

CARACO PHARMACEUTICAL LABORATORIES LTD  
Form DEF 14A  
May 19, 2005

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 (AMENDMENT NO. \_\_\_\_)

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- |  |   |
|--|---|
| <input type="checkbox"/> Preliminary proxy statement                 | <input type="checkbox"/> Confidential, for use of the Commission only (as permitted by Rule 14a-6 (e) (2)). |
| <input checked="" type="checkbox"/> Definitive proxy statement       |   |
| <input type="checkbox"/> Definitive additional materials             |   |
| <input type="checkbox"/> 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:

N/A

(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):

N/A

(d) Proposed maximum aggregate value of transaction:

N/A

(e) Total fee paid:

N/A

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(a) Amount Previously Paid:

N/A

(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  
ANNUAL MEETING OF SHAREHOLDERS  
AND  
PROXY STATEMENT  
2005**

---

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

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**AND**  
**PROXY STATEMENT**  
**2005**

May 20, 2005

Dear Shareholder,

We invite you to attend our 2005 Annual Meeting of Shareholders at 10:00 a.m., Eastern Daylight Saving Time, on June 20, 2005 at the Ritz Carlton Hotel, 300 Town Center Drive, Dearborn, Michigan 48126.

The annual report, which is enclosed, summarizes Caraco's major developments during 2004 and includes the 2004 financials.

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,

Daniel H. Movens  
Chief Executive Officer

---

**CARACO PHARMACEUTICAL LABORATORIES, LTD.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Date: June 20, 2005  
Time: 10:00 a.m., Eastern Daylight Saving Time  
Place: Ritz Carlton Hotel  
300 Town Center Drive  
Dearborn, Michigan 48126

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

1. Elect three directors for three-year terms expiring in 2008 and upon the election and qualification of their successors.
2. Transact any other business that is properly submitted before the Annual Meeting or any adjournment(s) of the Meeting.

The record date for the Meeting is May 11, 2005 (the Record Date ). Only shareholders of record at the close of business on that date can vote at the Annual Meeting. Caraco is mailing this Notice of Annual Meeting to those shareholders.

A proxy statement, proxy card and an annual report 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 Annual 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,

Daniel H. Movens  
Chief Executive Officer

May 20, 2005

---

TABLE OF CONTENTS

<u>QUESTIONS AND ANSWERS</u>	1
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	5
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS</u>	10
<u>SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS</u>	11
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	13
<u>TRANSACTIONS OF DIRECTORS, EXECUTIVE OFFICERS AND CERTAIN BENEFICIAL HOLDERS OF CARACO</u>	13
<u>EXECUTIVE OFFICERS</u>	14
<u>REPORT ON EXECUTIVE COMPENSATION</u>	15
<u>COMPENSATION OF EXECUTIVE OFFICERS</u>	16
<u>PERFORMANCE GRAPH</u>	20
<u>RELATIONSHIP WITH INDEPENDENT AUDITORS</u>	20
<u>AUDIT COMMITTEE CHARTER</u>	APPENDIX A

---

**CARACO PHARMACEUTICAL LABORATORIES, LTD.**

**1150 Elijah McCoy Drive  
Detroit, Michigan 48202**

**2005 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 May 20, 2005.
3. **Q: Who can vote?**  
**A:** Only holders of Caraco's common stock at the close of business on May 11, 2005, the Record Date, can vote at the Annual 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 Annual Meeting, shareholders will vote to:
  1. Elect three directors for three-year terms expiring in 2008 and upon the election and qualification of their successors.

2. Transact any other business that is properly submitted before the Annual Meeting or any adjournment(s) of the Meeting.

6. **Q: Who can attend the annual meeting?**

**A:** You are entitled to attend the annual meeting only if you were a Caraco shareholder as of the Record Date or you hold a valid proxy for the annual 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 annual 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 annual meeting.

The meeting will begin promptly at 10:00 a.m., local time. Check-in will begin at 9:30 a.m., and you should allow ample time for the check-in procedures.

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

**A:** The Board of Directors recommends a vote **FOR** all of the nominees listed in Proposal 1.

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 Annual 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 the Chief Executive Officer of Caraco at 1150 Elijah McCoy Drive, Detroit, MI 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 26,360,694 shares of Caraco's common stock outstanding on the Record Date. A majority of the outstanding shares, or 13,180,348 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 quorum must exist to conduct business at the Annual Meeting.

10. **Q: How does voting work?**

**A:** If a quorum exists, each director must receive the favorable vote of a majority of the shares voted, excluding abstentions and broker non-votes, present in person or represented by proxy.

Caraco will vote properly executed Proxies it receives prior to 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 nominees for directors.** 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.

10. **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.

11. **Q: When are shareholder proposals for the 2006 Annual Meeting due?**

**A:** As previously disclosed, Caraco has changed its fiscal year to March 31. Accordingly, it is anticipated that the next annual meeting will be held on or about September 4, 2006 and that the notice of the meeting will be mailed on or about August 4, 2006. Accordingly, all shareholder proposals to be considered for inclusion in next year's proxy statement must be submitted in writing to the Chief Executive Officer, Caraco Pharmaceutical Laboratories, 1150 Elijah McCoy Drive, Detroit, Michigan 48202, before April 5, 2006.

12. **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 Michael Perry, Human Resources Manager, at 1150 Elijah McCoy Drive, Detroit, Michigan 48202. The Board of Directors policy is to have all shareholder communications compiled by the Human Resources Manager 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.

**PROPOSAL 1 ELECTION OF DIRECTORS**

**Election of Board of Directors**

Caraco's Board of Directors is divided into three classes with each class of directors elected to a three-year term of office. At each annual meeting, Caraco shareholders elect one class of directors for a three-year term to succeed the class of directors whose term of office expires at that meeting. This year you are voting on three candidate directors. Based on the recommendation of the Board of Directors, the following individuals, each of whom is a current director, are recommended for re-election: Sailesh T. Desai, Daniel H. Movens and Georges Ugeux. Mr. Desai has been a director since 2000, Mr. Movens was appointed a director effective May 2, 2005 and Mr. Ugeux was appointed a director in January 2004. Each of the nominees has consented to his nomination and has agreed to serve as a director of Caraco if elected.

If any director is unable to stand for re-election, Caraco may vote the shares to elect any substitute nominee recommended by the Board of Directors. If the Board of Directors does not recommend any substitute nominees, the number of directors to be elected at the Annual Meeting may be reduced by the number of nominees who are unable to serve.

Caraco's Board of Directors recommends a vote **FOR** these nominees.

**NOMINEES FOR DIRECTORS TERMS EXPIRING 2008**

<u>Nominees</u>	<u>Age</u>	<u>Principal Occupation and Business Experience During Past 5 Years and other Directorships</u>	<u>Director Since</u>
Sailesh T. Desai	50	Mr. Desai has served as a full time director of Sun Pharmaceutical Industries Limited ( Sun Pharma ), since 1999, responsible for domestic marketing 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

Daniel H. Movens	47	Mr. Movens became the CEO of Caraco effective May 2, 2005. Prior to this, Mr. Movens was President of Anda, Inc., a wholly owned subsidiary of Andrx, Inc., a position he held since February 2004. Since 1995 Mr. Movens held a number of positions of increasing responsibility, including Executive Vice President of Operations. Mr. Movens was also an Operating Committee member for Andrx Corporation. For fifteen (15) years before joining Anda, Inc., Mr. Movens worked in the retail pharmacy industry, working for independent pharmacies and pharmacy chains.	2005
------------------	----	--	------

Georges Ugeux	60	In October 2003, Mr. Ugeux founded Galileo Global Advisors LLC (a company offering strategic advice on international business development). 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.	2004
---------------	----	---	------

**DIRECTORS TERMS EXPIRING 2007**

Directors	Age	Principal Occupation and Business Experience During Past 5 Years and other Directorships	Director Since
Timothy S. Manney	46	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 May 2002, Mr. Manney served as the Chief Financial Officer of Covansys Corporation (a publicly-held information technology solutions company).	2004

Sudhir Valia	48	Mr. Valia has worked for Sun Pharma as a full time director responsible for finance, commercial, operations, projects and quality control since December 1993. 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
--------------	----	---	------

**DIRECTORS TERMS EXPIRING 2006**

<u>Directors</u>	<u>Age</u>	<u>Principal Occupation and Business Experience During Past 5 Years and other Directorships</u>	<u>Director Since</u>
Dilip S. Shanghvi	49	Mr. Shanghvi has served as Chairman of the Board of Directors of Caraco since 1997. Mr. Shanghvi is the founder of 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. Mr. Valia is Mr. Shanghvi's brother-in-law.	1997
Jitendra N. Doshi	54	Mr. Doshi was the interim Chief Executive Officer of Caraco (from September 2003 to May 2005), and has been the Chief Financial Officer (since November 2002) and its Chief Operating Officer since (August 30, 2002). Mr. Doshi commenced employment with Caraco as its Senior Vice President - Commercial in April 2001. 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.	2001

**Committees and Meetings of Directors**

During 2004, the Board of Directors met six times. All of our current directors attended at least 75% of the meetings of the Board and the committees on which they served, except for Mr. Desai. The Board of Directors encourages Board members to attend each Annual Meeting of Shareholders. At the 2004 Annual Meeting of Shareholders, four of the Caraco directors were in attendance.

The Board of Directors is fixed at seven members. Two of such directors are independent under Amex listing standards currently in effect. Unless a company is a controlled company under Amex regulations, a majority of its Board of Directors must be independent. As a result of Sun

Pharma owning a majority of the outstanding voting shares, Caraco is a controlled company under Amex regulations and is therefore not required to have a majority of independent directors on its 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, a copy of which is attached as Appendix A to this proxy statement. The Audit Committee's responsibilities are described in more detail in such charter. 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 2004. The current members of the Audit Committee are Mr. Manney and Mr. Ugeux. Mr. Manney is the committee's Chairman. Each of these members is independent under Section 121(A) of Amex listing standards currently in effect. The Board of Directors has determined that Mr. Manney is an audit committee financial expert. The Board of Directors is currently actively searching for a third independent director to serve on its Board of Directors to replace Mr. William C. Brooks (who resigned as a director on April 14, 2005), in order to bring it into compliance with the Amex requirements which require three independent directors on its Audit Committee.

*Compensation Committee.* The Compensation Committee oversees Caraco's policies and programs for the compensation of its officers. The Committee is to review and approve the compensation of the officers at least annually and report its actions to the Board of Directors. 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 awards under Caraco's 1999 Equity Participation Plan 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 two meetings during 2004. The Compensation Committee currently consists of Messrs. Manney, Shanghvi and Ugeux. Mr. Shanghvi serves as the Chairman. Under Amex regulations, controlled companies, such as Caraco, are not required to have compensation committees consisting solely of independent directors. Two of the three directors, Messrs. Manney and Ugeux, are independent.

*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 currently consists of Messrs. Manney and Ugeux. Mr. Ugeux serves as the Chairman.

### **Nomination of Directors**

The Board of Directors has not established a formal nominating committee as the entire Board serves in this capacity. Under Amex regulations, a controlled company is not required to establish a formal nominating committee. 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.

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 of 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 Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent that each nominee to serve as a director of the Company is so elected.

### **Report of the Audit Committee**

Management is primarily responsible for the financial statements and the reporting process. The independent registered public accounting firm is responsible for performing an audit of Caraco's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for expressing an opinion on those financial statements based on its audit. The Audit Committee reviews these processes on behalf of the Board of Directors. In this context, the Audit Committee has reviewed and discussed the audited

financial statements contained in the 2004 Annual Report of Form 10-K with Caraco's management and its independent registered public accounting firm.

The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended.

The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as amended, and has discussed with the independent registered public accounting firm its independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Caraco's Annual Report on Form 10-K for the year ended December 31, 2004 for filing with the Securities and Exchange Commission.

The Audit Committee

Timothy S. Manney (Chairman)  
Georges Ugeux

#### **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 Human Resources Manager, Michael Perry, at 1150 Elijah McCoy Drive, Detroit, MI 48202, or by telephone: (313) 871-8400 or by email: mperry@caraco.com.

#### **Compensation of Directors**

Directors who are employees of Caraco or who are directors and/or employees of Sun Pharma and its affiliates do not receive additional compensation for their service on the Board of Directors and its Committees. Each non-employee director receives an annual retainer of \$12,000, a fee of \$1,500 if in person (\$500 if by telephone) for each attended Board and Committee meeting (with \$500 extra for the chairman of the Committee), a one time grant of 3,000 stock options upon initial election and an annual grant of 1,500 stock options on each anniversary date of election. No additional Committee fees are paid if the Committee meets on the same day as the Board meets. Non-employee directors are also reimbursed for out-of-pocket expenses incurred in connection with attending Board and Committee meetings.

#### **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 May 11, 2005, about the shareholders (who are not officers or directors) known to Caraco to be the beneficial owner of more than 5% of Caraco's common stock. Caraco relied solely on information furnished by its transfer agent and Schedule 13Ds.

**Amount and Nature of Beneficial Ownership as of May 11, 2005**

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Sun Pharma Corp Comm Dept, Acme Plaza Andheri Kurla Road, Andheri (East) Mumbai 400 059 India	16,868,680(1)	63.1%

- (1) Sun Pharma directly owns 8,382,666 shares of common stock of Caraco and beneficially owns 8,486,014 shares registered in the name of Sun Global, whose address is Akara Building, 24 DeCastro Street, Wickhams Clay 1 Road, Town Tartola, British Virgin Islands. In addition, Sun Pharma and its affiliates own 5,984,000 shares of Series B preferred stock which are convertible into shares of common stock three years from the date of their respective issuance or upon a change in control. The earliest any shares of such series B preferred stock becomes convertible is December 2006.

**SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS**

The following table contains information, as of May 11, 2005, 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 July 11, 2005 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.

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class</b>
Jitendra N. Doshi(1)	60,000(2)	*
Dilip S. Shanghvi(3)	0(4)	*
Robert Kurkiewicz(1)	10,013(5)	*
Gurpartap Singh Sachdeva (1)	9,800(6)	*
Sailesh T. Desai (3)	0(4)	*
Timothy S. Manney (7)	1,000(8)	*
Georges Ugeux (9)	1,000(10)	*
Sudhir Valia (3)	0(4)	*
All current executive officers and directors as a group (8 persons)	96,813(12)*	

\* Less than 1.0% of the outstanding shares

(1) The mailing address of each of these holders is 1150 Elijah McCoy Drive, Detroit, Michigan 48202.

(2) Includes no stock options that are currently exercisable.



- (3) The mailing address of S. Desai, D. Shanghvi and S. Valia is Sun Pharmaceutical Industries Limited, Corp Comm Dept, Acme Plaza, Andheri Kurla Road, Andheri (East), Mumbai 400 059 India.
- (4) Excludes 16,868,680 shares of common stock and 5,984,000 shares of Series B preferred stock beneficially owned by Sun Pharma and its affiliates. (See footnote 1 under Security Ownership of Certain Beneficial Owners and Transactions of Directors, Executive Officers and Certain Beneficial Holders of Caraco. ) Messrs. Desai, Shanghvi 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 its affiliates. Each of Messrs. Desai, Shanghvi and Valia disclaims beneficial ownership of the shares of common stock beneficially owned by Sun Pharma and its affiliates.
- (5) Includes stock options that are currently exercisable to purchase 8,000 shares of common stock.
- (6) Includes stock options that are currently exercisable to purchase 2,000 shares of common stock and 1,800 shares held in the name of his wife..
- (7) Mr. Manney s mailing address is c/o Synova, Inc., 1000 Town Center, Suite 700, Southfield, MI 48075.
- (8) Includes stock options that are currently exercisable to purchase 1,000 shares of common stock.
- (9) Mr. Ugeux s mailing address is c/o Galileo Global Advisors, One Rockefeller Center, Suite 1722, New York, New York, 10020.
- (10) Includes stock options that are currently exercisable to purchase 1,000 shares of common stock.

**Equity Compensation Plan Information**  
**12-31-04**

<i>Plan category</i>	<i>Number of securities to be issued upon exercise of outstanding options, warrants and rights.</i>	<i>Weighted-average exercise price of outstanding options, warrants and rights.</i>	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</i>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>
<i>Equity compensation plans approved by security holders</i>	181,600	\$1.39	2,684,000
<i>Equity compensation plans not approved by security holders</i>	200,000	\$3.50	
<i>Total</i>	381,600	\$2.03	2,684,000

The equity compensation plan approved by security holders consists of the 1999 Equity Participation Plan. Options under the 1999 Plan were generally granted as incentive stock options to employees (279,000) and as non-qualified stock options to former directors and consultants (37,000).

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires that Caraco's directors, executive officers and persons who own more than ten percent of a registered class of Caraco's equity securities file reports of stock ownership and any subsequent changes in stock ownership with the SEC not later than specified deadlines. To Caraco's knowledge, based solely on a review of the copies of such reports furnished to Caraco, all directors, executive officers and persons who own more than ten percent of Caraco's equity securities complied with applicable Section 16(a) filing requirements for 2004, except as follows: Sun Pharma filed a late report with respect to four transactions in which it acquired Series B preferred stock.

**TRANSACTIONS OF DIRECTORS, EXECUTIVE OFFICERS AND CERTAIN BENEFICIAL HOLDERS OF  
CARACO**

The following discloses transactions during 2004, 2003 and 2002 and proposed transactions between Caraco and several of the incumbent and nominee directors, executive officers and security holders who beneficially hold in excess of five percent of our outstanding shares:

On November 21, 2002, we entered into a products agreement with Sun Global. Under the agreement, which was approved by our independent directors, Sun Global has agreed to provide us with 25 new generic drugs over a 5-year period. In exchange for each new generic drug transferred to us by Sun Global which passes a bioequivalency test, we issue Sun Global 544,000 shares of Series B preferred stock.

During 2004 and 2003, Sun Global earned 3,808,000 shares and 544,000 shares of Series B stock for seven product transfers and one product transfer, respectively, as provided under the November 2002 products agreement. During 2002, we issued to Sun Pharma 1,632,000 shares of our common stock for three product transfers under the former 1997 products agreement with Sun Pharma.

During 2003 and 2002, we borrowed approximately \$0.6 million, \$1.4 million, respectively, from Sun Pharma, and in 2003 we repaid the entire balance of all of our outstanding loans from Sun Pharma in the amount of approximately \$10 million. Prior to April 1, 2001, the interest rate was 10%; thereafter it was 8%.

During 2004, 2003 and 2002, we purchased approximately \$16.7 million, \$10.3 million and \$2.4, respectively, of our materials from Sun Pharma. We intend to continue to purchase raw materials from Sun Pharma in 2005.

During 2004, 2003 and 2002, Caraco purchased at Sun Pharma's cost, approximately \$0.61 million, \$0.51 million, and \$0.31 million, respectively, of equipment from Sun Pharma. We intend to continue to purchase equipment from Sun Pharma in 2005.

We entered into two non-cancelable operating leases during 2000 with Sun Pharma to lease production machinery. The leases each require rental payments of \$4,245 and expire during 2005.

Caraco entered into a manufacturing and supply agreement and a distribution and sale agreement in December 2004 with an affiliate of Sun Pharma. No fees were earned by Caraco under these agreements in 2004.

During 2004, 2003 and 2002, Caraco sold \$5.4 million, \$3.7 million and \$2.6 million, respectively, to Anda, Inc. Prior to becoming our chief executive officer, Mr. Movens was an executive officer of Anda, Inc.

**EXECUTIVE OFFICERS**

The following table provides information about Caraco's executive officers who are not directors as of May 11, 2005.

Name	Age	Five-Year Business Experience	Executive Officer Since
Robert Kurkiewicz	54	Commenced employment with Caraco as its Vice President -- Quality Assurance in November 1993 and was promoted to Sr. Vice President - Technical, October 1998.	1993

Gurpartap Singh 36 Vice President Sales and Marketing since September 2003 and National 2005  
Sachdeva Sales and Marketing Manager since September 2000. From May 1998 to  
September 2000, Mr. Singh was the Manager of Bulk Drugs for Sun  
Pharma.

#### **REPORT ON EXECUTIVE COMPENSATION**

During 2004, the Company had only two executive officers, Mr. Jitendra N. Doshi, its CEO (from October 2003 to May 2005), who is also the CFO and Chief Operating Officer, and Mr. Robert Kurkiewicz, its Senior Vice President Technical. Each has entered into five year employment agreements with the Company through December 31, 2006 and December 31, 2007, respectively, and which automatically renew for one-year periods thereafter.

The key elements of such executives' compensation is a base salary, which may be adjusted annually, based on performance and other factors deemed reasonable by the Company, a performance bonus and stock options. In October 2004, the members of the Compensation Committee increased the base salary of Mr. Doshi and Mr. Kurkiewicz as a result of the Company's successful performance (see Employment Agreements below). The Company has not had a history of paying performance bonuses to its executive officers, however, the Compensation Committee may consider whether or not to pay performance bonuses to executive officers for 2004.

Stock options serve as a long-term incentive plan for such executive officers in that the grant of stock options is intended to align the executive officers long-term interests with those of the shareholders. Stock options provide these executive officers with the opportunity to purchase and maintain an equity interest in Caraco and to share in the appreciation of the value of the stock. The Company believes that stock options directly motivate these executives to maximize long-term stockholder value. The option grants also utilize vesting periods in order to encourage these key employees to continue in the employ of Caraco.

The Compensation Committee

Dilip S. Shanghvi (Chairman)  
Timothy S. Manney  
Georges Ugeux

**COMPENSATION OF EXECUTIVE OFFICERS**

The following table shows, as to the Chief Executive Officer and as to the other executive officers whose salary and bonus exceeded \$100,000 during the last fiscal year, information concerning all compensation paid for services to Caraco during the last three fiscal years:

Name and Principal Position	Year	Annual Compensation			Long Term Compensation		
		Salary	Bonus	Other Annual Compensation	Awards	Securities	Payouts
					Restricted Stock Awards	Underlying Options	LTP Payments