

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000950124-96-005059**

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### FILER

#### **CARACO PHARMACEUTICAL LABORATORIES LTD**

CIK: **887708** | IRS No.: **382505723** | State of Incorporation: **MI** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-24676** | Film No.: **96664580**  
SIC: **2834** Pharmaceutical preparations

#### Mailing Address

*1150 ELIJAH MCCOY DRIVE  
DETROIT MI 48202*

#### Business Address

*1150 ELIJAH MCCOY DR  
DETROIT MI 48202  
3138718400*

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

Commission File No. 0-24676

CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(Exact name of registrant as specified in its charter)

MICHIGAN (State or other jurisdiction of incorporation or organization)	38-2505723 (IRS Employer Identification No.)
1150 ELIJAH MC COY DRIVE, DETROIT, MICHIGAN (Address of principal executive offices)	48202 (Zip Code)
Registrant's telephone number, including area code	(313) 871-8400

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

Yes  No

Common Stock outstanding at November 11, 1996: 7,842,106 shares

The Exhibit Index is located on page 16  
The total number of pages is 18

CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEET

SEPTEMBER 30, 1996  
(UNAUDITED)

<TABLE>  
<CAPTION>

ASSETS	<C>
<S>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 187,106
Accounts receivable, net of allowances of \$32,247	47,415
Inventories	336,723
Prepaid expenses and deposits	144,823
	-----
TOTAL CURRENT ASSETS	716,067
	-----
PROPERTY, PLANT AND EQUIPMENT - AT COST	
Buildings and improvements	6,682,725
Equipment	3,803,087
Furniture and fixtures	156,908
	-----
Total	10,642,720
Less accumulated depreciation	(2,227,172)
	-----
Land	8,415,548
	197,305
	-----
PROPERTY, PLANT AND EQUIPMENT, NET	8,612,853
	-----
MARKETABLE SECURITIES	128,739
	-----
TOTAL ASSETS	\$ 9,457,659
	=====

</TABLE>

See accompanying notes.

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LIABILITIES AND DEFICIT

<TABLE>	
<S>	
<C>	
CURRENT LIABILITIES	
Accounts payable	\$ 1,431,629
Short-term notes payable	300,000
Long-term debt	8,880,000
Accrued expenses:	
Interest	384,861
Other	18,569
	-----
TOTAL CURRENT LIABILITIES	11,015,059
	-----
COMMITMENTS AND CONTINGENCIES	
DEFICIT	
Preferred stock, no par value, authorized 5,000,000 shares; issued and outstanding, 285,714 Series A shares	1,000,000
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding, 7,842,106 shares	19,646,974
Subscription receivable	(14,087)
Deficit accumulated during the development stage	(22,029,363)
Unrealized loss on available-for-sale marketable securities	(160,924)
	-----
TOTAL DEFICIT	(1,557,400)
	-----
TOTAL LIABILITIES AND DEFICIT	\$ 9,457,659
	=====

</TABLE>

See accompanying notes.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>					
<CAPTION>					
	Three Months Ended		Nine Months Ended		Cumulative from
	September 30,		September 30,		Inception
	-----		-----		(2/22/84 to
	1996	1995	1996	1995	9/30/96)
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 337,326	\$ 1,159,631	\$ 1,046,007	\$ 3,597,572	\$ 10,247,253
Cost of goods sales	420,802	901,445	1,331,441	2,522,515	9,833,363
	-----	-----	-----	-----	-----
GROSS (LOSS) PROFIT	(83,476)	258,186	(285,434)	1,075,057	413,890
	-----	-----	-----	-----	-----
Selling, general and administrative expenses	460,565	607,772	1,539,684	1,755,465	12,319,992
	-----	-----	-----	-----	-----
Research and development costs	608,807	592,682	1,480,502	1,645,313	6,293,186

OPERATING LOSS	(1,152,848)	(942,268)	(3,305,620)	(2,325,721)	(18,199,288)
OTHER INCOME (EXPENSE)					
Interest income	774	1,021	6,273	2,246	225,628
Interest expense	(169,907)	(176,966)	(498,675)	(546,385)	(4,385,054)
Other	-	(42,562)	1,023	(42,541)	(52,592)
Gain (loss) on sale of equipment	-	-	-	84,283	(48,209)
OTHER EXPENSE - NET	(169,133)	(218,507)	(491,379)	(502,397)	(4,260,227)
Loss before cumulative effect of change in accounting principle	(1,321,981)	(1,160,775)	(3,796,999)	(2,828,118)	(22,459,515)
Cumulative effect of change in accounting principle	-	-	-	-	430,152
NET LOSS	\$ (1,321,981)	\$ (1,160,775)	\$ (3,796,999)	\$ (2,828,118)	\$ (22,029,363)
Net loss per common share	(\$0.17)	(\$0.17)	(\$0.50)	\$ (.47)	(\$6.54)
Weighted average number of common shares outstanding	7,900,856	6,719,504	7,536,731	5,980,963	3,369,356

</TABLE>

See accompanying notes.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)

<TABLE>

<CAPTION>

	Preferred Stock		Common Stock		Subscription Receivable	Deficit Accumulated During the Development Stage
	Shares	Amount	Shares	Amount		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at inception (February 22, 1984)	--	\$ --	--	\$ --	\$ --	\$ --
Issuance of 2,433,471 shares of common stock for stock subscription receivable	--	--	2,433,471	2,500	(2,500)	--
Balance at December 31, 1984	--	--	2,433,471	2,500	(2,500)	--
Net loss	--	--	--	--	--	(3,832)
Balance at December 31, 1985	--	--	2,433,471	2,500	(2,500)	(3,832)
Net loss	--	--	--	--	--	(50)
Balance at December 31, 1986	--	--	2,433,471	2,500	(2,500)	(3,882)
Net loss	--	--	--	--	--	(1,270)
Balance at						

December 31, 1987						
Net loss	--	--	2,433,471	2,500	(2,500)	(5,152)
Collection of subscription receivable	--	--	--	--	--	(81,297)
	--	--	--	--	2,500	--
Balance at December 31, 1988	--	--	2,433,471	2,500	--	(86,449)
Net loss	--	--	--	--	--	(146,978)
Balance at December 31, 1989						
Additional stockholder contribution	--	--	2,433,471	2,500	--	(233,427)
Net loss	--	--	--	97,500	--	--
	--	--	--	--	--	(666,314)
Balance at December 31, 1990	--	--	2,433,471	100,000	--	(899,741)
Net loss	--	--	--	--	--	(2,271,108)
Balance at December 31, 1991						
Issuance of common stock	--	--	2,433,471	100,000	--	(3,170,849)
Stock issued upon conversion of debt	--	--	539,055	2,480,449	--	--
Net loss	--	--	143,947	692,382	--	--
	--	--	--	--	--	(3,568,135)

<CAPTION>

	Unrealized Loss on	
	Marketable Securities	Total
<S>	<C>	<C>
Balance at inception (February 22, 1984)	\$ --	\$ --
Issuance of 2,433,471 shares of common stock for stock subscription receivable	--	--
Balance at December 31, 1984	--	--
Net loss	--	(3,832)
Balance at December 31, 1985	--	(3,882)
Net loss	--	(50)
Balance at December 31, 1986	--	(3,882)
Net loss	--	(1,270)
Balance at December 31, 1987		
Net loss	--	(5,152)
Collection of subscription receivable	--	(81,297)
	--	2,500
Balance at December 31, 1988	--	(83,949)
Net loss	--	(146,978)
Balance at December 31, 1989		
Additional stockholder contribution	--	(230,927)
Net loss	--	97,500
	--	(666,314)
Balance at December 31, 1990	--	(799,741)
Net loss	--	(2,271,108)
Balance at December 31, 1991		
Issuance of common stock	--	(3,070,849)
Stock issued upon conversion of debt	--	2,480,449
Net loss	--	692,382
	--	(3,568,135)

</TABLE>

(Continued)

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' EQUITY/ (DEFICIT) (CONTINUED)

<TABLE>  
<CAPTION>

	Preferred Stock		Common Stock		Subscription Receivable	Deficit Accumulated During the Development Stage
	Shares	Amount	Shares	Amount		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1992	--	--	3,116,473	3,272,831	--	(6,738,984)
Issuance of common stock	--	--	529,947	2,182,256	--	--
Net loss	--	--	--	--	--	(3,769,940)
Balance at December 31, 1993	--	--	3,646,420	5,455,087	--	(10,508,924)
Issuance of common stock	--	--	1,400,000	7,924,251	--	--
Issuance of preferred stock	285,714	1,000,000	--	--	--	--
Net loss	--	--	--	--	--	(3,630,058)
Balance at December 31, 1994						
Issuance of common stock						
Contribution of administrative expenses by Chairman, Emeritus	285,714	1,000,000	5,046,420	13,379,338	--	(14,138,952)
Net loss	--	--	1,809,387	4,110,063	(14,087)	--
Unrealized loss on marketable securities	--	--	--	56,000	--	--
	--	--	--	--	--	(4,093,362)
Balance at December 31, 1995	285,714	1,000,000	6,855,807	17,545,401	(14,087)	(18,232,364)
Issuance of common stock (unaudited)	--	--	986,299	2,101,573	--	--
Net loss (unaudited)	--	--	--	--	--	(3,796,999)
Balance at September 30, 1996 (unaudited)	285,714	1,000,000	7,842,106	19,646,974	(14,087)	(22,029,363)

<CAPTION>

	Unrealized Loss on Marketable Securities		Total
	<C>	<C>	
<S>	<C>	<C>	<C>
Balance at December 31, 1992	--	--	(3,466,153)
Issuance of common stock	--	--	2,182,256
Net loss	--	--	(3,769,940)
Balance at December 31, 1993	--	--	(5,053,837)
Issuance of common stock	--	--	7,924,251
Issuance of preferred stock	--	--	1,000,000
Net loss	--	--	(3,630,058)
Balance at December 31, 1994			
Issuance of common stock			
Contribution of			

administrative expenses by	--	240,356
Chairman, Emeritus	--	4,095,976
Net loss	--	56,000
Unrealized loss on	--	(4,093,382)
marketable securities	(160,924)	(160,924)
	-----	-----
Balance at		
December 31, 1995	(160,244)	138,026
Issuance of		
common stock (unaudited)	--	2,101,573
Net loss (unaudited)	--	(3,796,999)
	-----	-----
Balance at September 30,		
1996 (unaudited)	(160,924)	(1,557,400)
	=====	=====

</TABLE>

See accompanying notes.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,		(UNAUDITED) CUMULATIVE (2/22/84 TO 9/30/96)
	1996	1995	
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net loss	\$ (3,796,999)	\$ (2,828,118)	\$ (22,029,363)
Adjustments to reconcile net loss to net			
cash used in operating activities:			
Cumulative effect of change in			
accounting principle	-	-	(430,152)
Depreciation	384,300	384,300	2,825,979
(Gain) loss on sale of equipment	-	(84,283)	48,230
Expenses paid by Chairman, emeritus	-	-	56,000
Changes in operating assets and			
liabilities which provided (used) cash:			
Accounts receivable	361,165	(237,434)	(47,415)
Inventories	42,637	(71,163)	(336,723)
Prepaid expenses and deposits	16,820	(68,868)	(144,823)
Accounts payable	442,235	429,607	1,431,629
Accrued expenses	187,650	(72,614)	419,429
	-----	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(2,362,192)	(2,548,573)	(18,207,209)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(64,539)	(102,048)	(2,381,247)
Proceeds from sale of equipment	-	195,000	195,000
	-----	-----	-----
NET CASH (USED IN) PROVIDED BY			
INVESTING ACTIVITIES	(64,539)	92,952	(2,186,247)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	2,101,573	1,807,678	18,541,224
Proceeds from issuance of preferred stock	-	-	1,000,000
Proceeds from long-term debt	-	-	868,601
Repayments of long-term debt	(120,000)	-	(629,263)
Net short-term borrowings	300,000	300,000	800,000
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,281,573	2,107,678	20,580,562
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH AND			
CASH EQUIVALENTS	(145,158)	(347,943)	187,106
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	332,264	567,274	-
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$187,106	\$219,331	\$187,106
	=====	=====	=====
Supplemental disclosures of cash flows			
information:			
Cash paid for interest	\$164,966	\$716,475	\$4,153,025

See accompanying notes.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

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1. BASIS OF PRESENTATION

The balance sheet as of September 30, 1996 and the related statements of operations, stockholders equity/deficit and cash flows for the nine months ended September 30, 1996 and 1995 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements has been included. Such adjustments consisted of only normal recurring items. Interim results are not necessarily indicative of results for the full year.

The financial statements as of September 30, 1996 and for the nine months ended September 30, 1996 and 1995 should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 1995.

The accounting policies followed by the Company with respect to the unaudited interim financial statements are consistent with those stated in the 1995 Caraco Pharmaceutical Laboratories, Ltd. Annual Report on Form 10-KSB.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has not currently achieved sales necessary to support operations. The Company has, as of September 30, 1996, a deficit of \$1,557,400 and a working capital deficit of \$10,298,992. Realization of a major portion of the assets is dependent upon the Company's ability to meet its future financing requirements and the success of future operations, the outcome of which cannot be determined at this time. These and other factors raise substantial doubt about the Company's ability to continue as a going concern in the absence of sufficient additional funds and the achievement of profitable operations. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. LOSS FROM DEFALCATION

On October 18, 1994, the Company filed a Form 8-K with the U.S. Securities and Exchange Commission ("SEC") which stated (1) management's discovery of misappropriations of approximately \$514,000 of Company funds by its former Controller and his brother and (2) the agreement by Dr. C. Arnold Curry, Chairman Emeritus, to purchase for cash in the total amount of the loss, the Company claims against those who may be responsible for the \$514,000 loss. In connection with the reported 1994 losses, all amounts outstanding have been collected in full.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.

2. LOSS FROM DEFALCATION (CONTINUED)

On November 1, 1996, the Company was notified by the SEC that its Enforcement Division has tentatively decided not to recommend that the Commission authorize an enforcement action against the Company and the SEC's investigation had revealed that the defalcation which was reported October 18, 1994, had occurred in 1993, as well as in the first half of 1994, and that the defalcation in 1993 had totaled at least \$300,000. It is also possible that the Commission might institute an enforcement proceeding against one or more former employee(s) of the Company who are no longer associated with the Company.

The Company has made appropriate filings with the SEC.

3. STOCKHOLDERS' DEFICIT

On March 31, 1996, the Company converted a \$250,000 stockholder loan into 111,111 shares of its common stock at \$2.25 per share.

In connection with a private placement offering that was completed effective March 31, 1996, the Company sold 572,444 shares of unregistered common stock which netted the Company approximately \$1,250,000. All cash proceeds were received in April 1996.

On May 13, 1996, the Company sold privately 44,444 shares of common stock for \$100,000.

On May 31, 1996, the Company sold privately 250,000 shares of common stock for \$500,000.

On July 11, 1996, the Company and the Indian specialty pharmaceutical company, Sun Pharmaceutical Industries Ltd. announced that they had signed two non-binding letters of intent pursuant to which Sun Pharma would make an initial investment in Caraco common stock of \$4,000,000 and sell it certain rights for up to 20 generic pharmaceuticals products. This transaction is subject to certain conditions, including completion of Sun Pharma's due diligence, clearance from the Indian government, and negotiation and execution of definitive documents. The parties intend to consummate the transaction within 150 days.

As of July 29, 1996, the Company's common stock and warrants are quoted on the OTC Bulletin Board following a delisting of its securities from the NASDAQ Small Cap Market for not maintaining minimum capital and surplus requirements of \$1 million. The Company intends to raise additional capital and seek reinstatement on NASDAQ.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

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4. SHORT-TERM NOTE PAYABLE

On August 31, 1996, the Company borrowed \$300,000 from three (3) directors of the Company. The note is secured by certain assets of the Company, accrues interest at a per annum rate of 14%, payable monthly. Should the loan become in default the interest rate increases to 18%. The note is due upon demand or the one year anniversary of the closing date.

5. SUBSEQUENT EVENT

Long-term Debt

The Economic Development Corporation ("EDC") of the City of Detroit,

administers the \$9,000,000 Housing and Urban Development ("HUD") loan (the "Note") to the Company on behalf of the City of Detroit. The Note is secured by a lien on the building and a portion of the Company's equipment.

On November 1, 1996, the EDC agreed to defer payments on the loan for the period March 1996 through January 1999 subject to the completion of the Sun Pharmaceutical agreement. The deferral is designed to aid the Company and Sun in achieving adequate cash flow during the next few years to assure its ability to both fund its current operations and continue its new product ANDA approval process. Monthly payments are to resume in February 1999 or sooner should the Company reach profitability levels of \$750,000 in any quarter through March 31, 1998 and a level of \$500,000 in the quarters ended June 30, 1998 and September 30, 1998. When payments are resumed they will include a portion of the deferral which will be apportioned over the remaining term of the Loan.

As a condition of the deferral, the Note will now have additional security on all the Company's existing equipment and the Company will be required to uphold several additional covenants which include maintaining a tangible net worth of not less than \$1,000,000 (excluding debt subordinated to the EDC), maintaining a debt ratio of not more than 10 to 1 (excluding debt subordinated to the EDC), limiting capital expenditures to under \$2,000,000 and abstaining from share redemption during the payment deferral period.

Completion of payment deferral agreement is subject to certain conditions that the Company has not met as of the date of this filing, as such, the Note is classified as current until such conditions are met.

\* \* \* \* \*

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net losses for the quarters ended September 30, 1996 and 1995 were \$1,321,981 and \$1,160,775, respectively. The increase in the net loss in 1996 is due to the Company's continued inability to raise money needed to properly sustain ongoing operations. The Company continues to seek additional funding requirements to meet its business objectives.

Net sales for the quarter ended September 30, 1996 and 1995 were \$337,326 and \$1,159,631, respectively. The decrease in sales is attributable to the Company's inability to raise funds required to purchase raw materials needed to produce product for sale and the adverse affect of market price erosion on the current product line. At September 30, 1996 the Company had an open sales order backlog of approximately \$185,000, which should be eliminated by the end of 1996.

Cost of sales for the quarters ended September 30, 1996 and 1995 were \$420,802 or 124.7% of sales, and \$901,445 or 77.7% of sales, respectively. The increase percentage in cost of sales between periods was a result of the impact of market price erosion and the under absorption of fixed production overhead costs due to significantly lower manufacturing volumes due to the Company's continued depleted cash position and its inability to purchase materials required for production.

Selling, general and administrative expenses for the quarters ended September 30, 1996 and 1995 were \$460,565 and \$607,772, respectively. The decrease in 1996 is a result of the Company's continued cost cutting efforts to reduce the 1995 burden rate.

Research and development expenses for the quarters ended September 30, 1996 and 1995 were \$608,807 and \$592,682, respectively. The Company continues to fund its aggressive product development strategy, as funds permit, as a means to accelerate its planned

future growth. However, such expenditures and research projects were severely impacted and/or delayed by the Company's limited available working capital.

Interest expense for the quarters ended September 30, 1996 and 1995 were \$169,907 and \$176,966, respectively. The decrease in 1996 is attributable to the elimination of 1995 short-term borrowings used to fund equipment purchases.

At September 30, 1996 the Company's working capital deficit was \$10,298,992 compared with working capital of \$4,064 at September 30, 1995. The difference is attributable to the Company's continued losses from operations and reclassification of long-term debt to current, as discussed in Note 5.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A Development Stage Company)

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Liquidity and Capital Resources

On March 31, 1996, the Company converted a \$250,000 stockholder loan into 111,111 shares of its common stock at \$2.25 per share. On March 31, 1996, the Company also sold privately to 20 investors an aggregate of 572,444 shares of common stock for an aggregate consideration of \$1,288,000 in cash. On May 13, 1996 the Company sold privately to one investor 44,444 shares of common stock for \$99,999, and on May 31, 1996 the Company sold privately to one investor 250,000 shares of common stock for an aggregate of \$500,000. The above offerings were completed without an underwriter.

On August 31, 1996, the Company borrowed \$300,000 from three (3) directors of the Company. The note is secured by certain assets of the Company, accrues interest at a per annum rate of 14%, payable monthly. Should the loan become in default the interest rate increases to 18%. The note is due upon demand or the one year anniversary of the closing date, which ever is sooner.

Management estimates that, at its currently planned anticipated level of operations, the Company will continue to experience operating losses of between \$1,000,000 and \$1,500,000 per quarter through 1996 and, accordingly, that it needs approximately \$6,000,000 of additional funds to provide the required working capital to execute its business plan for 1997. On July 11, 1996, the Company and the Indian specialty pharmaceutical company, Sun Pharmaceutical Industries Ltd. announced that they had signed two non-binding letters of intent pursuant to which Sun Pharma would make an initial investment in Caraco common stock of \$4,000,000 and sell it certain rights for 20 generic pharmaceuticals products. This transaction is subject to certain conditions, including completion of Sun Pharma's due diligence, clearance from the Indian government, and negotiation and execution of definitive documents. The parties intend to consummate the transaction in the near future and negotiations are ongoing.

The Company and Sun Pharma also announced that during the negotiations and due diligence, Sun Pharma would transfer four of the proposed 20 products to Caraco as a demonstration of Sun Pharma's commitment to the proposed transaction. Under a separate agreement signed earlier this year, Caraco is to manufacture and market a generic anticonvulsant drug from Sun Pharma in the United States, with both companies sharing the development and registration.

The Economic Development Corporation ("EDC") of the City of Detroit, administers the \$9,000,000 Housing and Urban Development ("HUD") loan (the "Note") to the Company on behalf of the City of Detroit. The Note is secured by a lien on the building and a portion of the Company's equipment.

On November 1, 1996, the EDC agreed to defer payments on the loan for the period March 1996 through January 1999 subject to the completion

of the Sun Pharmaceutical agreement. The deferral is designed to aid the Company and Sun in achieving adequate cash flow during the next few years to assure its ability to both fund its current operations and continue its new product ANDA approval process. Monthly payments are to resume in February 1999 or sooner should the Company reach profitability levels of \$750,000 in any quarter through March 31, 1998 and a level of \$500,000 in the quarters ended June 30, 1998 and September 30, 1998. When payments are resumed they will include a portion of the deferral which will be apportioned over the remaining term of the Loan.

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CARACO PHARMACEUTICAL LABORATORIES, LTD.  
(A DEVELOPMENT STAGE COMPANY)

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

As a condition of the deferral, the Note will now have additional security on all the Company's existing equipment and the Company will be required to uphold several additional covenants which include maintaining a tangible net worth of not less than \$1,000,000 (excluding debt subordinated to the EDC), maintaining a debt ratio of not more than 10 to 1 (excluding debt subordinated to the EDC), limiting capital expenditures to under \$2,000,000 and abstaining from share redemption during the payment deferral period.

Completion of payment deferral agreement is subject to certain conditions that the Company has not met as of the date of this filing.

There is no assurance that the foregoing funds will be made available to the Company timely or on financially satisfactory terms; or that any of the Company's ANDAs will be approved by the FDA within time parameters anticipated by management or at all; or that the Company will be able to manufacture and sell profitably any product resulting from FDA approval of an ANDA filed by the Company. To the extent that capital requirements should exceed available capital, the Company would be required to reduce its research and development activity, reduce personnel and delay capital expenditures while continuing to seek alternative sources of financing for its business.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

The Economic Development Corporation (the "EDC") administers a \$9MM Housing and Urban Development ("HUD") loan to the Company (the "Note"). Caraco has been informed by the EDC that the Note is in default. The Note is secured by a lien on the building and a portion of its equipment. As of November 1, 1996 Caraco is presently eight months behind for a total of \$753,508.

In early November 1996 the EDC agreed subject to completion of a number of conditions including consummation of a proposed transaction between the Company and Sun Pharmaceutical (see below), to defer payments on the loan for the period March 1996 through January 1999. The deferral is designed to aid the Company in having adequate cash flow during the next few years to assure

its ability to both fund its current operations and continue its new product ANDA approval process. Regular Note payments are to resume in February 1999 or sooner should the Company reach profitability level of \$750,000 in any quarter prior to February 1999. When payments are resumed they will include a portion of the deferral which will be apportioned over the remaining term of the Loan.

The proposed agreement with the EDC also requires that in addition to the current security on the loan, the loan also be secured by additional security on all the Company's equipment. In addition the Company will be required to uphold several additional covenants which include maintaining a tangible net worth of not less than \$1MM (excluding debt subordinated to the EDC), maintaining a debt ratio of not more than 10 to 1 (excluding debt subordinated to the EDC), limiting capital expenditures to under \$2MM and abstaining from share redemption during the payment deferral period.

The Company is currently in negotiations with Sun Pharmaceutical with respect to the sale of the Company's stock to Sun and the purchase of Sun products for Company stock. There is no assurance that agreements with Sun will be consummated. If agreements are not consummated, this may result in material adverse consequences to the Company, including a default of the EDC Loan.

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

Not Applicable

Item 5. Other Information

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On September 19, 1996 Caraco announced in a press release, attached hereto as EXHIBIT A, that it had reduced its Board of Directors from eleven to seven directors. At its Board of Directors meeting of September 18, 1996 the Board of Directors accepted the resignations of Betty R. Anderson, Ronald R. Dobbins, Theodore H. Glenn, William R. Hurd and Robert P. Roselle and elected Phyllis Harrison-Ross as a Director. Present directors include David W. Adamany, C. Arnold Curry, Cara J. Curry, David A. Hagelstein, Jay F. Joliat, John R. Morris and Phyllis Harrison-Ross.

At the same Board of Directors meeting, the Board reorganized and reconstituted the members of its committees to serve until the next meeting of the Board of Directors following the 1997 Annual Meeting of Shareholders and until their successors shall be elected and shall have qualified. The Members of the Committees are as follows:

Audit Committee

David W. Adamany (Chairperson)  
Cara J. Curry  
Jay F. Joliat  
John R. Morris

Compensation Committee

David W. Adamany  
Cara J. Curry  
David A. Hagelstein (Chairperson)  
John R. Morris  
Phyllis Harrison-Ross

Finance Committee

C. Arnold Curry  
Jay F. Joliat (Chairperson)  
John R. Morris  
Phyllis Harrison-Ross

Executive Committee

C. Arnold Curry  
David W. Adamany (Chairperson)  
David A. Hagelstein  
Jay F. Joliat

On November 1, 1996 Caraco was notified by the SEC that the

Enforcement Division of the U.S. Securities and Exchange Commission has tentatively decided not to recommend that the Commission authorize an enforcement action against Caraco. The investigation had revealed that the defalcation which was reported October 18, 1994, had occurred in 1993, as well as in the first half of 1994, and that the defalcation in 1993 had totalled at least \$300,000. It is also possible that the Commission might institute an enforcement proceeding against one or more former employee(s) of Caraco who are no longer associated with Caraco.

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Item 6. Exhibits and Reports

- a. The following exhibits are filed as a part of this report and are attached hereto:

EXHIBIT A, Press Release dated September 19, 1996

- b. None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

By: /s/Allan J. Hammer

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Allan J. Hammer  
Chief Financial Officer (Principal  
Accounting Officer and a duly  
authorized signatory of the Company)

Dated: November 14, 1996

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EXHIBIT INDEX

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99	Press Release dated September 19, 1996

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## CARACO PHARMACEUTICAL LABORATORIES

FOR IMMEDIATE RELEASE

CONTACT: William R. Hurd  
(313) 871-8400

## CARACO ANNOUNCES REDUCTION OF ITS BOARD OF DIRECTORS

Detroit, MI, September 19, 1996 -- Caraco Pharmaceutical Laboratories, Ltd. (BULLETIN BOARD:CARA) today announced that it has reduced its Board of Directors from 11 to 7 members. In doing so Caraco accepted resignations from Betty R. Anderson, Ronald R. Dobbins, William R. Hurd, Theodore H. Glenn and Robert P. Roselle. Present directors include David W. Adamany, C. Arnold Curry, Cara J. Curry, David A. Hagelstein, Jay F. Joliat and John R. Morris.

Dr. Phyllis Harrison-Ross was elected to Caraco's Board as its 7th member. Dr. Harrison-Ross has more than 25 years in the Community Mental Health profession. She presents a remarkably diverse career as a Hospital Administrator, Researcher, Academician, Public Health Consultant, Forensic Psychiatrist and Public Educator. Dr. Harrison-Ross trained as an Adult and Child Psychiatrist as well as a Pediatrician, and continues to lend her administrative and clinical talents to serving the diverse, hard-to reach and underserved population of New York.

Caraco's Board stated that Dr. Harrison-Ross is a welcome addition to the Board. Her broad background will bring valuable perspective and insights to the Company and will help fashion the future plans of Caraco.

Caraco Pharmaceutical Laboratories, Ltd. is engaged in developing, manufacturing and marketing generic drugs for the ethical and over-the-counter markets. In August 1995, the Company signed a distribution agreement with leading pharmaceutical and health care product distributor McKesson Drug Company, a subsidiary of \$13 billion McKesson Corp. (NYSE:MCK), which provides Caraco with access to McKesson's existing distribution networks. Among Caraco's 14 generic products, are Nifedipine, a calcium blocker for the cardiovascular market, SureLac(TM), a lactase enzyme tablet which permits enjoyment of dairy products without discomfort; and additional products used for pain relief, sleeplessness, and coughs and colds.

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