowed the misconduct to occur.” At the time of receipt of such letter, all of the Directors on the Board of Directors, except for Jitendra N. Doshi, were named as allegedly having breached their fiduciary duties. The demand letter further provides that if the Board has not commenced an action as demanded, the shareholder making the demand will commence a shareholder derivative proceeding on behalf of the Company seeking appropriate relief. Among other things, under Michigan law, a shareholder may not commence a derivative proceeding unless 90 days have expired from the date the demand was made.

Under Michigan law, a court shall dismiss a derivative proceeding if upon motion of a corporation, the court finds that one or more specified groups has made a determination in good faith after conducting a reasonable investigation upon which its conclusions are based that the maintenance of the derivative proceeding is not in the best interests of the corporation. Certain of the groups specified include disinterested directors. Disinterested directors are defined under Michigan law, with respect to derivative proceedings, as directors who are not parties to a derivative proceeding. Since substantially all of the Directors of the Company have been named in the demand letter as potential parties to the derivative proceeding, none of them are disinterested except for Jitendra N. Doshi and F. Folsom Bell. The other groups specified under Michigan law include a panel of one or more disinterested persons appointed by a court or all disinterested ‘independent’ directors. Under Michigan law, in order to be “independent,” among other criteria, a director must be elected by shareholders. As noted above, currently, Article VI, paragraph 4 of our Amended and Restated Articles of Incorporation only permits the Board to fill vacancies on our Board of Directors. We are asking for the shareholders vote to amend Article VI, paragraph 4 in order to permit shareholders to also ratify and elect Directors to fill vacancies on the Board of Directors so that Mr. Bell who was recently appointed by the Board to fill the vacancy on The Board following the 2009 Annual Meeting of Shareholders, can be ratified and elected by shareholders at this special meeting (see Proposal 2) and thereby be able to make a determination in good faith after conducting a reasonable investigation upon which his conclusions are based as to whether or not the maintenance of a derivative proceeding requested by the shareholder demand letter is in the best interests of the Company.

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Effective Date

The effective date of the Amendment is intended to be on the date of the special meeting, immediately following the shareholder vote on the Amendment, at which time the Amendment will be filed with the Michigan Department of Energy, Labor & Economic Growth, Bureau of Commercial Services – Corporation Division.

Recommendation

A copy of the proposed Amendment is included as Appendix “A” to this proxy statement.

The Board of Directors recommends a vote “FOR” the approval of the Amendment.

PROPOSAL 2 – RATIFICATION AND ELECTION OF DIRECTOR

General

Caraco’s Board of Directors is divided into three classes with each class of directors elected to a three-year term of office. At this special meeting, shareholders are being asked to ratify the appointment by The Board of F. Folsom Bell to fill the vacancy created by the decision by Dr. John D. Crissman not to stand for re-election at the 2009 Annual Meeting of Shareholders. On September 9, 2009, Caraco’s Board of Directors appointed F. Folsom Bell to fill the vacancy created by Dr. Crissman’s decision not to stand for re-election, for a term commencing immediately following the 2009 Annual Meeting of Stockholders and ending following the 2012 Annual Meeting of Shareholders unless such appointment is not ratified by shareholders, and if shareholders do not so ratify and elect Mr. Bell, his appointment will terminate immediately following such vote. Proposal 2 must receive the favorable vote of a majority of the shares voted, present in person or represented by proxy, but excluding broker non-votes and abstentions. Sun Pharma and its affiliates, which own 29,380,680 or 75.2% of the outstanding shares of common stock, have indicated that they intend to vote “For” Proposal 2. Proposal 2 will be presented for vote at the special meeting only if Proposal 1 is approved (see above).

If Mr. Bell is unable or decides not to stand for ratification and election, the proxies may vote the shares to elect any substitute nominee recommended by the Board of Directors.

Caraco’s Board of Directors recommends a vote “FOR” the ratification and election of Mr. Bell.

RATIFICATION AND ELECTION OF DIRECTOR FOR TERM EXPIRING 2012

Director	Age	Principal Occupation and Business Experience During Past 5 Years and other Directorships	Director Since
F. Folsom Bell	67	Mr. Bell has been a consultant on M&A transactions and involved in real estate development since 2006. From September 2000 to December 2005, Mr. Bell was the Executive Vice-President, Business Development of Perrigo Company, a global healthcare supplier that develops, manufactures and distributes over-the-counter and generic prescription pharmaceuticals, nutritional products, active pharmaceutical ingredients and pharmaceutical and medical diagnostic products. Mr. Bell was also a member of the board of directors of Perrigo Company from January 1981 through February 1986 and from June 1988 to January 2003. While a director	2009

of Perrigo Company, Mr. Bell served for six years on its audit committee, including time as chairman. Mr. Bell was a certified public accountant for fifteen years with two major public accounting firms.

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DIRECTORS' TERMS EXPIRING 2012

Directors	Age	Principal Occupation and Business Experience During Past 5 Years and other Directorships	Director Since
Dilip S. Shanghvi	53	Mr. Shanghvi has served as Chairman of the Board of Directors of Caraco since 1997. Mr. Shanghvi is the founder of Sun Pharmaceutical Industries Limited ("Sun Pharma"), its Managing Director since its inception in 1993, responsible for marketing, research and development and human resource development, and its Chairman since 1999. Also, since March 2007 Mr. Shanghvi has been the Chairman and Managing Director of Sun Pharma Advanced Research Company Ltd. Mr. Valia is Mr. Shanghvi's brother-in-law.	1997
Gurpartap Singh Sachdeva	40	Mr. Singh currently serves as Senior Vice President – Business Strategies (since July 2007); previously Vice President – Sales and Marketing (September 2003 to July 2007) and National Sales and Marketing Manager (September 2000 to September 2003). From May 1998 to September 2000, Mr. Singh was the Manager of Bulk Drugs for Sun Pharma.	2008

DIRECTORS' TERMS EXPIRING 2011

Directors	Age	Principal Occupation and Business Experience During Past 5 Years and other Directorships	Director Since
Jitendra N. Doshi	59	Mr. Doshi has been appointed as Caraco's interim Chief Executive Officer effective July 2009. From 2006 to July 2009, he served as the Executive Director of Sun Pharmaceutical Industries, Inc., a generic pharmaceutical company and wholly-owned subsidiary of Sun Pharma. Mr. Doshi has served Caraco in the following positions: Chief Financial Officer (November 2002 to January 2007), Chief Operating Officer (November 2002 to January 2007), interim Chief Executive Officer (September 2003 to May 2005) and Senior Vice President-Commercial (April 2001 to November 2002). From September 1999 to April 2001, Mr. Doshi was employed by Sun Pharma as General Manager – Operations. From 1991 to 1999, Mr. Doshi was Managing Director of Aqua Bearing Ltd., an auto parts manufacturer organized under the laws of the Commonwealth of India.	2009
Sailesh T. Desai	55	Mr. Desai has served as a full-time director of Sun Pharma since 1999, responsible for domestic marketing of some of the divisions dealing in specific therapy segments of pharmaceutical formulations. From 1994 to 1998, Mr. Desai was the principal shareholder and Managing Director of Milmet Laboratories, Pvt. Ltd., a manufacturer and marketer of ophthalmic solutions which was organized under the laws of the Commonwealth of India and merged into Sun Pharma in 1998.	2000

DIRECTORS' TERMS EXPIRING 2010

Directors	Age	Principal Occupation and Business Experience During Past 5 Years and other Directorships	Director Since
Timothy S. Manney	50	Since May 2002, Mr. Manney has been President and Director of Synova, Inc. (a privately-held information technology staffing and creative-services consulting firm). From 1990 to 2001, Mr. Manney served as the Chief Financial Officer of Covansys Corporation (a publicly-held information technology solutions company).	2004
Madhava Reddy	51	Mr. Reddy is President and Chief Executive Officer of HTC Global Services, Inc., a private Michigan corporation he organized in 1992. HTC Global Services is a global information and technology service and solution provider. HTC Global Services currently has offices in Australia, Canada, India, Malaysia, Singapore, and the United Kingdom, and has its corporate offices in Troy, Michigan.	2005
Sudhir V. Valia	53	Mr. Valia joined Sun Pharma as a director in January 1994 and has been a full-time director since his appointment in April 1994. He is currently responsible for finance, commercial, operations, projects and quality control. Prior to then, Mr. Valia was a chartered accountant in private practice. Mr. Valia is a qualified chartered accountant in India. Mr. Shanghvi is Mr. Valia's brother-in-law.	1997

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BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

During Fiscal 2009, the Board of Directors met five times. All of the then directors attended at least 75% of the meetings of the Board and the committees on which they served during Fiscal 2009, except for Messrs. Desai, Reddy, and Valia. The Board of Directors encourages Board members to attend each Annual Meeting of Shareholders. At the 2008 Annual Meeting of Shareholders, three of the current Caraco directors were in attendance. At the 2009 Annual Meeting of Shareholders, five of the current Caraco directors were in attendance. In addition to meetings, the Board and the committees take corporate action through unanimous written consents.

The Board of Directors is fixed at eight members. The Board has determined that Messrs. Bell, Manney and Reddy are “independent” directors within the meaning of Section 803A of the NYSE Amex Company Guide (“NYSE Amex Company Guide”). Unless a company is a “controlled company” under the NYSE Amex Company Guide, a majority of its Board of Directors must be independent. As a result of Sun Pharma and its affiliates owning a majority of the outstanding voting shares, Caraco is a controlled company under NYSE Amex Company Guide and is therefore not required (i) to have a majority of independent directors on its Board;(ii) to have the compensation of the Chief Executive Officer and all other officers determined or recommended to the Board either by the Compensation Committee comprised of independent directors or by a majority of the independent directors, and (iii) to have nominations to the Board of Directors either selected, or recommended for the Board’s selection, by either a nominating committee comprised solely of independent directors or by a majority of the independent directors.

Committees of the Board

The Board maintains three standing committees: audit, compensation and independent. These are described below.

Audit Committee. The Audit Committee is responsible for selecting, evaluating, retaining and, where appropriate, replacing Caraco’s independent auditors. Generally, the Audit Committee monitors the integrity of Caraco’s financial statements and the independence and qualifications of the independent auditors. The Audit Committee is governed by a written charter. The Audit Committee’s responsibilities are described in more detail in such charter. A copy of the charter was included as Appendix A to the proxy statement for the 2009 Annual Meeting of Shareholders. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee held five meetings in Fiscal 2009. The current members of the Audit Committee are Messrs. Bell, Manney and Reddy. Mr. Manney is the committee’s Chairman. The Board has determined that each of these members is independent under Section 803A and 803B of the NYSE Amex Company Guide. The Board has also determined each of the committee members is able to read and understand fundamental financial statements, including a company’s balance sheet, income statement and cash flow statement. In addition, the Board of Directors has determined that Mr. Manney is an audit committee financial expert. Mr. Bell was appointed to the Audit Committee on September 21, 2009.

Compensation Committee. The Compensation Committee oversees Caraco’s policies and programs for the compensation of its officers. The Committee determines the compensation of our Chief Executive Officer and delegates to him the responsibility to determine the base salaries and bonuses of all officers other than the Chief Executive Officer, under the constraints of an overall limitation on the total amount of compensation to be paid to them. The Compensation Committee is also responsible for the review and approval of compensation programs for officers and employees, including fringe benefits and stock options and/or bonuses, as may be from time to time recommended by management. Grants of options or other equity awards are made by the two “non-employee directors” as defined by 16b-3 who are also “outside directors” for purposes of Section 162(m) of the Internal Revenue Code. The Compensation Committee held four meetings during Fiscal 2009. The Compensation Committee currently consists of

Messrs. Shanghvi, Bell and Manney. Mr. Shanghvi serves as the Chairman. Mr. Bell was appointed to the Compensation Committee on September 21, 2009.

Independent Committee. The Independent Committee was established to negotiate a products agreement between Caraco and Sun Pharma Global, Inc. ("Sun Global"), a wholly-owned subsidiary of Sun Pharma. In 2005, the Board of Directors ratified and approved the authority of the Independent Committee (with respect to past, present and future actions) to review and approve all related party transactions. The Independent Committee held three meetings during Fiscal 2009. The Independent Committee currently consists of Messrs. Bell, Manney, and Reddy. The Board has determined that all of the members are independent under Section 803A of the NYSE Amex listing standards currently in effect. Mr. Bell serves as the Chairman. Mr. Bell was appointed to the Independent Committee on September 21, 2009.

Special Litigation Committee. The Board has designated Mr. Bell as 'independent' under Michigan law effective upon his ratification and election by shareholders at this special meeting. As discussed under Proposal 1 above, following such ratification and election, as an independent director, it is intended that Mr. Bell will conduct a reasonable investigation into the allegations made by a shareholder in a demand letter that certain officers and directors have breached their fiduciary duties to the Company in connection with the FDA action against the Company. Mr. Bell will then make a determination in good faith after conducting such reasonable investigation upon which his conclusions are based as to whether or not the maintenance of a derivative proceeding requested by the shareholder demand letter is in the best interests of the Company.

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Nomination of Directors

The Board of Directors has not established a formal nominating committee as the entire Board serves in this capacity. The Board of Directors has not maintained a formal nominating committee because the Board of Directors feels that it is not necessary since the size of the Board is relatively small. While the Board has not established a formal committee, in the past the Board has asked one or two of its directors to meet with a number of candidates and to make recommendations to the full Board. The Board may utilize a variety of methods for identifying potential nominees, including considering potential candidates who come to their attention through current officers, directors, Caraco's professionals, professional search firms or other persons. Once a potential nominee has been identified, the Board evaluates whether the nominee has the appropriate skills and characteristics to become a director in light of the then make-up of the Board of Directors. This assessment includes an evaluation of the candidate's judgment and skills, such as experience at a policy setting level, financial sophistication, leadership and objectivity. At a minimum, the Board of Directors believes that all members of the Board should have the highest professional and personal ethics and values. Mr. F. Folsom Bell was presented for consideration as a Director by the Chairman of the Board, and appointed by the Board in September 2009, as disclosed above, to fill the vacancy created by the decision by Dr. John D. Crissman not to stand for re-election at the 2009 Annual Meeting of Shareholders.

The Board of Directors considers stockholder nominations for candidates for membership on the Board when properly submitted in accordance with Company's bylaws. The Company's bylaws provide that nominations for the election of directors may be made by any stockholder entitled to vote in the election of directors if timely notice of such shareholder's intent has been given in writing to the secretary or an assistant secretary of the Company. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Company not less than 120 calendar days before the date the Company's proxy statement is released to shareholders in connection with the previous year's annual meeting. Each such notice shall set forth (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a shareholder of record of stock of the Company entitled to vote for the election of directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholders; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Company if so elected.

Report of the Audit Committee

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act.

Our management is responsible for the preparation, presentation and integrity of our financial statements, the accounting and financial reporting principles, and the internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for an integrated audit of our financial statements and internal control over financial reporting. The integrated audit is designed to express an opinion on our financial statements, an opinion on management's assessment of internal control over financial reporting and an opinion on the effectiveness of internal control over financial reporting. The Committee's responsibility is generally to monitor and oversee these processes.

In the performance of its oversight function, the Committee:

Met to review and discuss our audited financial statements for the year ended March 31, 2009 with our management and our independent auditors;

Discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T;

Received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors communications with the audit committee concerning independence, and discussed with the independent auditors the independent auditors' independence.

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While the Committee has the responsibilities and powers set forth in its charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. This is the responsibility of management. The independent registered public accounting firm is responsible for planning and conducting its audits.

Based upon the review and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to above and in its charter, the Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended March 31, 2009 for filing with the Securities and Exchange Commission. Mr. Bell did not become a member of the Audit Committee until his appointment on September 21, 2009. Mr. Georges Ugeux was a member of the Audit Committee until his resignation on September 20, 2009.

The Audit Committee

Timothy S. Manney (Chairman)
Madhava Reddy

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics (the "Code") applicable to its directors, officers and employees. A copy of the Code is available at no charge by contacting the Director, Human Resources, Donna Griffith, at 1150 Elijah McCoy Drive, Detroit, MI 48202, or by telephone: (313) 871-8400 or by email: donna.griffith@caraco.com.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The SEC requires that Caraco provide information about any shareholder who beneficially owns more than 5% of Caraco's common stock. The following table provides the required information, as of the Record Date, about the shareholders (who are not officers or directors) known to Caraco to be the beneficial owners of more than 5% of Caraco's common stock. Caraco relied solely on information furnished by its transfer agent and Schedule 13Ds filed with the SEC.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
Sun Pharmaceutical Industries Limited 17/B Mahal Industrial Estate Mahakali Caves Road Andheri (East), Mumbai, 400 093 India	29,380,680(1)	75.2%(1)

(1) Sun Pharmaceutical Industries Limited directly owns 8,382,666 shares of common stock of Caraco and beneficially owns 20,998,014 shares registered in the name of Sun Pharma Global Inc. ("Sun Global"), its wholly-owned subsidiary. Sun Global's address is International Trust Building, P.O. Box 659, Road Town, Tortola, British Virgin Islands. In addition, Sun Global owns 1,088,000 shares of Series B preferred stock which are convertible into 1,088,000 shares of common stock three years from the date of their respective issuance or upon a change in control. Including such Series B preferred stock, Sun Pharma beneficially owns 75.8% of Caraco.

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SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table contains information, as of the Record Date, about the number of shares of Caraco's common stock beneficially owned by incumbent directors, the executive officers and by all current directors, nominees and executive officers as a group. The number of shares of common stock beneficially owned by each individual includes shares of common stock which the individual can acquire by November 20, 2009 through the exercise of any stock option or other right. Unless indicated otherwise, each individual has sole investment and voting power (or shares those powers with his or her spouse) with respect to the shares of common stock listed in the table.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
Dilip S. Shanghvi (1)	(2)	(2)
Jitendra N. Doshi (3)	75,000 (4)	*
Mukul Rathi (3)	4,333 (5)	*
Robert Kurkiewicz (3)	8,679 (6)	*
Gurpartap Singh Sachdeva (3)	16,800 (7)	*
F. Folsom Bell(3)	0	*
Sailesh T. Desai (8)	(2)	(2)
Timothy S. Manney (9)	17,500 (10)	*
Madhava Reddy (11)	6,000 (12)	*
Sudhir V. Valia (13)	(2)	*
All executive officers and directors as a group (10 persons)	128,312(2)	(2)

* Less than 1.0% of the outstanding shares

(1)The mailing address of Mr. Shanghvi is c/o Sun Pharmaceutical Industries Limited, 17/B, Mahal Industrial Estate, Mahakali Caves Road, Andheri (E) Bombay 400 093 India.

(2)Excludes 30,380,680 shares of common stock and 1,088,000 shares of Series B preferred stock beneficially owned by Sun Pharma and Sun Global. (See footnote 1 under "Security Ownership of Certain Beneficial Owners" and "Transactions of Directors, Executive Officers and Certain Beneficial Holders of Caraco.") Mr. Shanghvi is the Chairman and Managing Director of, and Messrs. Desai, and Valia are directors of, and Mr. Shanghvi, together with his associate companies, is also the majority shareholder of, Sun Pharma, and, therefore, may be deemed to share investment control over the shares of common stock held by Sun Pharma and Sun Global. Each of Messrs. Desai and Valia disclaims beneficial ownership of the shares of common stock beneficially owned by Sun Pharma

and Sun Global.

- (3) The mailing address of each of these holders is 1150 Elijah McCoy Drive, Detroit, Michigan 48202.
- (4) Includes 26,500 shares held in the name of his wife.
- (5) Includes stock options that are currently exercisable to purchase 4,333 shares of common stock.
- (6) Includes stock options that are currently exercisable to purchase 1,666 shares of common stock.
- (7) Includes 1,800 shares held in the name of his wife and stock options that are currently exercisable to purchase 5,000 shares of common stock.
- (8) Mr. Desai's mailing address is c/o Sun Pharmaceutical Industries Limited, Acme Plaza, Andheri-Kurla Road, Bombay 400 059 India.
- (9) Mr. Manney's mailing address is c/o Synova, Inc., 1000 Town Center, Suite 700, Southfield, Michigan 48075.

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- (10) Includes stock options that are currently exercisable to purchase 7,500 shares of common stock.
- (11) Mr. Reddy's mailing address is c/o HTC Global Services, Inc., 3270 West Big Beaver Road, Troy, Michigan 48084.
- (12) Includes stock options that are currently exercisable to purchase 3,500 shares of common stock.
- (13) Mr. Valia's mailing address is c/o Sun Pharmaceutical Industries Limited, Acme Plaza, Andheri-Kurla Road, Andheri (East), Bombay 400 059 India.

Equity Compensation Plan Information
3-31-09

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights.	Weighted-average exercise price of outstanding options, warrants and rights.	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	227,000	\$ 11.81	988,000