

2009 Annual Report

Financial Highlights

YEARS ENDED MARCH 31,

FY2009

FY2008

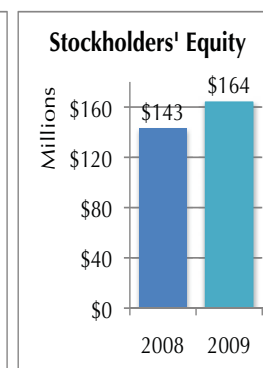
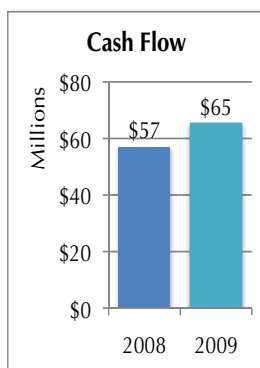
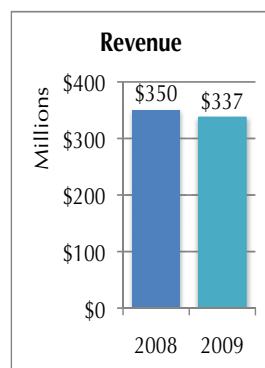
Income Statement Data:

(U.S. Dollars)

Net Sales	\$ 337,177,482	\$ 350,366,689
Cost of Goods Sold	269,382,927	265,651,539
Gross Profit	67,794,555	84,715,150
Selling, General and Administrative Expenses	16,417,971	14,322,140
R&D Cost to Affiliate – non-cash	—	11,320,640
R&D Cost – other	22,527,504	18,366,306
Operating Income	28,849,080	40,706,064
Interest Income	631,151	1,832,409
Interest Expense	(28,294)	(28,194)
Other (Expense) Income	—	(144,551)
Other Income – net	602,857	1,687,858
Income Before Income Taxes	29,451,937	42,393,922
Income Tax Expense	8,915,358	7,005,817
Net Income	\$ 20,536,579	\$ 35,388,105
Net Income per Basic Common Share	\$ 0.60	\$ 1.19
Net Income per Diluted Common Share	\$ 0.51	\$ 0.89
Weighted Number of Basic Common Shares	34,227,335	29,656,624
Weighted Number of Diluted Common Shares	40,575,721	39,913,754

Balance Sheet Data:

Cash and Cash Equivalents	65,314,397	\$ 56,906,051
Total Current Assets	169,864,353	\$ 500,021,784
Total Assets	236,488,323	\$ 538,275,186
Total Current Liabilities	57,364,868	\$ 395,494,873
Long Term Debt	15,300,000	\$ —
Total Liabilities	72,664,868	\$ —
Total Stockholders' Equity	163,823,455	\$ 142,780,313



Dear Shareholders & Friends



Fiscal 2009 was a challenging year for the Company. We have faced significant concerns and FDA action over compliance issues. We continue to address these challenges in an effort to emerge a stronger Company. The recent, previously disclosed voluntary recalls and FDA seizure action have had a negative impact on the Company's performance and may continue to have a negative impact in the near term.

We have taken steps to add leadership in both our quality and production areas, and the new personnel in these areas are effecting change to improve our manufacturing.

Despite these challenges, through the year, our portfolio of products continued to grow, both from the products we manufacture or have manufactured and for the products that we market and distribute for Sun Pharmaceutical Industries Ltd. ("Sun Pharma," a reference that includes its subsidiaries) and other third parties. We believe that this is beneficial in providing a revenue stream from distributed product sales while we endeavor to develop and implement a remedial action plan that is acceptable to the FDA. Caraco continues to work with its employees so that quality and compliance receive emphasis as the primary goal and expected output. Though near term results will continue to be affected by the temporary cease in manufacturing operations and related issues, we believe our corrective measures over the long term will result in a product of reliable and consistent quality that our customers can trust.

We have worked diligently to improve our quality system throughout the year. We can assure you that solving these issues will continue to be paramount in priority. We continue to focus on improving support and emphasis on quality assurance, quality control, and manufacturing areas in order to continually improve the performance of our quality system. We have hired external consultants who have experience in assisting manufacturers with FDA compliance issues. These consultants will review all of our systems, procedures, reporting structures, and processes, as well as review training on risk management and overall cGMP. As part of this comprehensive process we will evaluate our internal and external audit programs, and will make any improvements that we believe to be necessary to improve these programs. All audits are based on a historical look back, and offer improvements based on Caraco's likely future requirements. These audits will also include follow up action on compliance issues that need to be addressed. We continue to receive support from Sun Pharma in the areas of quality and manufacturing. Although there is still work to be done, we believe that Caraco will address the FDA's concerns and emerge as a stronger company.

RESULTS FOR FISCAL 2009

The overall sales for our Company during Fiscal 2009 were slightly lower than the sales achieved in Fiscal 2008 primarily due to lower manufactured product sales, price erosion and recent recalls.



**CARACO'S
DISTRIBUTION
FACILITY IN
WIXOM, MI**

We distributed on behalf of Sun Pharma at the same levels as those in Fiscal 2008. Sales of manufactured products experienced a moderate decrease from prior year levels, and this accounted for moderate decrease in overall sales as compared to Fiscal 2008. In the fourth quarter of Fiscal 2009, our sales and

gross profit were negatively impacted by lower sales of manufactured products as a result of continued price erosion and the recall of certain shipments that took place during the end of Fiscal 2009 and also in the beginning of Fiscal 2010. As a result of the two recalls alone, our manufactured product sales were reduced by \$4.2 million. The negative impact to pre-tax income for the previously disclosed recalls, including related expenses, is \$4.7 million.

We recorded net sales of \$337.2 million during Fiscal 2009 compared to \$350.4 million during Fiscal 2008. We generated cash from operations of \$18.7 million during Fiscal 2009 as compared to \$27.8 million during Fiscal 2008. This cash was generated after funding our working capital requirements of \$2.2 million and \$5.0 million, respectively, during the relevant periods. We earned a net pre-tax income of \$29.5 million during Fiscal 2009 compared to a net pre-tax income of \$42.4 million during Fiscal 2008. The reduction in net pre-tax income from last year was primarily due to lower gross profits resulting from price erosion of the products sold, the mix of distributed products sold and the provision for losses expected from the product recalls initiated during the end of Fiscal 2009. At March 31, 2009, we had stockholders' equity of \$163.8 million as compared to stockholders' equity of \$142.8 million at March 31, 2008.

MANAGEMENT'S PLANS FOR FISCAL 2010

The primary focus of the Company will remain correcting the issues related to manufacturing and compliance. As discussed above, we believe that we are taking the right steps to provide for a better product going forward. Though near term sales of manufactured products will surely be impacted, we believe we are effectuating the changes required to manufacture products in a plant that meets regulatory requirements. We also may transfer certain manufactured products to an alternate manufacturing site that could allow the Company to gain revenue from those products in less than six months. We currently have four manufactured products that are manufactured by third parties including Sun Pharma.

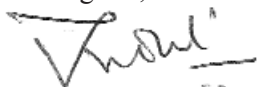
The ongoing expansion of our facilities should provide the capacity we need to supply our customers with consistent quality products for years to come. We believe that we have the capacity, infrastructure and capability to perform well in the industry once we move beyond the existing compliance and quality concerns. We have added key personnel to improve performance in man-

ufacturing and quality. Our distribution and marketing capability continues to work to maximize our market share. We have taken the necessary steps to reduce our overhead costs based on our voluntary decision to cease our manufacturing operations until we have satisfied the FDA's concerns about the Company's cGMP compliance.

Currently, we have 29 ANDAs pending approval at the FDA (including four tentative approvals) for 25 products. We continue to upgrade our facilities by realigning our process flow and improving our systems. We will also continue to work to attract and hire talented individuals that can support our business effectively. Long term, based on our own development pipeline and the current agreements we have with Sun Pharma along with other third party developers, we believe we will continue to remain competitive.

We have a successful marketing platform and also have the strength of Sun Pharma's product line to complement our manufacturing products business. While many challenges remain as a result of the FDA's actions and related claims, we believe that our implementation of corrective actions in compliance and quality will ultimately let us regain the momentum of sales growth that we have enjoyed over the last several years.

Best Regards,



Jitendra N. Doshi
Chief Executive Officer



FINISHED PRODUCTS
INSIDE CARACO
WAREHOUSE

Forward Looking Statements: This letter contains forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Without limitation, the words "believe" or "expect" and similar expressions are intended to identify forward-looking statements. Such statements are based on management's current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties are contained in the Corporation's filings with the Securities and Exchange Commission, including Part I, Item 1A of our most recent Form 10-K, and include but are not limited to: information of a preliminary nature that may be subject to adjustment, potentially not obtaining or delay in obtaining FDA approval for new products, governmental restrictions on the sale of certain products, development by competitors of new or superior products or less expensive products or new technology for the production of products, the entry into the market of new competitors, market and customer acceptance and demand for new pharmaceutical products, availability of raw materials, timing and success of product development and launches, dependence on few products generating majority of sales, product liability claims for which the Company may be inadequately insured, material litigation from product recalls, the purported class action lawsuits alleging federal securities laws violations, delays in returning the Company's products to market, including loss of market share, increased reserves against the FDA-seized inventory, and other risks identified in this report and from time to time in our periodic reports and registration statements. These forward-looking statements represent our judgment as of the date of this report. We disclaim, however, any intent or obligation to update our forward-looking statements.

Sun Pharma — A Profile



Sun Pharma:

- Sun Pharma (March 09 Net Sales Rs 42,723 million (~ USD 932 million), Net Profit Rs 18,177 million (~ USD 396 million), Market cap over \$4.5 billion) is an international generic company with a twenty-five year history of robust profits. The company has doubled revenues and tripled profits every four years since listing on the stock exchanges in India in 1994.
- Forbes listed Sun Pharma among the best companies globally for 2001, 2003, 2004 and 2005 (Category of Companies with turnover less than \$1 billion) and in “Forbes Global 2000” in 2008. Ranked among the top 50 high growth companies in Asia by Business Week.

India Branded Generics:

- Sun Pharma is Number 1 by prescription share with psychiatrists, neurologists, cardiologists, orthopedists and ophthalmologists. Sun Pharma is among the top five companies with ten classes of specialists (CMARC Audit Nov.08–Feb.09). Extensive specialty therapy baskets



including complex products or delivery system based products are offered in chronic therapy areas, including cardiology, neurology, psychiatry, gastroenterology.

- About 8,600 employees (including subsidiaries), including 2,500 medical detail persons across 18 marketing divisions in India, and over 400 detail persons in international markets.
- Around 30 branded generics are introduced every year in India. Most of these are based on internally-sourced API, several products are technically complex or use a delivery system.

International Branded Generics:

- Present in 30 countries like Brazil, Mexico, Russia and most countries in Southeast Asia, with speciality brands and marketing teams. In these markets the company offers a product basket width and technologically differentiated products.

API:

- Above 150 product strong list, with new API scaled up every year. Completely integrated for important products, with facilities for the manufacture of steroids, sex hormones, anticancers and controlled substances.
- Strong regulatory capability with five API plants that have USFDA / European approvals.

Manufacturing:

- About 30 specialty APIs scaled up every year. 133 US DMF and European CEP approvals have been received or are awaiting approval.
- Eight plants make APIs, of which five plants are approved for US and Europe. Some of the plants can make complex products like peptides, steroids, anticancers and hormones. A large facility in Hungary makes controlled substances API.
- Ten plants make solid-oral-dosage forms and injectables. Two plants in India are USFDA approved, one of which features an USFDA-approved injectable site. The plant also has dedicated manufacturing areas for steroids, anticancers and peptides.
- A plant in Bryan, Ohio, makes creams, ointments and liquids. A dosage form facility (the former Able Labs site in Cranbury, NJ) is designed to make controlled-substance dosage forms.

R&D:

- Sun has invested over Rs. 15 billion (~ USD 300 million) in R&D so far. This year, Sun invested 8% of net sales in research. Sun has nearly 575 scientists, a team that has one of the highest R&D efficiencies. Every year, more than 30 products are introduced in India, technology is developed for over 30 ANDA filings, and more than 30 API are developed and scaled up. A total of 233 patents have been filed of which 79 are approved.



Stock Information

Our common stock, which we refer to as Caraco Stock, is traded on the NYSE Amex LLC stock exchange under the symbol “CPD.” The following table sets forth, for the periods indicated, the high and low price of Caraco Stock as reported by the NYSE Amex.

CARACO STOCK	<i>Fiscal 2009</i>		<i>Fiscal 2008</i>	
	High	Low	High	Low
First Quarter	\$18.70	\$12.58	\$16.20	\$12.10
Second Quarter	\$16.40	\$11.80	\$17.12	\$12.71
Third Quarter	\$12.71	\$2.93	\$17.17	\$13.14
Fourth Quarter	\$7.35	\$3.27	\$18.50	\$14.90

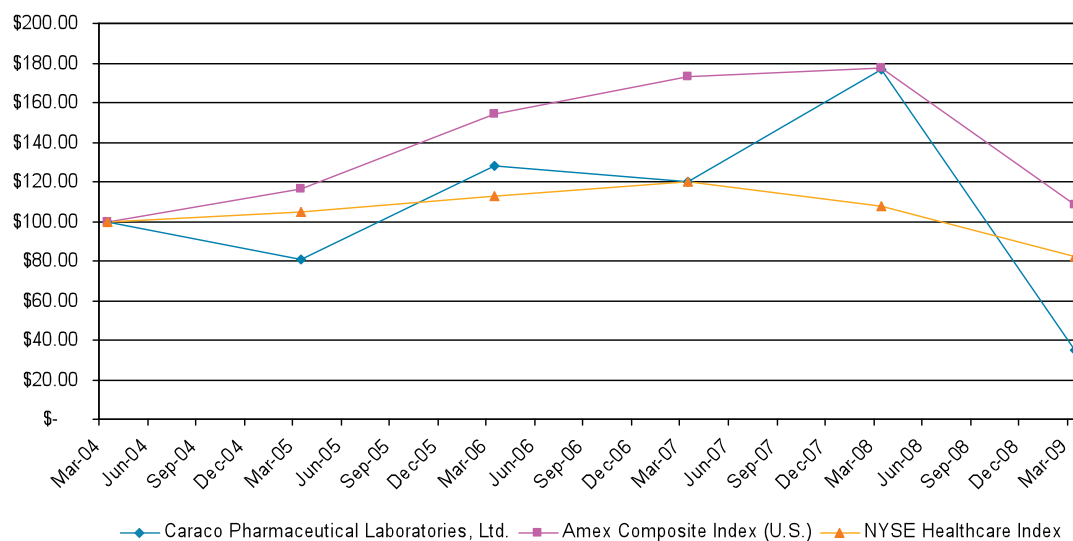


CARACO
FACILITY IN
DETROIT, MI

Performance Graph

Set forth below is a line graph comparing the cumulative total return for the fiscal years ended March 31, 2004, 2005, 2006, 2007, 2008 and 2009 of our common stock against the cumulative total return of the Amex Composite Index (U.S.) and the NYSE Healthcare Index. We have selected the NYSE Healthcare Index as part of the comparison this year instead of the Amex Health Products and Services (U.S.) index (which was used last year) so as not to incur charges currently imposed for use of such index. The graph and table assume that \$100 was invested on March 31, 2004, in each of our common stock, the Amex Composite Index (U.S.) and NYSE Healthcare Index, and that all dividends were reinvested. The information contained in this graph and table shall not be deemed to be “soliciting material” or “filed” with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

Comparison of Five-Year Cumulative Total Return



	3/31/04	3/31/05	3/31/06	3/30/07	3/31/08	3/31/09
Caraco Pharmaceutical Laboratories, Ltd.	\$100.00	\$80.51	\$127.95	\$119.88	\$176.67	\$34.65
Amex Composite Index (U.S.)	\$100.00	\$116.15	\$154.05	\$173.06	\$177.59	\$108.16
NYSE Healthcare Index	\$100.00	\$104.48	\$112.99	\$119.98	\$107.33	\$82.38

The comparisons in the above graph and table are required by the SEC. The graph and table are not intended to forecast or to be indicative of any future return on our common stock.





Board of Directors

Dilip S. 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.

Jitendra N. 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.

Gurpartap (“GP”) Singh Sachdeva 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.

Dr. John D. Crissman is a tenured professor since 1990 in the Department of Pathology of Wayne State University’s School of Medicine in Detroit, Michigan. Dr. Crissman retired as Dean of Wayne State University’s School of Medicine in October 2004.

Sailesh T. 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.

Timothy S. Manney, CPA, has been President and Director of Synova, Inc. (a privately-held information technology staffing and creative-services consulting firm) since May 2002. From 1990 to 2001, Mr. Manney served as the Chief Financial Officer of Covansys Corporation (a publicly-held information technology solutions company).

Madhava Reddy, CPA, 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.

Georges Ugeux founded Galileo Global Advisors LLC (a company offering strategic advice on international business development) in October 2003. From September 1996 to October 2003, Mr. Ugeux was a Group Executive Vice President, International and Research and a member of the Office of the Chief Executive of NYSE. From 1995 until September 1996, Mr. Ugeux served as President of the European Investment Fund. From 1992 until 1995, Mr. Ugeux was President of Kidder, Peabody Europe as well as Managing Director while serving as a member of the Managing Committee of the Board of Directors of Kidder, Peabody, Inc. From 1988 until 1992, Mr. Ugeux was Group Finance Director at Societe Generale de Belgique, a Belgian diversified industrial and financial conglomerate.

Sudhir 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.

Corporate Information

Caraco Pharmaceutical Laboratories, Ltd

Corporate Offices & Shareholders Services
1150 Elijah McCoy Drive, Detroit, Michigan 48202
Phone: (313) 871-8400 • Fax: (313) 871-8314

Form 10-K

A copy of Form 10-K is part of this annual report.
For additional free copies please contact Caraco
at the Corporation's corporate offices.

Dividend Policy

The Corporation has not declared or paid any dividends
and does not intend to declare or pay any dividends in the
foreseeable future. The Corporation intends to employ all
available funds in the development of its business.

Shareholders and Ownership

As of July 20, 2009 there were 80 shareholders
of record of the Corporation's common stock.
The Corporation's common shares outstanding were
held individually or in bank, money management,
company and brokerage nominee accounts for
more than 3,777 beneficial owners.

Annual Meeting

The Corporation's annual meeting is scheduled for
11:00 a.m. on September 14, 2009 at the The Ritz-Carlton, Dearborn
300 Town Center Drive, Dearborn, Michigan 48216

Independent Auditors

The Rehmann Group
5750 New King Street; Suite 100
Troy, Michigan 48098

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane; Plaza Level
New York, New York 10038

General Counsel

Bodman LLP
Sixth Floor at Ford Field; 1901 St. Antoine Street
Detroit, Michigan 48226





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