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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended December 31, 2011

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**333-147871**

(Commission File Number)

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**Catalent Pharma Solutions, Inc.**

(exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**13-3523163**

(I.R.S. Employer Identification No.)

**14 Schoolhouse Road, Somerset, NJ**

(Address of principal executive offices)

**08873**

(Zip code)

**(732) 537-6200**

(Registrant's telephone number, including area code)

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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

(Note: As a voluntary filer not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act, the registrant has filed all reports pursuant to Section 13 or 15(d) of the Exchange Act during the preceding 12 months as if it were subject to such filing requirements.)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 1, 2012, there were 100 shares of the Registrant's common stock, par value \$0.01 per share issued and outstanding.

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CATALENT PHARMA SOLUTIONS, INC.

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## PART I

### Special Note Regarding Forward-Looking Statements

Certain information included in this Quarterly Report on Form 10-Q may be deemed to be “forward-looking statements.” All statements, other than statements of historical facts, included in this Form 10-Q are, or may be deemed to be, forward-looking statements. In particular, statements that we make regarding future market trends are forward-looking statements. When used in this document, the words “believe,” “expect,” “anticipate,” “estimate,” “project,” “plan,” “should,” “intend,” “may,” “will,” “would,” “potential” and similar expressions are intended to identify forward-looking statements.

These statements are based on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties that could cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements. We disclaim any duty to update any forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include, but are not limited to, those described under the section entitled “Risk Factors” in Catalent Pharma Solution Inc.’s Annual Report on Form 10-K for the fiscal year ended June 30, 2011 and the following:

- our substantial indebtedness;
- our ability to service our outstanding indebtedness and the impact such indebtedness may have on the way we operate our business;
- competition in the industry;
- the continued financial viability and success of our suppliers and customers, including the research and development and other scientific endeavors of our customers;
- product or other liability risks inherent in the design, development, manufacture and marketing of our offerings;
- changes in government regulations or our failure to comply with those regulations or other applicable laws, including environmental, health and safety laws;
- difficulties or delays in providing quality offerings, services and support to our customers, including manufacturing problems and difficulties or delays associated with obtaining requisite regulatory consents or approvals associated with those activities;
- uncertainties relating to general economic, political and regulatory conditions;
- inability to enhance our existing or introduce new technology or service offerings in a timely manner, and technological developments and products offered by our competitors;
- increased costs for the active pharmaceutical ingredients, components, compounds and raw materials used by our manufacturing businesses or shortages in or interruptions in the supply of these materials;
- changes in healthcare reimbursement in the United States or internationally;
- currency risks and other risks associated with international markets;
- tax legislation initiatives or challenges to our tax positions;
- failure to retain or continue to attract senior management or key personnel;
- disruption of, damage to or failure of our information systems;
- acquisition opportunities and our ability to successfully integrate acquired businesses and realize anticipated benefits of such acquisitions;
- the inability to protect our trade secrets and enforce our patent, copyright and trademark rights, and successful challenges to the validity of our patents, copyrights or trademarks and the associated costs;
- certain liabilities in connection with our pension plans;
- current uncertainty in global economic conditions; and
- conflicts of interest with our controlling investors.

We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition.

**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
**(in millions)**  
**Unaudited**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
Net revenue	\$ 416.5	\$ 393.2	\$ 827.0	\$ 773.9
Cost of products sold	286.1	273.8	572.8	550.9
Gross margin	130.4	119.4	254.2	223.0
Selling, general and administrative expenses	80.0	69.7	159.0	142.0
Impairment charges and (gain)/loss on sale of assets	(0.4)	(0.5)	(0.8)	0.1
Restructuring and other	10.4	4.7	11.8	10.1
Property and casualty losses, net	(14.1)	—	(14.6)	—
Operating earnings/(loss)	54.5	45.5	98.8	70.8
Interest expense, net	41.1	41.2	83.2	81.8
Other (income)/expense, net	(6.3)	1.3	(2.4)	13.5
Earnings/(loss) from continuing operations before income taxes	19.7	3.0	18.0	(24.5)
Income tax expense/(benefit)	7.3	9.2	10.8	10.6
Earnings/(loss) from continuing operations	12.4	(6.2)	7.2	(35.1)
Earnings/(loss) from discontinued operations, net of tax	0.1	(0.6)	0.1	—
Net earnings/(loss)	12.5	(6.8)	7.3	(35.1)
Net earnings/(loss) attributable to noncontrolling interest, net of tax expense/(benefit) \$0.2 million and \$0.1 million, respectively	0.8	1.4	0.3	0.6
Net earnings/(loss) attributable to Catalent	\$ 11.7	\$ (8.2)	\$ 7.0	\$ (35.7)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(in millions, except shares)  
**Unaudited**

	<u>December 31,</u> <u>2011</u>	<u>June 30,</u> <u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 203.4	\$ 205.1
Trade receivables, net	246.5	274.8
Inventories	154.0	139.7
Prepaid expenses and other	97.6	104.0
Total current assets	701.5	723.6
Property Plant and equipment, net	730.9	759.5
Other assets:		
Goodwill	879.2	906.0
Other intangibles, net	268.1	290.6
Deferred income taxes	112.7	114.8
Other	32.0	36.7
<b>Total assets</b>	<b><u>\$ 2,724.4</u></b>	<b><u>\$ 2,831.2</u></b>
<b>LIABILITIES AND SHAREHOLDER'S DEFICIT</b>		
Current liabilities:		
Current portion of long-term obligations and other short-term borrowings	\$ 27.1	\$ 28.7
Accounts payable	113.4	129.1
Other accrued liabilities	224.2	227.2
Total current liabilities	364.7	385.0
Long-term obligations, less current portion	2,248.6	2,318.6
Pension liability	72.0	78.5
Deferred income taxes	188.7	192.7
Other liabilities	55.6	66.3
Commitment and contingencies (see Note 13)		
Shareholder's deficit:		
Common stock \$0.01 par value; 1,000 shared authorized, 100 shares issued		
Additional paid in capital	1,084.8	1,082.0
Accumulated deficit	(1,334.7)	(1,341.7)
Accumulated other comprehensive income/(loss)	40.6	46.0
Total Catalent shareholder's deficit	(209.3)	(213.7)
Noncontrolling interest	4.1	3.8
Total shareholder's deficit	(205.2)	(209.9)
<b>Total liabilities and shareholder's deficit</b>	<b><u>\$ 2,724.4</u></b>	<b><u>\$ 2,831.2</u></b>

The accompanying notes are an integral part of these unaudited consolidated financial statements

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Consolidated Statement of Changes in Shareholder's Deficit**  
(in millions)  
**Unaudited**

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive (Loss)/Income</u>	<u>Non controlling Interest</u>	<u>Total Shareholder's Deficit</u>
Balance at June 30, 2011	\$ —	\$1,082.0	\$ (1,341.7)	\$ 46.0	\$ 3.8	\$ (209.9)
Equity contribution		1.1				1.1
Comprehensive loss:						
Net earnings/(loss)			7.0		0.3	7.3
Distribution related to noncontrolling interest					—	—
Foreign currency translation adjustments				(11.0)	—	(11.0)
Net change in minimum pension liability, net of tax				—	—	—
Deferred compensation, net of tax				(0.3)		(0.3)
Change in unrealized loss on derivatives, net of tax				5.9		5.9
Total comprehensive income/(loss)						1.9
Equity compensation		1.7				1.7
Balance at December 31, 2011	<u>\$ —</u>	<u>\$1,084.8</u>	<u>\$ (1,334.7)</u>	<u>\$ 40.6</u>	<u>\$ 4.1</u>	<u>\$ (205.2)</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in millions)  
Unaudited

	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings/(loss)	\$ 7.3	\$ (35.1)
Net earnings/(loss) from discontinued operations	0.1	—
<b>(Loss)/earnings from continuing operations</b>	<b>7.2</b>	<b>(35.1)</b>
<b>Adjustments to reconcile (loss)/earnings from continued operations to Net cash from operations:</b>		
Depreciation and amortization	60.1	59.1
Unrealized foreign currency transaction (gains)/losses, net	(1.6)	8.7
Amortization of debt financing costs	6.4	4.8
Asset impairments and (gain)/loss on sale of assets	7.7	0.1
Reclassification of proceeds from insurance related to long lived assets	(21.3)	—
Equity compensation	1.7	2.3
Provision (benefit) for deferred income taxes	(1.5)	2.1
Provision for bad debts and inventory	3.5	5.1
Change in operating assets and liabilities:		
Decrease/(increase) in trade receivables	19.6	26.9
Decrease/(increase) in inventories	(21.9)	0.8
Increase/(decrease) in accounts payable	(10.8)	(26.6)
Other accrued liabilities and operating items, net	0.9	(31.2)
Net cash provided by/(used in) operating activities from continuing operations	<b>50.0</b>	<b>17.0</b>
Net cash provided by/(used in) operating activities from discontinued operations	—	(0.6)
<b>Net cash provided by/(used in) operating activities</b>	<b>50.0</b>	<b>16.4</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment and other productive assets	(51.4)	(32.5)
Proceeds from sale of property and equipment	1.5	3.4
Proceeds from insurance related to long lived assets	21.3	—
Net cash provided by/(used in) investing activities from continuing operations	(28.6)	(29.1)
Net cash provided by/(used in) investing activities from discontinued operations	—	(0.5)
<b>Net cash provided by/(used in) investing activities</b>	<b>(28.6)</b>	<b>(29.6)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in short-term borrowings	(2.9)	(4.8)
Repayments of long-term obligations	(12.5)	(12.6)
Distribution to noncontrolling interest holder	—	(2.6)
Equity contribution (redemption)	1.1	3.5
Net cash (used in)/provided by financing activities from continuing operations	(14.3)	(16.5)
Net cash (used in)/provided by financing activities from discontinued operations	—	—
<b>Net cash (used in)/provided by financing activities</b>	<b>(14.3)</b>	<b>(16.5)</b>
<b>Effect of foreign currency on cash</b>	<b>(8.8)</b>	<b>6.4</b>
<b>NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS</b>	<b>(1.7)</b>	<b>(23.3)</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>205.1</b>	<b>164.0</b>
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 203.4</b>	<b>\$ 140.7</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>		
Interest paid	\$ 79.4	\$ 79.0
Income taxes paid, net	\$ 6.2	\$ 17.2

The accompanying notes are an integral part of these unaudited consolidated financial statements

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(in millions, except shares)**

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Business***

Catalent Pharma Solutions, Inc. (“Catalent” or the “Company”) is a direct wholly-owned subsidiary of PTS Intermediate Holdings LLC (“Intermediate Holdings”). Intermediate Holdings is a direct wholly-owned subsidiary of PTS Holdings Corp. (“Parent”) and Parent is 100% owned by Phoenix Charter LLC (“Phoenix”) and certain members of the Company’s senior management. Phoenix is wholly-owned by BHP PTS Holdings L.L.C., an entity controlled by affiliates of The Blackstone Group (“Blackstone”), a global private investment and advisory firm.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K as of and for the year ended June 30, 2011. In the opinion of management, all adjustments necessary for a fair presentation have been included. These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries. All inter-company transactions have been eliminated. The results of operations for interim periods are not necessarily indicative of results for the entire year.

***Reclassifications***

In fiscal year 2011 the Company disposed of the printed component operations through a sale to a third party. Accordingly, prior period financial information has been reclassified in the consolidated financial statements to discontinued operations captions on the consolidated statements of operations and statements of cash flows. The printed component operations had previously been reported in the Packaging Services reporting segment. See Note 2 for further discussion.

***Use of Estimates***

The preparation of the consolidated financial statements are in conformity with generally accepted accounting principles (“GAAP”) in the United States of America (“U.S.”) which requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Such estimates include, but are not limited to, allowance for doubtful accounts, inventory and long-lived asset valuation, goodwill and other intangible asset impairment, equity-based compensation, income taxes, derivative financial instruments, self insurance accruals, loss contingencies and restructuring charge reserves. The Company believes that estimates used in the preparation of these consolidated financial statements are reasonable; however, actual amounts may differ from these estimated amounts.

***Translation and Transaction of Foreign Currencies***

The consolidated financial statements of the Company’s operations outside the U.S. are generally measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of these foreign operations into U.S. dollars are accumulated as a component of other comprehensive income utilizing period-end exchange rates. In addition, the currency fluctuation associated with the Company’s Euro-denominated debt is included as a component of other comprehensive income. Foreign currency transaction gains and losses are measured by utilizing weighted average exchange rates for the period and are included in the consolidated statements of operations in “other expense, net”. Such foreign currency transaction gains and losses include inter-company loans that are not permanently reinvested.

***Revenue Recognition***

In accordance with ASC 605, “*Revenue Recognition*”, (“ASC 605”) the Company recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred or the services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of sales returns and allowances.

Manufacturing and packaging revenue is recognized either upon shipment or delivery of the product, in accordance with the terms of the contract, which specify when transfer of title and risk of loss and rewards of ownership occurs. Some of the Company’s manufacturing contracts with its customers have annual minimum purchase requirements. At the end of the contract year, revenue is recognized for the remaining purchase obligation in accordance with the contract terms.

Non-product revenue includes service fees, royalty fees, annual exclusivity fees, option fees to extend exclusivity agreements and milestone payments for attaining certain regulatory approvals and is recognized at fair value. Exclusivity payments are paid by customers in return for the Company’s commitment to manufacture certain products for those customers only. The revenue related to these agreements is recognized over the term of the exclusivity agreement or the term of the option agreement unless a particular milestone is designated, in which case revenue is recognized when service obligations or performance have been completed.

Arrangements containing multiple revenue generating activities are accounted for in accordance with applicable accounting guidance included in the framework of U.S. GAAP. If the deliverable meets the criteria of a separate unit of accounting, the arrangement revenue is allocated to each element based upon its relative fair value. Generally, in cases where the Company has multiple contracts with the same customer the Company treats such contracts as separate arrangements.

### ***Property and Equipment, net and Other Definite Lived Intangible Assets***

Property and equipment are reported at cost minus accumulated depreciation or amortization. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, including capital lease assets that are amortized over the shorter of their useful lives or the terms of the respective leases. The Company generally uses the following range of useful lives for its property and equipment categories: buildings and improvements—5 to 50 years; machinery and equipment—3 to 20 years; furniture and fixtures—3 to 10 years. Depreciation expense was \$23.2 million and \$45.2 million, respectively for the three and six months ended December 31, 2011 and \$22.9 million and \$44.7 million, respectively for the three and six months ended December 31, 2010. The Company charges repairs and maintenance costs to expense as incurred. The amount of capitalized interest was immaterial for all periods presented.

The Company evaluates the recoverability of its other long-lived assets, including amortizing intangible assets, if circumstances indicate impairment may have occurred pursuant to ASC 360 *Property, Plant and Equipment* ("ASC 360"). This analysis is performed by comparing the respective carrying values of the assets to the current and expected future cash flows, on an undiscounted basis, to be generated from such assets. If such analysis indicates that the carrying value of these assets is not recoverable, the carrying value of such assets is reduced to fair value through a charge to the consolidated statements of operations. Fair value is determined based on assumptions the Company believes marketplace participants would utilize and comparable marketplace information in similar arms length transactions. Intangible assets with finite lives, primarily including customer relationships and patents and trademarks, continue to be amortized over their useful lives.

### ***Goodwill***

The Company accounts for goodwill and intangible assets with indefinite lives in accordance with ASC 350 *Intangibles - Goodwill and Other* ("ASC 350"). Under the guidance of ASC 350, goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually. The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events and circumstances exist. The testing for impairment is performed at the reporting unit level, which is generally at the level of its business segments.

Effective July 1, 2011, the Company early adopted the provisions of ASU 2011-08, which allows the Company the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, then entities are required to perform the two-step goodwill impairment test. If required, goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below book value, however, further analysis is required to determine the amount of impairment. Additionally, if the book value of a reporting unit is zero or a negative value and it is determined that it is more likely than not that the goodwill is impaired, further analysis is required. The Company determines the fair value of its reporting units utilizing estimated future discounted cash flows and incorporates assumptions that it believes marketplace participants would utilize and comparative market information. The Company's impairment analysis is partially based on a discounted cash flow analysis and incorporates assumptions that it believes marketplace participants would utilize. The discount rate used for impairment testing is based on the risk-free rate plus an adjustment for market and company-specific risk factors. The use of alternative estimates or adjusting the discount rate used could affect the estimated fair value of the assets and potentially result in more or less impairment. Any identified impairment would result in an adjustment to the Company's results of operations. The Company has elected to perform its annual impairment analysis during its fourth fiscal quarter.

### ***Assets Held for Sale and Discontinued Operations***

The Company classifies long-lived assets or a component entity as held for sale when the criteria have been met, in accordance with ASC 360. Further, the Company classifies component entities as operations which have been discontinued when the criteria of ASC 205, *Discontinued Operations* ("ASC 205") are met and the operations and cash flows have been or will be eliminated from the ongoing operations and the Company has no significant continuing involvement in the operations of the component after the disposal transaction. During fiscal year 2011, the Company completed the sale of its printed component operations and concluded that the operations qualified as a component entity which is permitted to be categorized as a discontinued operation. See Note 2 to these unaudited consolidated financial statements for additional information.

## Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”). ASU 2011-04 amended the FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (“ASC 820”) to converge the fair value measurement guidance in U.S. generally accepted accounting principles (“GAAP”) and International Financial Reporting Standards (“IFRSs”). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change particular principles in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. Catalent is currently evaluating the impact, if any, that the provisions of ASU 2011-04 will have on its consolidated results of operations or financial position.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (“ASU 2011-05”). ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity and requires an entity to present items of net income, other comprehensive income and total comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also requires companies to display reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income. The amendments in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011, with the exception of the requirement to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements, which has been deferred pending further deliberation by the FASB, and is not expected to have a material effect on our financial condition or results of operations, though it will change our financial statement presentation.

In September 2011, the FASB issued ASU 2011-09, “Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer’s Participation in a Multiemployer Plan” (“ASU 2011-09”). ASU 2011-09 requires enhanced qualitative and quantitative disclosures about an employer’s participation in multiemployer pension plans, including additional information about the plans, the level of an employer’s participation in the plans and the financial health of significant plans. The Company is currently evaluating the impact ASU 2011-09 will have on its consolidated financial statements.

## 2. DISCONTINUED OPERATIONS

During fiscal year 2011, the Company concluded that the sale of its printed components facilities qualified as a component entity, the operations of which were then classified as held for sale and reported as a discontinued operation. In April 2011, the Company completed the sale of its printed component operations in a cash transaction for an amount which approximated fair value. Accordingly, all prior period financial information related to the Company’s printed component operations was reclassified to discontinued operations captions in the consolidated statements of operations and statements of cash flows. The printed components entity was previously reported in the Company’s packaging services segment.

The operating results and cash flows from these operations were included in discontinued operations captions in the consolidated statements of operations and statements of cash flows in prior periods.

Summarized consolidated statements of operations data for discontinued operations are as follows:

(in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
Net revenue	\$ —	\$ 24.9	\$ —	\$ 52.4
Earnings/(loss) before income taxes	0.1	(0.5)	0.1	0.1
Income tax (benefit)/expense	—	0.1	—	0.1
Earnings/ (loss) from discontinued operations, net of tax	\$ 0.1	\$ (0.6)	\$ 0.1	\$ —

## 3. GOODWILL

The following table summarizes the changes in the carrying amount of goodwill in total and by reporting segment for the six months ended December 31, 2011:

(in millions)	Oral	Sterile	Packaging	Development	Total
	Technologies	Technologies	Services	& Clinical Services	
Balance at June 30, 2011 <sup>(1)</sup>	\$880.8	\$ —	\$ —	\$25.2	\$906.0
Foreign currency translation adjustments	(25.4)	—	—	(1.4)	(26.8)
Balance at December 31, 2011	\$855.4	\$ —	\$ —	\$23.8	\$879.2

(1) The beginning balance of the Sterile Technologies and Packaging Services segments are shown net of accumulated impairments of \$205.0 million and \$326.8 million, respectively.

Under the guidance of ASC 350, the Company is required to assess goodwill and other indefinite-lived intangible assets for impairment annually or more frequently if circumstances indicate impairment may have occurred. The Company assesses goodwill for possible impairment by comparing the carrying value of its reporting units to their fair values. The Company determines the fair value of its reporting units utilizing estimated future discounted cash flows and incorporates assumptions that it believes marketplace participants would utilize. In addition, the Company uses comparative market information and other factors to corroborate the discounted cash flow results.

There was no goodwill impairment charge recorded during the current or prior year period.

#### 4. DEFINITE LIVED LONG-LIVED ASSETS

The Company's definite lived long-lived assets include property, plant and equipment as well as other intangible assets with definite lives.

The gross carrying amounts and accumulated amortization totals related to the Company's identifiable intangible assets are as follows:

(in millions)	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>
<b>December 31, 2011</b>			
Amortized intangibles:			
Core technology	\$ 148.1	(34.8)	\$ 113.3
Customer relationships	47.1	(31.5)	15.6
Product relationships	230.5	(91.3)	139.2
<b>Total intangible assets</b>	<b>\$ 425.7</b>	<b>(157.6)</b>	<b>\$ 268.1</b>

(in millions)	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>
<b>June 30, 2011</b>			
Amortized intangibles:			
Core technology	\$ 153.1	(32.3)	\$ 120.8
Customer relationships	47.5	(30.4)	17.1
Product relationships	236.5	(83.8)	152.7
<b>Total intangible assets</b>	<b>\$ 437.1</b>	<b>(146.5)</b>	<b>\$ 290.6</b>

Amortization expense for the three and six months ended December 31, 2011 were \$7.3 million and \$14.9 million, respectively and for the three and six months ended December 31, 2010 were \$7.3 million and \$14.4 million, respectively.

The estimated amortization expense for succeeding years is presented below:

(in millions)	<u>Remainder fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Amortization expense	\$ 14.9	\$29.8	\$29.8	\$29.8	\$29.8

## 5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

The Company is exposed to fluctuations in the EUR-USD exchange rate on its investments in foreign operations in Europe. While the Company does not actively hedge against changes in foreign currency, it has mitigated the exposure of investments in its European operations by denominating a portion of the debt in Euros. At December 31, 2011, the Company had Euro denominated debt outstanding of \$612.5 million that qualifies as a hedge of a net investment in foreign operations. For non-derivatives designated and qualifying as net investment hedges, the effective portion of the translation gains or losses are reported in the cumulative translation adjustment as part of accumulated other comprehensive income/(loss). During the three and six months ended December 31, 2011, the Company recorded \$20.2 million and \$48.7 million, respectively, as a gain in cumulative translation adjustment. The net accumulated gain of this net investment as of December 31, 2011 included in other comprehensive income was approximately \$63.3 million. In addition, during the three and six months ended December 31, 2011 the Company recognized an unrealized foreign exchange gain of \$5 million and \$9.5 million, respectively, in the consolidated statement of operations related to a portion of its Euro debt which was not designated as a net investment hedge. Amounts are reclassified out of accumulated other comprehensive income (AOCI) into earnings when the hedged net investment is either sold or substantially liquidated.

### Credit Risk Related to Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of December 31, 2011, the terminal value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$34.2 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$9.0 million. If the Company had breached any of these provisions at December 31, 2011, it could have been required to settle its obligations under the agreements at their termination value of \$34.9 million.

### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Such derivatives are used to hedge the variable cash flows associated with existing variable-rate debt.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges for financial reporting purposes is recorded in accumulated other comprehensive income on the balance sheet and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of December 31, 2011, the Company had three outstanding interest rate derivatives which were effective for financial accounting purposes as of December 31, 2011. Two instruments had a combined notional value of \$760.0 million and one had a notional amount of €240.0 million. These instruments are designated for financial accounting purposes as cash flow hedges of interest rate risk. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$24.6 million will be reclassified as an increase to interest expense.

### Non-designated Hedges of Interest Rate Risk

Derivatives not designated as hedges for financial accounting purposes are not speculative and are used to manage the Company's economic exposure to interest rate movements but, as of December 31, 2011, do not meet the hedge accounting requirements for financial reporting purposes of *ASC 815 Derivatives and Hedging*. Changes in the fair value of derivatives not

designated as a hedge for financial accounting purposes are recorded directly into earnings as other expense, net. As of December 31, 2011, the Company had a ¥1.1 billion notional value outstanding derivative maturing on May 15, 2013 that was not designated for financial accounting purposes as a hedge in a qualifying hedging relationship.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheet as of December 31, 2011 and June 30, 2011.

(in millions)	Fair Values of Financial Derivatives Instruments on the Consolidated Balance Sheets			
	Liability Derivatives As of December 31, 2011		Liability Derivatives As of June 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments under ASC 815:</b>				
Interest rate swaps	Other accrued liabilities and other liabilities	\$ 34.2	Other accrued liabilities and other liabilities	\$ 41.9
<b>Total derivatives designated as hedging instruments under ASC 815:</b>		34.2	41.9	
<b>Derivatives not designated as hedging instruments under ASC 815:</b>				
Interest rate swaps	Other accrued liabilities and other liabilities	\$ 0.2	Other accrued liabilities and other liabilities	\$ 0.3
<b>Total derivatives not designated as hedging instruments under ASC 815:</b>		\$ 0.2	\$ 0.3	

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statement of Operations for the Three and Six Months ended December 31, 2011 and December 31, 2010.

(in millions)	Effect of Derivative Instruments on the Consolidated Statement of Operations							
	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion) for the Three and Six Months ended December 31,		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) for the Three and Six Months ended December 31,		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Testing) for the Three and Six Months ended December 31,	
	2011	2010		2011	2010		2011	2010
<b>Derivatives in ASC 815 Cash Flow Hedging Relationships</b>								
<b>Three Months Ended:</b>								
Interest rate swaps	\$ 1.1	\$ 2.0	Interest (expense), net	\$ (6.4)	\$ (6.8)	Other income / (expense), net	—	—
<b>Six Months Ended:</b>								
Interest Rate Swaps	\$ 6.9	\$ (9.6)	Interest (expense), net	\$(12.8)	\$(13.7)	Other income / (expense), net	—	—
<b>Derivatives Not Designated as Hedging Instruments Under ASC 815</b>								
						Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative for the Three and Six Months Ended December 31,	
							2011	2010
<b>Three Months Ended:</b>								
Interest rate swaps						Other income / (expense),	\$ 0.1	—
<b>Six Months Ended:</b>								
Interest rate swaps						Other income / (expense),	\$ (0.2)	—

## 6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

ASC 820 “Fair Value Measurements and Disclosures”, (“ASC 820”), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

*Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Value is determined using pricing models, discounted cash flow methodologies, or similar techniques and also includes instruments for which the determination of fair value requires significant judgment or estimation.

Fair value under ASC 820 is principally applied to financial assets and liabilities which, for Catalent, include both investments in money market funds and derivative instruments—interest rate swaps. The Company is not required to apply all the provisions of ASC 820 in financial statements to the nonfinancial assets and nonfinancial liabilities. There were no changes from the previously reported classification of financial assets and liabilities.

The following table provides a summary of financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011, aggregated by the level in the fair value hierarchy in which those measurements fall:

(in millions)	<u>Total</u>	<u>Fair Value Measurements using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Liabilities</b>				
Interest rate swaps	\$34.4	\$ —	\$ 34.4	\$ —

The following table provides a summary of financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011, aggregated by the level in the fair value hierarchy in which those measurements fall:

(in millions)	<u>Total</u>	<u>Fair Value Measurements using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Liabilities</b>				
Interest rate swaps	\$42.2	\$ —	\$ 42.2	\$ —

### Cash and Cash Equivalents

The fair value of cash and cash equivalents is estimated on the quoted market price of the investments. The carrying amounts of the Company’s cash equivalents approximate their fair value due to the short-term maturity of these instruments.

### Derivative Instruments – Interest Rate Swaps

Currently, the Company uses interest rate swaps to manage interest rate risk on its variable rate long-term debt obligations. The fair value of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) and derived from observed market interest rate curves. In addition, to comply with the provision of ASC 820, credit valuation adjustments, which consider the impact of any credit enhancements on the contracts, are incorporated in the fair values to account for potential nonperformance risk. See Footnote 5—Derivative Instruments and Hedging Activities.

## Long-Term Obligations

The estimated fair value of long-term debt is based on the quoted market prices for the same or similar issues or on the current rates offered for debt of the same remaining maturities and considers collateral, if any.

The carrying amounts and the estimated fair values of financial instruments as of December 31, 2011 and June 30, 2011, are as follows:

(in millions)	December 31, 2011		June 30, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt and other	\$2,275.7	\$ 2,208.3	\$2,347.3	\$ 2,306.7
LIBOR interest rate swap	25.3	25.3	34.3	34.3
EURIBOR interest rate swap	8.9	8.9	7.6	7.6
TIBOR interest rate swap	0.2	0.2	0.3	0.3

The estimated fair values are based on quoted market prices for the same or similar instruments and/or the current interest rates offered for debt of the same remaining maturities or estimated discounted cash flows.

## 7. LONG-TERM OBLIGATIONS AND OTHER SHORT-TERM BORROWINGS

Long-term obligations and other short-term borrowings consist of the following at December 31, 2011 and June 30, 2011:

(in millions)	Maturity	December 31, 2011	June 30, 2011
<b>Senior Secured Credit Facilities</b>			
Term loan facility Dollar-denominated	April-2014	\$ 1,012.3	\$1,017.6
Term loan facility Euro-denominated	April-2014	330.8	364.1
9 1/2% Senior Toggle Notes	April-2015	624.4	624.4
9 3/4 % Senior Subordinated Euro-denominated Notes	April-2017	281.7	308.4
Revolving Credit Agreement	April 2013-2016	—	—
Other Obligations	2011-2026	26.5	32.8
Total		2,275.7	2,347.3
Less: current portion and other short-term borrowings		27.1	28.7
Long-term obligations, less current portion short-term borrowings		\$ 2,248.6	\$2,318.6

The Company also uses interest rate swaps to manage the economic effect of variable interest obligations associated with floating term loans so that the interest payable effectively becomes fixed at a certain rate, thereby reducing the impact on rate changes on interest expense. As of December 31, 2011, the Company had four interest rate swap agreements that have the economic effect of modifying the variable interest obligations associated with its floating rate term loans through April 2014. These agreements include two U.S dollar-denominated, one Euro-denominated and one Yen-denominated interest rate swap agreements.

On June 1, 2011, the Company and certain lenders amended the Credit Agreement in order to extend the maturity for certain Revolving Credit Loans and Revolving Credit Commitments. In particular, the Company converted \$200.25 million of Revolving Credit Commitments and Revolving Credit Loans into Revolving Tranche-2 Commitments and Revolving Tranche -2 Loans. In addition, the Company extended the final maturity date of the converted facility from the sixth to the ninth anniversary or April 10, 2016, subject to certain conditions regarding the refinancing or repayment of the Company's term loans, the Senior Toggle Notes, the Senior Subordinated Notes and certain other unsecured debt.

The revolving credit facility includes borrowing capacity available for letters of credit and for short-term borrowings. Borrowings under the term loan facility and the revolving credit facility bear interest, at the Company's option, at a rate equal to an applicable margin over either (i) a base rate determined by reference to the higher of (1) the rate of interest per annum published by The Wall Street Journal from time to time, as the "prime lending rate" and (2) the federal funds rate plus one-half of 1% or (ii) LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs. The applicable margins are variable subject to changes in the Company's total leverage ratio. The weighted-average interest rates during fiscal year 2011 were approximately 3.08 % and 2.51% for the Euro-denominated and US-dollar denominated term loans, respectively. In addition, the revolving credit facility weighted-average interest rate was approximately 2.5% for the amount borrowed throughout the fiscal year 2011.

In addition to paying interest on outstanding principal under the Company's senior secured credit facilities, the Company is required to pay a commitment fee to the lenders under the revolving credit facility in respect to the unutilized commitments hereunder. The initial commitment fee is 0.50% per annum. The commitment fee may be reduced subject to the Company attaining certain leverage ratios. The Company is also required to pay customary letter of credit fees. As of December 31, 2011, there was \$19.4 million in outstanding letters of credit.

## 8. INCOME TAXES

The Company accounts for income taxes in accordance with the provision of ("ASC 740"), "Income Taxes". Generally, fluctuations in the effective tax rate are primarily due to changes in the U.S. and non-U.S. pretax income resulting from the Company's business mix and changes in the tax impact of special items and other discrete tax items, which may have unique tax implications depending on the nature of the item. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Germany, the United Kingdom and France. With few exceptions, we are no longer subject to non-U.S. income tax examinations for years prior to 2002. Under the terms of the purchase agreement related to the Acquisition, the Company is indemnified by Cardinal for tax liabilities that may arise in the future that relate to tax periods prior to April 10, 2007. The indemnification agreement includes, among other taxes, any and all Federal, state and international income based taxes as well as interest and penalties that may be related thereto. As of December 31, 2011, approximately \$11.4 million of unrecognized tax benefits and related interest is subject to indemnification by Cardinal.

As of December 31, 2011, the Company had a total of \$39.6 million of unrecognized tax benefits. Of this amount, \$28.2 million represents the amount of unrecognized tax benefits, including interest and penalties, which, if recognized, would favorably impact the effective income tax rate. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2011, the Company has approximately \$4.7 million of accrued interest and penalties related to uncertain tax positions.

A tax benefit in the amount of \$4.5 million was recorded related to cash settlement with Cardinal Health that occurred during December 2011. This settlement was related to certain taxes paid by the Company which are subject to indemnification because they relate to periods preceding April 10, 2007. The indemnification agreement is still open for ASC 740-10 tax reserves.

## 9. EMPLOYEE RETIREMENT BENEFIT PLANS

Components of the Company's net periodic benefit costs are as follows:

(in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
Components of net periodic benefit cost:				
Service cost	\$ 0.6	\$ 0.7	\$ 1.3	\$ 1.3
Interest cost	3.3	3.1	6.6	6.2
Expected return on plan assets	(2.7)	(2.3)	(5.4)	(4.5)
Amortization <sup>(1)</sup>	—	0.2	0.1	0.4
Net amount recognized	\$ 1.2	\$ 1.7	\$ 2.6	\$ 3.4

(1) Amount represents the amortization of unrecognized actuarial gains/(losses).

## 10. RELATED PARTY TRANSACTIONS

In January 2012 Catalent signed an agreement to acquire the remaining 49% minority share of the R.P. Scherer business in Eberbach, Germany from Gelita AG. Pending the required regulatory clearances, the business will be fully owned by Catalent. The purchase of the remaining shares is expected to be completed during the third fiscal quarter.

### Advisor Transaction and Management Fees

The Company entered into a transaction and advisory fee agreement with Blackstone and certain other Investors in BHP PTS Holdings L.L.C. (the "Investors"), the investment entity controlled by affiliates of Blackstone that was formed in connection with the Investor's investment. The Company pays an annual sponsor advisory fee to Blackstone and the Investors for certain monitoring, advisory and consulting services to the Company. For the three and six months ended December 31, 2011, \$2.9 million and \$5.7 million was expensed and recorded in selling, general and administrative expenses in the consolidated statement of operations respectively.

### 11. COMPREHENSIVE EARNINGS/(LOSS) AND ACCUMULATED OTHER COMPREHENSIVE EARNINGS/(LOSS)

Comprehensive earnings/(loss) for the Three and Six Months ended December 31, 2011 and December 31, 2010 are as follows:

(in millions)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
Net earnings/(loss) attributable to Catalent	\$ 11.7	\$ (8.2)	\$ 7.0	\$ (35.7)
Other comprehensive income/(losses):				
Foreign currency translation adjustments	(0.8)	1.5	(11.0)	38.1
Deferred compensation/(benefit)	0.4	0.2	(0.3)	0.6
Change in unrealized loss on derivatives	5.3	8.9	5.9	4.1
Other Comprehensive income	4.9	10.6	(5.4)	42.8
Total comprehensive income/(loss) loss before noncontrolling interest	16.6	2.4	1.6	7.1
Comprehensive income/(loss) attributable to noncontrolling interest	0.8	(1.2)	0.3	(2.6)
Comprehensive income/(loss)	\$ 17.4	\$ 1.2	\$ 1.9	\$ 4.5

At December 31, 2011, accumulated other comprehensive income/(loss) consisted of:

(in millions)	Foreign Currency Translation Adjustments	Unrealized Gains/ (Losses) on Derivatives	Deferred Compensation	Pension Liability Adjustment	Other Comprehensive Income/(Loss)
Balance at June 30, 2011	\$ 90.3	\$ (36.8)	\$ 0.6	\$ (8.1)	\$ 46.0
Activity, net of tax	(11.0)	5.9	(0.3)	—	(5.4)
Balance at December 31, 2011	\$ 79.3	\$ (30.9)	\$ 0.3	\$ (8.1)	\$ 40.6

### 12. EQUITY BASED COMPENSATION

The following table summarizes the equity-based compensation expense recorded in the Company's consolidated statement of operations:

(in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
Stock compensation expense in selling, general and administrative	\$ 0.8	\$ 0.9	\$ 1.7	\$ 2.3

## STOCK OPTIONS

The activity of the equity-based compensation program for the six months ended December 31, 2011 is presented below:

	Time Based Awards Number of Shares	Performance Based Awards Number of Shares	Market Based Awards Number of Shares
Balance at June 30, 2011	34,777	10,392	20,857
Granted	3,613	1,209	2,403
Exercised	—	—	—
Forfeited	(1,250)	(418)	(832)
Balance at December 31, 2011	<u>37,140</u>	<u>11,183</u>	<u>22,428</u>

## RESTRICTED STOCK UNITS

In addition to nonqualified stock options, as of December 31, 2011 the Company had 3,500 restricted stock units outstanding with respect to compensation for participants to receive shares of common stock equal to the units vested upon settlement.

## 13. COMMITMENTS AND CONTINGENCIES

On March 24, 2011, a packaging services operation located in Corby, United Kingdom was damaged by a fire. The Company records expenses for property, plant and equipment that was damaged and additional costs associated with transition activities related to product production and the associated insurance reimbursement in the statement of operations line item 'Property and casualty loss, net'. For the six months ended December 31, 2011, the Company recorded expense of approximately \$33.5 million inclusive of idle production and transition activities, non-cash impairment charges, cost of property damage and employee related severance costs. During the six months ended December 31, 2011, the Company recognized income with respect to insurance proceeds of approximately \$48.1 million resulting in a net of \$14.6 million for the six month period then ended. The ultimate collectability of insurance settlement amounts was not deemed certain until agreement with the insurance carrier in the second fiscal quarter. U.S. GAAP accounting guidance regarding the recognition of losses and the related insurance reimbursements of those losses have resulted in timing differences as a portion of the insurance proceeds recognized in the current period relate to expenses recorded in the prior fiscal year. In the consolidated statement of cash flows, the insurance proceeds attributable to the property and equipment destroyed in the fire are reported in cash flows from investing activities. All other insurance proceeds received during fiscal year 2012 to date have been reported in cash flows from operating activities. In addition, approximately \$3.8 million of business interruption insurance proceeds were recognized in gross margin in the six month period ended December 31, 2011 representing the amount recovered related to the expected full fiscal year 2012 lost profit. Future charges, capital expenditures and non-recurring expenses may be required in subsequent periods as the Company executes its strategic plans in response to the losses. Although the Company expects insurance proceeds to eventually cover a substantial portion of losses related to the fire, no final determination of the total loss has been made.

In addition, employees of a commercial packaging site and a clinical services site are members of a multiemployer pension plan. Our annual contributions may increase over the remainder of the contract period due to its current funding shortfall or to a future decision to withdraw from the plan. As of December 31, 2011 it is reasonably possible that the Company may withdraw from the plan and a withdrawal would result in the recognition of a long term, pension liability that may fall within the range of \$25.0 - \$35.0 million.

In addition, the Company, along with several pharmaceutical companies, is named as a defendant in three hundred and sixteen pending civil lawsuits filed by individuals allegedly injured by their use of the prescription acne medication Amnesteem®, a branded generic form of isotretinoin, and in some instances of isotretinoin products made and/or sold by other firms as well. While it is not currently possible to determine the ultimate outcome of these legal proceedings, including making a determination of liability, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position.

From time to time the Company may be involved in legal proceedings arising in the ordinary course of business, including, without limitation, inquiries and claims concerning environmental contamination as well as litigation and allegations in connection with acquisitions, product liability, manufacturing or packaging defects, and claims for reimbursement for the cost of lost or damaged active pharmaceutical ingredients, the cost of which could be significant. The Company intends to vigorously defend ourselves against such other litigation and does not currently believe that the outcome of any such legal proceeding will have a material adverse effect on the Company's consolidated financial statements.

#### 14. SEGMENT INFORMATION

The Company conducts its business in the following operating segments: Softgel Technologies, Modified Release Technologies, Sterile Technologies, Packaging Services and Development & Clinical Services. The Softgel and Modified Release Technology segments are aggregated into one reportable operating segment – Oral Technologies. The Company evaluates the performance of its segments based on segment earnings before non-controlling interest, other (income) expense, impairments, restructuring costs, interest expense, income tax (benefit)/expense, and depreciation and amortization (“Segment EBITDA”). EBITDA from continuing operations is consolidated earnings from continuing operations before interest expense, income tax (benefit)/expense, depreciation and amortization and is adjusted for the income or loss attributable to noncontrolling interest. The Company’s presentation of Segment EBITDA and EBITDA from continuing operations may not be comparable to similarly-titled measures used by other companies.

During the quarter ended December 31, 2011 the Company modified the structure of its reporting segments moving a biologic facility from the Development and Clinical services business unit to the Sterile Technologies business unit. All prior period segment reporting financial information has been reclassified in our consolidated financial statements.

The following tables include net revenue and Segment EBITDA during the three and six months ended December 31, 2011:

(in millions)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 2010
<b>Oral Technologies</b>				
Net revenue	\$ 282.2	\$ 261.5	\$ 557.1	\$ 505.5
Segment EBITDA	72.7	66.6	140.0	118.8
<b>Sterile Technologies</b>				
Net revenue	51.3	58.6	106.9	117.6
Segment EBITDA	6.8	9.4	11.4	15.9
<b>Development and Clinical Services</b>				
Net revenue	51.1	37.3	95.9	75.4
Segment EBITDA	9.7	7.6	18.2	15.2
<b>Packaging Services</b>				
Net revenue	36.7	41.8	77.3	88.1
Segment EBITDA	4.7	(0.2)	8.8	1.7
<b>Inter-segment revenue elimination</b>	(4.8)	(6.0)	(10.2)	(12.7)
<b>Unallocated Costs<sup>(1)</sup></b>	(3.4)	(10.4)	(17.4)	(35.8)
<b>Combined Total</b>				
Net revenue	416.5	393.2	827.0	773.9
EBITDA from continuing operations	\$ 90.5	\$ 73.0	\$ 161.0	\$ 115.8

(1) Unallocated costs include restructuring and special items, equity-based compensation, impairment charges, certain other corporate directed costs, and other costs that are not allocated to the segments as follows:

(in millions)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
Impairment charges and gain/(loss) on sale of assets	\$ 0.4	\$ 0.5	\$ 0.8	\$ (0.1)
Equity compensation	(0.8)	(0.9)	(1.7)	(2.3)
Restructuring and other special items	(13.9)	(6.3)	(19.3)	(14.4)
Property and casualty losses	14.1	—	14.6	—
Sponsor advisory fee	(2.8)	(2.5)	(5.7)	(5.0)
Noncontrolling interest	(0.8)	(1.4)	(0.3)	(0.6)
Other income (expense) <sup>(2)</sup> , net	6.3	(1.3)	2.4	(13.5)
Non-allocated corporate costs, net	(5.9)	1.5	(8.2)	0.1
<b>Total unallocated costs</b>	<b>\$ (3.4)</b>	<b>\$ (10.4)</b>	<b>\$ (17.4)</b>	<b>\$ (35.8)</b>

(2) Primarily relates to realized and unrealized gains/(losses) related to foreign currency translation.

Provided below is a reconciliation of earnings/(loss) from continuing operations to EBITDA from continuing operations:

(in millions)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
Earnings/(loss) from continuing operations	\$ 12.4	\$ (6.2)	\$ 7.2	\$ (35.1)
Depreciation and amortization	30.5	30.2	60.1	59.1
Interest expense, net	41.1	41.2	83.2	81.8
Income tax (benefit)/expense	7.3	9.2	10.8	10.6
Noncontrolling interest	(0.8)	(1.4)	(0.3)	(0.6)
<b>EBITDA from continuing operations</b>	<b>\$ 90.5</b>	<b>\$ 73.0</b>	<b>\$ 161.0</b>	<b>\$ 115.8</b>

The following table includes total assets for each segment, as well as reconciling items necessary to total the amounts reported in the consolidated financial statements:

(in millions)	December 31, 2011	June 30, 2011
<b>Assets</b>		
Oral Technologies	\$ 2,483.0	\$2,540.6
Sterile Technologies	250.4	267.4
Development and Clinical Services	166.9	162.8
Packaging Services	166.1	135.3
Corporate and eliminations	(342.0)	(274.9)
Assets held for sale	—	—
<b>Total assets</b>	<b>\$ 2,724.4</b>	<b>\$2,831.2</b>

## 15. SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplementary balance sheet information at December 31, 2011 and June 30, 2011 is detailed in the following tables;

### Inventories

Work-in-process and finished goods inventories include raw materials, labor and overhead. Inventories consisted of the following:

(in millions)	December 31, 2011	June 30, 2011
Raw materials and supplies	\$ 84.6	\$ 75.4
Work-in-process	25.9	26.1
Finished goods	54.0	49.0
Total inventory, gross	164.5	150.5
Inventory reserves	(10.5)	(10.8)
Total inventory, net	<u>\$ 154.0</u>	<u>\$139.7</u>

### Prepaid and other assets

Prepaid and other assets consist of the following:

(in millions)	December 31, 2011	June 30, 2011
Prepaid expenses	\$ 15.2	\$ 17.0
Spare parts supplies	10.6	11.0
Deferred taxes	20.2	20.0
Other current assets	51.6	56.0
Total prepaid and other assets	<u>\$ 97.6</u>	<u>\$104.0</u>

### Property and equipment

Property and equipment consists of the following:

(in millions)	December 31, 2011	June 30, 2011
Land, buildings and improvements	\$ 443.4	\$ 451.8
Machinery and equipment	543.6	558.7
Furniture and fixtures	12.4	11.7
Construction in progress	65.0	53.6
Property and equipment, at cost	1,064.4	1,075.8
Accumulated depreciation	(333.5)	(316.3)
Property and equipment, net	<u>\$ 730.9</u>	<u>\$ 759.5</u>

## Other assets

Other assets consist of the following:

(in millions)	December 31, 2011	June 30, 2011
Deferred long term debt financing costs	\$ 21.8	\$ 26.0
Other	10.2	10.7
Total other assets	<u>\$ 32.0</u>	<u>\$ 36.7</u>

## Other accrued liabilities

Other accrued liabilities consist of the following:

(in millions)	December 31, 2011	June 30, 2011
Accrued employee-related expenses	\$ 62.9	\$ 83.6
Restructuring accrual	8.2	8.7
Deferred income tax	0.7	0.7
Accrued interest	18.4	19.5
Interest rate swaps	24.7	23.5
Deferred revenue and fees	15.2	17.1
Accrued income tax	28.6	22.3
Other accrued liabilities and expenses	65.5	51.8
Total other accrued liabilities	<u>\$ 224.2</u>	<u>\$227.2</u>

## 16. SUBSEQUENT EVENTS

In the preparation of its consolidated financial statements, the Company completed an evaluation of the impact of any subsequent events and determined there were no other subsequent events requiring disclosure in or adjustment to these consolidated financial statements.

## 17. GUARANTOR AND NON GUARANTOR FINANCIAL STATEMENTS

All obligations under the senior secured credit agreement, the Senior Toggle Notes and the €225 million 9 <sup>3</sup>/<sub>4</sub>% Euro-denominated Senior Subordinated Notes due 2017 (the "Senior Subordinated Notes") are unconditionally guaranteed by each of the Company's existing U.S. wholly-owned subsidiaries, other than the Company's Puerto Rico subsidiaries, subject to certain exceptions.

The following condensed financial information presents the Company's consolidating balance sheet as of December 31, 2011 and as of June 30, 2011 and the consolidating statements of operations for Three and Six Months ended December 31, 2011 and December 31, 2010 and Cash Flows for the Six Months ended December 31, 2011 and December 31, 2010: (a) Catalent Pharma Solutions, Inc. ("Issuer" and/or "Parent"); (b) the guarantor subsidiaries; (c) the non-guarantor subsidiaries and (d) elimination and adjustment entries necessary to combine the Issuer/Parent with the guarantor and non-guarantor subsidiaries on a consolidated basis, respectively.

Catalent Pharma Solutions, Inc. and Subsidiaries  
Consolidated Statements of Operations  
For the Three Months Ended December 31, 2011  
(in millions)  
Unaudited

	<u>Issuer</u>	<u>Guarantor</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net revenue	\$ —	\$ 153.1	\$ 267.2	\$ (3.8)	\$ 416.5
Cost of products sold	—	91.8	198.1	(3.8)	286.1
Gross margin	—	61.3	69.1	—	130.4
Selling, general and administrative expenses	0.7	54.4	24.9	—	80.0
Impairment charges and (gain)/loss on sale of assets	—	(0.2)	(0.2)	—	(0.4)
Restructuring and other	—	1.7	8.7	—	10.4
Property and casualty losses	—	—	(14.1)	—	(14.1)
Operating earnings/(loss)	(0.7)	5.4	49.8	—	54.5
Interest expense, net	36.9	(0.3)	4.5	—	41.1
Other (income)/expense, net	(45.9)	(29.8)	1.2	68.2	(6.3)
Earnings/(loss) from continuing operations before income taxes	8.3	35.5	44.1	(68.2)	19.7
Income tax (benefit)/expense	(3.4)	1.3	9.4	—	7.3
Earnings/(loss) from continuing operations	11.7	34.2	34.7	(68.2)	12.4
Loss from discontinued operations	—	0.1	—	—	0.1
Net earnings/(loss)	11.7	34.3	34.7	(68.2)	12.5
Net earnings/(loss) attributable to noncontrolling interest	—	—	0.8	—	0.8
Net earnings/(loss) attributable to Catalent	<u>\$ 11.7</u>	<u>\$ 34.3</u>	<u>\$ 33.9</u>	<u>\$ (68.2)</u>	<u>\$ 11.7</u>

Catalent Pharma Solutions, Inc. and Subsidiaries  
Consolidated Statements of Operations  
For the Three Months Ended December 31, 2010  
(in millions)  
Unaudited

	<u>Issuer</u>	<u>Guarantor</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net revenue	\$ —	\$ 148.8	\$ 248.8	\$ (4.4)	\$ 393.2
Cost of products sold	—	88.2	184.7	0.9	273.8
Gross margin	—	60.6	64.1	(5.3)	119.4
Selling, general and administrative expenses	0.9	40.8	27.9	0.1	69.7
Impairment charges and (gain)/loss on sale of assets	—	(0.3)	(0.2)	—	(0.5)
Restructuring and other	—	3.0	1.7	—	4.7
Operating earnings/(loss)	(0.9)	17.1	34.7	(5.4)	45.5
Interest expense, net	40.3	0.8	0.1	—	41.2
Other (income)/expense, net	(33.5)	(45.8)	6.1	74.5	1.3
Earnings/(loss) from continuing operations before income taxes	(7.7)	62.1	28.5	(79.9)	3.0
Income tax (benefit)/expense	0.5	1.9	6.8	—	9.2
Earnings/(loss) from continuing operations	(8.2)	60.2	21.7	(79.9)	(6.2)
Loss from discontinued operations	—	—	(0.6)	—	(0.6)
Net earnings/(loss)	(8.2)	60.2	21.1	(79.9)	(6.8)
Net earnings/(loss) attributable to noncontrolling interest	—	—	1.4	—	1.4
Net earnings/(loss) attributable to Catalent	<u>\$ (8.2)</u>	<u>\$ 60.2</u>	<u>\$ 19.7</u>	<u>\$ (79.9)</u>	<u>\$ (8.2)</u>

Catalent Pharma Solutions, Inc. and Subsidiaries  
Consolidated Statements of Operations  
For the Six Months Ended December 31, 2011  
(in millions)  
Unaudited

	<u>Issuer</u>	<u>Guarantor</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net revenue	\$ —	\$ 310.8	\$ 524.8	\$ (8.6)	\$ 827.0
Cost of products sold	—	187.2	394.2	(8.6)	572.8
Gross margin	—	123.6	130.6	0.0	254.2
Selling, general and administrative expenses	1.5	105.4	52.1	—	159.0
Impairment charges and (gain)/loss on sale of assets	—	(0.5)	(0.3)	—	(0.8)
Restructuring and other	—	2.9	8.9	—	11.8
Property and casualty losses	—	—	(14.6)	—	(14.6)
Operating earnings/(loss)	(1.5)	15.8	84.5	0.0	98.8
Interest expense, net	73.4	(0.3)	10.1	—	83.2
Other (income)/expense, net	(78.8)	(46.1)	9.1	113.4	(2.4)
Earnings/(loss) from continuing operations before income taxes	3.9	62.2	65.3	(113.4)	18.0
Income tax (benefit)/expense	(3.1)	2.9	11.0	—	10.8
Earnings/(loss) from continuing operations	7.0	59.3	54.3	(113.4)	7.2
Loss from discontinued operations	—	0.1	—	—	0.1
Net earnings/(loss)	7.0	59.4	54.3	(113.4)	7.3
Net earnings/(loss) attributable to noncontrolling interest	—	—	0.3	—	0.3
Net earnings/(loss) attributable to Catalent	<u>\$ 7.0</u>	<u>\$ 59.4</u>	<u>\$ 54.0</u>	<u>\$ (113.4)</u>	<u>\$ 7.0</u>

Catalent Pharma Solutions, Inc. and Subsidiaries  
Consolidated Statements of Operations  
For the Six Months Ended December 31, 2010  
(in millions)  
Unaudited

	<u>Issuer</u>	<u>Guarantor</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net revenue	\$ —	\$ 287.6	\$ 497.3	\$ (11.0)	\$ 773.9
Cost of products sold	—	178.7	371.3	0.9	550.9
Gross margin	—	108.9	126.0	(11.9)	223.0
Selling, general and administrative expenses	2.3	83.8	55.9	—	142.0
Impairment charges and (gain)/loss on sale of assets	0.2	(0.1)	—	—	0.1
Restructuring and other	—	5.5	4.6	—	10.1
Operating earnings/(loss)	(2.5)	19.7	65.5	(11.9)	70.8
Interest expense, net	80.0	1.6	0.2	—	81.8
Other (income)/expense, net	(47.6)	(58.8)	35.5	84.4	13.5
Earnings/(loss) from continuing operations before income taxes	(34.9)	76.9	29.8	(96.3)	(24.5)
Income tax (benefit)/expense	0.8	3.5	6.3	—	10.6
Earnings/(loss) from continuing operations	(35.7)	73.4	23.5	(96.3)	(35.1)
Loss from discontinued operations	—	—	—	—	—
Net earnings/(loss)	(35.7)	73.4	23.5	(96.3)	(35.1)
Net earnings/(loss) attributable to noncontrolling interest	—	—	0.6	—	0.6
Net earnings/(loss) attributable to Catalent	<u>\$(35.7)</u>	<u>\$ 73.4</u>	<u>\$ 22.9</u>	<u>\$ (96.3)</u>	<u>\$ (35.7)</u>

Catalent Pharma Solutions, Inc. and Subsidiaries  
Consolidating Balance Sheet  
December 31, 2011  
(In millions)  
Unaudited

	<u>Issuer</u>	<u>Guarantor</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and equivalents	\$ 1.1	\$ 18.3	\$ 184.0	\$ —	\$ 203.4
Trade receivables, net	—	85.7	160.8	—	246.5
Intercompany receivables	128.9	1,075.4	83.8	(1,288.1)	—
Inventories, net	—	37.0	117.0	—	154.0
Prepaid expenses and other	20.8	32.6	44.2	—	97.6
Total current assets	150.8	1,249.0	589.8	(1,288.1)	701.5
Property and equipment, net	—	318.8	412.1	—	730.9
Goodwill	—	308.1	571.1	—	879.2
Other intangibles, net	—	90.9	177.2	—	268.1
Investment in subsidiaries	3,790.6	—	—	(3,789.5)	1.1
Deferred income taxes asset	22.3	68.1	22.3	(0.0)	112.7
Other assets	21.9	4.4	4.7	(0.1)	30.9
Total assets	<u>\$3,985.6</u>	<u>\$2,039.4</u>	<u>\$1,777.2</u>	<u>\$ (5,077.7)</u>	<u>\$ 2,724.4</u>
<b>Liabilities and Shareholder's Deficit</b>					
<b>Current Liabilities</b>					
Current portion of long-term obligations & other short-term borrowings	\$ 14.1	\$ 1.7	\$ 11.3	\$ —	\$ 27.1
Accounts payable	—	29.3	84.1	—	113.4
Intercompany accounts payable	1,038.9	—	44.0	(1,082.9)	—
Other accrued liabilities	48.3	68.3	107.6	—	224.2
Total current liabilities	1,101.3	99.3	247.0	(1,082.9)	364.7
Long-term obligations, less current portion	2,235.2	8.3	5.1	—	2,248.6
Intercompany long-term debt	(177.8)	1.9	380.1	(204.2)	—
Pension liability	—	16.8	55.2	—	72.0
Deferred income taxes liability	28.2	105.8	54.8	(0.0)	188.7
Other liabilities	9.6	24.4	21.6	—	55.6
<b>Shareholder's Deficit:</b>					
Total Catalent shareholder's deficit	789.1	1,782.9	1,009.3	(3,790.6)	(209.3)
Noncontrolling interest	—	—	4.1	—	4.1
Total shareholder's deficit	<u>789.1</u>	<u>1,782.9</u>	<u>1,013.4</u>	<u>(3,790.6)</u>	<u>(205.2)</u>
Total liabilities and shareholder's deficit	<u>\$3,985.6</u>	<u>\$2,039.4</u>	<u>\$1,777.2</u>	<u>\$ (5,077.7)</u>	<u>\$ 2,724.4</u>

Catalent Pharma Solutions, Inc. and Subsidiaries  
Consolidating Balance Sheet  
June 30, 2011  
(In millions)  
Unaudited

	<u>Issuer</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and equivalents	\$ 3.6	\$ 33.4	\$ 168.1	\$ —	\$ 205.1
Trade receivables, net	—	84.0	190.8	—	274.8
Intercompany receivables	—	712.9	978.9	(1,691.8)	—
Inventories, net	—	32.0	107.7	—	139.7
Prepaid expenses and other	24.4	31.0	48.6	—	104.0
Total current assets	28.0	893.3	1,494.1	(1,691.8)	723.6
Property and equipment, net	—	321.3	438.2	—	759.5
Goodwill	—	308.1	597.9	—	906.0
Other intangibles, net	—	95.5	195.1	—	290.6
Investment in subsidiaries	3,323.3	—	—	(3,321.9)	1.4
Deferred income taxes asset	22.3	68.1	24.4	—	114.8
Other assets	27.5	4.4	4.9	(1.5)	35.3
Total assets	<u>\$3,401.1</u>	<u>\$1,690.7</u>	<u>\$2,754.6</u>	<u>\$ (5,015.2)</u>	<u>\$ 2,831.2</u>
<b>Liabilities and Shareholder's Deficit</b>					
<b>Current Liabilities</b>					
Current portion of long-term obligations & other short-term borrowings	\$ 14.4	\$ 1.7	\$ 12.6	\$ —	\$ 28.7
Accounts payable	—	33.4	95.7	—	129.1
Intercompany accounts payable	1,206.7	—	—	(1,206.7)	—
Other accrued liabilities	49.1	78.4	99.7	—	227.2
Total current liabilities	1,270.2	113.5	208.0	(1,206.7)	385.0
Long-term obligations, less current portion	2,300.1	8.7	9.8	—	2,318.6
Intercompany long-term debt	69.2	1.7	414.3	(485.2)	—
Pension liability	—	17.0	61.5	—	78.5
Deferred income taxes liability	27.1	102.9	62.7	—	192.7
Other liabilities	18.5	22.4	25.4	—	66.3
<b>Shareholder's Deficit:</b>					
Total Catalent shareholder's deficit	(284.0)	1,424.5	1,969.1	(3,323.3)	(213.7)
Noncontrolling interest	—	—	3.8	—	3.8
Total shareholder's deficit	(284.0)	1,424.5	1,972.9	(3,323.3)	(209.9)
Total liabilities and shareholder's deficit	<u>\$3,401.1</u>	<u>\$1,690.7</u>	<u>\$2,754.6</u>	<u>\$ (5,015.2)</u>	<u>\$2,831.2</u>

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Consolidating Statements of Cash Flows**  
**For the Six Months Ended December 31, 2011**  
**Unaudited**  
**(In millions)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net cash provided by/(used in) operating activities from continuing operations	(84.9)	80.6	54.3	—	50.0
Net cash provided by/(used in) operating activities from discontinued operations	—	—	—	—	—
Net cash provided by/(used in) operating activities	(84.9)	80.6	54.3	—	50.0
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Acquisition of property and equipment and other productive assets	—	(18.5)	(32.9)	—	(51.4)
Proceeds from sale of property and equipment	—	1.1	0.4	—	1.5
Proceeds from insurance related to long lived assets	—	—	21.3	—	21.3
Net cash provided by/(used in) investing activities from continuing operations	—	(17.4)	(11.2)	—	(28.6)
Net cash provided by/(used in) investing activities from discontinued operations	—	—	—	—	—
Net cash provided by/(used in) investing activities	—	(17.4)	(11.2)	—	(28.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Intercompany	85.9	(78.3)	(7.6)	—	—
Net change in short-term borrowings	—	—	(2.9)	—	(2.9)
Repayments of long-term obligations	(4.6)	—	(7.9)	—	(12.5)
Equity contribution (redemption)	1.1	0.0	(0.0)	—	1.1
Net cash (used in)/ provided by financing activities from continuing operations	82.4	(78.3)	(18.4)	—	(14.3)
Net cash (used in)/provided by financing activities from discontinued operations	—	—	—	—	—
Net cash provided by/(used in) financing activities	82.4	(78.3)	(18.4)	—	(14.3)
Effect of foreign currency on cash	—	—	(8.8)	—	(8.8)
<b>NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS</b>					
	(2.5)	(15.1)	15.9	—	(1.7)
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>					
	3.6	33.4	168.1	—	205.1
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 1.1	\$ 18.3	\$ 184.0	\$ —	\$ 203.4

**Catalent Pharma Solutions, Inc. and Subsidiaries**  
**Consolidating Statements of Cash Flows**  
**For the Six Months Ended December 31, 2010**  
**Unaudited**  
**(In millions)**

	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net cash provided by/(used in) operating activities from continuing operations	(111.7)	73.8	54.9	—	17.0
Net cash provided by/(used in) operating activities from discontinued operations	—	(0.2)	(0.4)	—	(0.6)
Net cash provided by/(used in) operating activities	(111.7)	73.6	54.5	—	16.4
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Acquisition of property and equipment and other productive assets	—	(14.6)	(17.9)	—	(32.5)
Proceeds from sale of property and equipment	—	—	3.4	—	3.4
Net cash provided by/(used in) investing activities from continuing operations	—	(14.6)	(14.5)	—	(29.1)
Net cash provided by/(used in) investing activities from discontinued operations	—	(0.1)	(0.4)	—	(0.5)
Net cash provided by/(used in) investing activities	—	(14.7)	(14.9)	—	(29.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Intercompany	63.9	(72.1)	8.2	—	0.0
Net change in short-term borrowings	(3.9)	—	(0.9)	—	(4.8)
Repayments of long-term obligations	(7.1)	(0.8)	(4.7)	—	(12.6)
Distribution to noncontrolling interest holder	—	—	(2.6)	—	(2.6)
Equity contribution (redemption)	3.5	—	—	—	3.5
Net cash (used in)/ provided by financing activities from continuing operations	56.4	(72.9)	(0.0)	—	(16.5)
Net cash (used in)/provided by financing activities from discontinued operations	—	—	—	—	—
Net cash provided by/(used in) financing activities	56.4	(72.9)	(0.0)	—	(16.5)
Effect of foreign currency on cash	38.8	—	(32.4)	—	6.4
<b>NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS</b>	(16.5)	(14.0)	7.2	—	(23.3)
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD</b>	17.7	31.8	114.5	—	164.0
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	\$ 1.2	\$ 17.8	\$ 121.7	\$ —	\$ 140.7

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

*The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Item 1A.—Risk Factors," within this Form 10-Q and in our Form 10-K.*

### **The Company**

We are the leading provider of development solutions and advanced delivery technologies for the global pharmaceutical, biotechnology and consumer health industry. Through our extensive capabilities and deep expertise in product development, we help our customers bring more products to market, faster. Our advanced delivery technologies, the broadest and most diverse range of formulation, dose form, manufacturing expertise and intellectual property available to the industry, enable our customers to bring more products and better treatments to the market. Across both development and delivery, our unwavering commitment to reliably supply our customers' needs serves as the foundation for the value we provide. We operate through four businesses: Development & Clinical Services, Softgel Technologies, Modified Release Technologies, and Medication Delivery Solutions. We believe that through our prior and ongoing investments in growth capacity and capabilities, our ongoing focus on Lean Six Sigma and compliance, our innovation activities, the sales of existing customer products, and the introduction of new customer products, we will continue to benefit from attractive margins and realize the growth potential in these areas.

For financial reporting purposes, we present four distinct financial reporting segments based on criteria established by U.S. GAAP: Development & Clinical Services, Oral Technologies, Sterile Technologies, and Packaging Services. The Oral Technologies segment includes the Softgel Technologies and Modified Release Technologies businesses. The Medication Delivery Solutions business is comprised of the Sterile Technologies and Packaging Services reporting segments.

### **Critical Accounting Policies and Estimates**

The preparations of financial statements are in conformity with U.S. GAAP. These standards require management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates include, but are not limited to, allowance for doubtful accounts, inventory and long-lived asset valuation, goodwill and other intangible asset impairment, equity-based compensation, income taxes, derivative financial instruments, self insurance accruals, loss contingencies and restructuring charge reserves. Actual amounts may differ from these estimated amounts.

There were no material changes to the critical accounting policies or in the underlying accounting assumptions and estimates from those described in the Company's fiscal year 2011 Annual Report on Form 10-K, other than recently adopted accounting principles, none of which had a material impact.

### **Results of Operations**

#### *Use of EBITDA from continuing operations and Adjusted EBITDA*

Management measures operating performance based on consolidated earnings from continuing operations before interest expense, expense/(benefit) for income taxes and depreciation and amortization and adjusted for the income or loss attributable to noncontrolling interest ("EBITDA from continuing operations"). EBITDA from continuing operations is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP and is subject to important limitations.

We believe that the presentation of EBITDA from continuing operations enhances an investor's understanding of our financial performance. We believe this measure is a useful financial metric to assess our operating performance from period to period by excluding certain items that we believe are not representative of our core business and use this measure for business planning purposes. In addition, given the significant investments that we have made in the past in property and equipment, depreciation and

amortization expenses represent a meaningful portion of our cost structure. We believe that EBITDA from continuing operations will provide investors with a useful tool for assessing the comparability between periods of our ability to generate cash from operations sufficient to pay taxes, to service debt and to undertake capital expenditures because it eliminates depreciation and amortization expense. We present EBITDA from continuing operations in order to provide supplemental information that we consider relevant for the readers of the financial statements, and such information is not meant to replace or supersede U.S. GAAP measures. Our definition of EBITDA from continuing operations may not be the same as similarly titled measures used by other companies.

In addition, we evaluate the performance of our segments based on segment earnings before minority interest, other (income) expense, impairments, restructuring costs, interest expense, income tax (benefit)/expense, and depreciation and amortization (“Segment EBITDA”).

Under the indentures governing the notes, our ability to engage in certain activities such as incurring certain additional indebtedness, making certain investments and paying certain dividends is tied to ratios based on adjusted EBITDA (which is defined as “EBITDA” in the indentures). Adjusted EBITDA is based on the definitions in the credit agreement and is not defined under U.S. GAAP, and is subject to important limitations. We have included the calculations of adjusted EBITDA for the periods presented. Adjusted EBITDA is the covenant compliance measure used in certain covenants under the indentures governing the notes, particularly those governing debt incurrence and restricted payments. Because not all companies use identical calculations, our presentation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

Included in this report is a reconciliation of earnings/(loss) from continuing operations to EBITDA from continuing operations and to adjusted EBITDA.

#### *Use of Constant Currency*

As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results on a constant currency basis in addition to reported results helps improve investors’ ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Quarterly Report on Form 10-Q, we calculate constant currency by calculating current-year results using prior-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant currency basis as excluding the impact of foreign exchange. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with U.S. GAAP.

**Three Months Ended December 31, 2011 compared to the Three Months Ended December 31, 2010**

Results for the Three Months ended December 31, 2011 compared to the Three Months ended December 31, 2010 are as follows:

(in millions)	Three Months Ended December 31,		Increase/(Decrease)	
	2011	2010	Change \$	Change %
Net revenue	\$416.5	\$393.2	\$ 23.3	6%
Cost of products sold	286.1	273.8	12.3	4%
Gross margin	130.4	119.4	11.0	9%
Selling, general and administrative expense	80.0	69.7	10.3	15%
Impairment charges and (gain)/loss on sale of assets	(0.4)	(0.5)	0.1	-20%
Restructuring and other	10.4	4.7	5.7	*
Property and casualty losses	(14.1)	—	(14.1)	*
Operating earnings/(loss)	54.5	45.5	9.0	20%
Interest expense, net	41.1	41.2	(0.1)	0%
Other (income)/expense, net	(6.3)	1.3	(7.6)	*
Earnings/(loss) from continuing operations before income taxes	19.7	3.0	16.7	*
Income tax expense/ (benefit)	7.3	9.2	(1.9)	-21%
Earnings/(loss) from continuing operations	12.4	(6.2)	18.6	*
Earnings /(loss) from discontinued operations	0.1	(0.6)	0.7	*
Net earnings/(loss)	12.5	(6.8)	19.3	*
Net earnings/(loss) attributable to noncontrolling interest	0.8	1.4	(0.6)	-43%
Net earnings/(loss) attributable to Catalent	\$ 11.7	\$ (8.2)	\$ 19.9	*

\* Percentage not meaningful

## **Net Revenue**

Net revenue increased \$23.3 million, or 6%, compared to the same period a year ago. The stronger U.S. dollar unfavorably impacted revenue by less than 1%, or approximately \$1.9 million. Excluding the impact of foreign exchange, net revenue increased by \$25.2 million, or 6%, as compared to the comparable period in the prior year. The increase was primarily driven by increased demand in the Oral Technologies and Development and Clinical Services segments. The Oral Technologies increase was primarily driven by increased demand for products utilizing our proprietary Zydis® delivery platform, as well as for consumer health and prescription softgel products. The Development and Clinical Services increase was primarily driven by increased demand for clinical services from our North America and Europe operations. These revenue increases were partially offset by declining volumes in our Packaging Services and Sterile Technologies segments resulting from customer insourcing.

## **Gross Margin**

Gross margin increased \$11 million, or 9%, compared to the same period a year ago. The stronger U.S. dollar unfavorably impacted gross margin by approximately 1%, or \$0.6 million. Excluding the impact of foreign exchange, gross margin increased by \$11.6 million, or 10%, primarily due to favorable product mix in the Oral Technologies segment resulting from increased demand for modified release and softgel products, and the increased demand in the Development and Clinical Services segment, as discussed above. In addition, Gross Margin for the three month period ended was impacted by the receipt of \$3.3 million pursuant to the terms of our business interruption insurance claim resulting from the Corby U.K. facility fire in March 2011. Approximately \$2.3 million of the proceeds received and recognized as income recovery related to the third and fourth fiscal quarter of fiscal year 2012. Due to the finalization of our business interruption claim with our insurance carrier, these amounts were recorded upon approval and cash receipt.

## **Selling, General and Administrative Expense**

Selling, general and administrative expense increased by 15%, or \$10.3 million, compared to the comparable period of fiscal 2011. The U.S. dollar fluctuation had an immaterial impact on the selling, general and administrative expenses for the quarter. The increase was primarily due to continued investments in our sales and marketing function as well as other investments related to executing our long term strategic initiatives.

## **Restructuring and Other**

Restructuring and other charges of \$10.4 million for the three months ended December 31, 2011 increased \$5.7 million compared to the same period a year ago and was primarily attributable to non-cash asset impairment charges, real estate and employee related expenses associated with the planned closure of a U.K. based softgel operation which wound down production in December 2011.

## **Interest Expense, net**

Interest expense, net of \$41.1 million for the three months ended December 31, 2011 was in-line with the period ended December 31, 2010, due to our comparable debt and interest rate profile.

## **Other (Income)/Expense, net**

Other income increased by approximately \$7.6 million for the three months ended December 31, 2011 compared to the same three months of the prior fiscal year. This fluctuation was primarily attributable to an unrealized foreign exchange gain recorded in the current fiscal quarter related to the translation of the portion of our Euro denominated debt not designated as an effective hedge. In the comparable period in the prior fiscal year, the entire balance of the Euro denominated debt was designated as an effective hedge for accounting purposes and thus resulted in no income statement activity.

## **Provision/(Benefit) for Income Taxes**

Our provision / (benefit) for income taxes for the three months ended December, 31 2011 was \$7.3 million relative to income before income taxes of \$19.7 million. Our provision / (benefit) for income taxes for the three months ended December 31, 2010 was \$9.2 million relative to income before income taxes of \$3.0 million. The income tax provision for the current period is not comparable to the same period of the prior year due to changes in pretax income over many jurisdictions and the impact of discrete items. A tax benefit in the amount of \$4.5 million was recorded due to a cash settlement with Cardinal Health that occurred during December 2011. This settlement was related to certain taxes paid by the Company which are subject to indemnification because they relate to periods preceding April 10, 2007. The indemnification agreement is still open for ASC 740-10 tax reserves.

## Segment Review

The Company's results on a segment basis for the three months ended December 31, 2011 compared to the three months ended December 31, 2010 are as follows:

(in millions)	Three Months Ended December 31,		Increase/(Decrease)	
	2011	2010	Change \$	Change %
<b>Oral Technologies</b>				
Net revenue	\$282.2	\$261.5	\$ 20.7	8%
Segment EBITDA	72.7	66.6	6.1	9%
<b>Sterile Technologies</b>				
Net revenue	51.3	58.6	(7.3)	-12%
Segment EBITDA	6.8	9.4	(2.6)	-28%
<b>Development and Clinical Services</b>				
Net revenue	51.1	37.3	13.8	37%
Segment EBITDA	9.7	7.6	2.1	28%
<b>Packaging Services</b>				
Net revenue	36.7	41.8	(5.1)	-12%
Segment EBITDA	4.7	(0.2)	4.9	*
<b>Inter-segment revenue elimination</b>	(4.8)	(6.0)	1.2	-20%
<b>Unallocated Costs<sup>(1)</sup></b>	(3.4)	(10.4)	7.0	-67%
<b>Combined Total</b>				
Net revenue	416.5	393.2	23.3	6%
EBITDA from continuing operations	\$ 90.5	\$ 73.0	\$ 17.5	24%

\* Percentage not meaningful

(1) Unallocated costs includes equity-based compensation, impairment charges, certain other corporate directed costs, and other costs that are not allocated to the segments as follows:

(in millions)	Three Months Ended December 31,	
	2011	2010
Impairment charges and gain/(loss) on sale of assets	\$ 0.4	\$ 0.5
Equity compensation	(0.8)	(0.9)
Restructuring and other special items	(13.9)	(6.3)
Property and casualty losses	14.1	—
Sponsor advisory fee	(2.8)	(2.5)
Noncontrolling interest	(0.8)	(1.4)
Other income (expense) <sup>(2)</sup> , net	6.3	(1.3)
Non-allocated corporate costs, net	(5.9)	1.5
<b>Total unallocated costs</b>	<b>\$ (3.4)</b>	<b>\$ (10.4)</b>

(2) Primarily relates to realized and unrealized gains/(losses) related to foreign currency translation.

Provided below is a reconciliation of earnings/ (loss) from continuing operations to EBITDA from continuing operations

(in millions)	Three Months Ended	
	December 31,	
	2011	2010
Earnings/(loss) from continuing operations	\$12.4	\$ (6.2)
Depreciation and amortization	30.5	30.2
Interest expense, net	41.1	41.2
Income tax (benefit)/expense	7.3	9.2
Noncontrolling interest	(0.8)	(1.4)
EBITDA from continuing operations	<u>\$90.5</u>	<u>\$73.0</u>

#### *Oral Technologies segment*

Net revenue increased by 8%, or \$20.7 million, compared to the same period a year ago. The stronger U.S. dollar unfavorably impacted revenue by less than 1%, or \$1.4 million. Excluding the impact of foreign exchange rates, net revenue increased by 8%, or \$22.1 million. This increase was primarily related to increased demand for products utilizing our proprietary Zydis delivery platform, and increased demand for consumer health and prescription softgel products in South America and Europe.

Segment EBITDA increased by 9%, or \$6.1 million. Oral Technologies' EBITDA was unfavorably impacted by the stronger U.S. dollar by approximately 1%, or \$0.5 million. Excluding the impact of foreign exchange rates, the increase was \$6.6 million, or 10%, and was primarily related to favorable product mix in the segment attributable to the previously mentioned demand increases for products which use our Zydis delivery platform, consumer health and prescription softgel products.

#### *Sterile Technologies segment*

Net revenue decreased by 12%, or \$7.3 million, as compared to the same period of the prior fiscal year. The stronger U.S. dollar unfavorably impacted revenue by less than 1%, or \$0.3 million. Excluding the impact of foreign exchange rates, net revenue decreased by 12%, or \$7.0 million, primarily driven by decreased demand for injectable products in our European operations.

Segment EBITDA decreased by 28%, or \$2.6 million, as compared to the same period of the prior fiscal year. The decrease was primarily related to the decreased demand for injectable products discussed above, partially offset by favorable product mix and an improved fixed manufacturing cost base in our Blow-Fill-Seal offering. The impact of foreign exchange had an immaterial impact on the segment's financial results.

#### *Development and Clinical Services segment*

Net revenue increased by 37%, or \$13.8 million. The stronger U.S. dollar unfavorably impacted the segment's revenue by less than 1%, or \$0.2 million. Excluding the impact of foreign exchange rates, revenue increased by 37%, or \$14.0 million, primarily driven by increased demand for our clinical services offerings in North America and Europe.

Segment EBITDA increased by 28%, or \$2.1 million, due to the clinical services volume related increases discussed above, partially offset by unfavorable product mix in the segment. The impact of foreign exchange had an immaterial impact on the segment's financial results.

#### *Packaging Services segment*

Net revenue decreased by 12%, or \$5.1 million. The decrease in revenue was partially attributable to customer in-sourcing impacting North American operations. In addition, another contributing factor was the lower revenue generated from our U.K. based packaging operation as we continue to transition and recover operating performance as a result of the fire damage experienced in the third quarter of the prior year. The weaker U.S. dollar had an immaterial impact on the segment's revenue.

Segment EBITDA increased \$4.9 million. The increase was attributable to improved manufacturing efficiencies and fixed overhead cost saving initiatives implemented throughout the segment. In addition, Packaging Services EBITDA was impacted by the receipt of \$3.3 million pursuant to the terms of our business interruption insurance claim resulting from the Corby U.K. facility fire in March 2011. Approximately \$2.3 million of the proceeds received and recognized as income recovery related to the third and fourth fiscal quarter of fiscal year 2012. Due to the finalization of our business interruption claim with our insurance carrier, these amounts were recorded upon approval and cash receipt. This amount represented the final and complete lost profit recovery that was awarded for the full fiscal year ended June 30, 2012.

**Six Months Ended December 31, 2011 compared to the Six Months Ended December 31, 2010**

Results for the Six Months ended December 31, 2011 compared to the six months ended December 31, 2010 are as follows:

(in millions)	Six Months Ended December 31,		Increase/(Decrease)	
	2011	2010	Change \$	Change %
Net revenue	\$827.0	\$773.9	\$ 53.1	7%
Cost of products sold	572.8	550.9	21.9	4%
Gross margin	254.2	223.0	31.2	14%
Selling, general and administrative expense	159.0	142.0	17.0	12%
Impairment charges and (gain)/loss on sale of assets	(0.8)	0.1	(0.9)	*
Restructuring and other	11.8	10.1	1.7	17%
Property and casualty losses	(14.6)	—	(14.6)	*
Operating earnings/(loss)	98.8	70.8	28.0	40%
Interest expense, net	83.2	81.8	1.4	2%
Other (income)/expense, net	(2.4)	13.5	(15.9)	*
Earnings/(loss) from continuing operations before income taxes	18.0	(24.5)	42.5	*
Income tax expense/ (benefit)	10.8	10.6	0.2	2%
Earnings/(loss) from continuing operations	7.2	(35.1)	42.3	*
Earnings/(loss) from discontinued operations	0.1	—	0.1	*
Net earnings/(loss)	7.3	(35.1)	42.4	*
Net earnings/(loss) attributable to noncontrolling interest	0.3	0.6	(0.3)	-50%
Net earnings/(loss) attributable to Catalent	\$ 7.0	\$ (35.7)	\$ 42.7	*

\* Percentage not meaningful

## **Net Revenue**

Net revenue increased \$53.1 million, or 7%, compared to the same period a year ago. The weaker U.S. dollar favorably impacted revenue by approximately 2%, or \$15.7 million. Excluding the impact of foreign exchange, net revenue increased by \$37.4 million, or 5%, as compared to the comparable period in the prior year. The increase was primarily due to increased demand in the Oral Technologies and Development and Clinical Services segments. The Oral Technologies increase was primarily driven by increased demand for products using our Zydis delivery platform and controlled release products, as well as for consumer health and prescription softgel products. The Development and Clinical Services increase was primarily driven by increased demand for clinical services in North America and Europe. These revenue increases were partially offset by decreased demand in Packaging Services and Sterile Technologies resulting from customer in-sourcing and end market demand for certain product offerings.

## **Gross Margin**

Gross margin increased \$31.2 million, or 14%, compared to the same period a year ago. The weaker U.S. dollar favorably impacted gross margin by approximately 1%, or \$3.0 million. Excluding the impact of foreign exchange, gross margin increased by \$28.2 million, or 13%, primarily due to the increased demand for immediate, controlled release, and softgel products, favorable product mix in the Oral Technologies segment and the volume increase in the Development and Clinical Services segment, as discussed above. In addition, Gross Margin for the six month period ended was impacted by the receipt of \$3.8 million pursuant to the terms of our business interruption insurance claim resulting from the Corby U.K. facility fire in March 2011. Approximately \$2.3 million of the proceeds received and recognized as income recovery related to the third and fourth fiscal quarter of fiscal year 2012. Due to the finalization of our business interruption claim with our insurance carrier, these amounts were recorded upon approval and cash receipt.

## **Selling, General and Administrative Expense**

Selling, general and administrative expense increased by 12%, or \$17 million, compared to the comparable period of fiscal 2011. The U.S. dollar fluctuation increased selling, general and administrative expense by approximately 1%, or \$1.8 million. Excluding the impact of foreign exchange, selling, general and administrative expense increased 11%, or \$15.2 million, as compared to the same period a year ago, primarily due to continued investments in our sales and marketing function as well as other investments related to executing our long term strategic initiatives.

## **Restructuring and Other**

Restructuring and other charges of \$11.8 million for the six months ended December 31, 2011 increased \$1.7 million compared to the same period a year ago primarily attributable to non-cash asset impairment charges, real estate and employee related expenses associated with the planned closure of a U.K. based softgel operation which wound down production in December 2011.

## **Interest Expense, net**

Interest expense, net of \$83.2 million for the six months ended December 31, 2011 was in-line with the period ended December 31, 2010, due to our a comparable debt and interest rate profile.

## **Other (Income)/Expense, net**

Other expense decreased by approximately \$16 million for the six months ended December 31, 2011 resulting in income for current year period. The fluctuation as compared to the comparable period of the prior fiscal year is due to the realized and unrealized foreign currency losses realized in the prior year as compared to gains in the current year period related to the translation of the portion of our Euro denominated debt not designated as an effective hedge. In the comparable period in the prior fiscal year, the entire balance of the euro denominated debt was designated as an effective hedge for accounting purposes and thus resulted in no income statement activity.

### **Provision/(Benefit) for Income Taxes**

The income tax provision /(benefit) relative to earnings / (loss) from continuing operations before income taxes, minority interest and discontinued operations was 59.9 % and 44.1% for the six months ended December 31, 2011 and 2010, respectively. Generally, fluctuations in the effective tax rate are primarily due to changes in our geographic pretax income resulting from our business mix and changes in the tax impact of permanent differences, restructuring, other special items and other discrete tax items, which may have unique tax implications depending on the nature of the item. Our effective tax rate reflects benefits derived from operations outside the United States, which are generally taxed at lower rates than the U.S. statutory rate of 35%. Our provision / (benefit) for income taxes for the six months ended December, 31 2011 was \$10.8 million relative to income before income taxes of \$18.0 million. Our provision / (benefit) for income taxes for the six months ended December 31, 2010 was \$10.6 million relative to a loss before income taxes of \$(24.5) million. A tax benefit in the amount of \$4.5 million was recorded due to a cash settlement with Cardinal Health that occurred during December 2011. This settlement was related to certain taxes paid by the Company which are subject to indemnification because they relate to periods preceding April 10, 2007. The indemnification agreement is still open for ASC 740-10 tax reserves.

## Segment Review

The Company's results on a segment basis for the Six Months ended December 31, 2011 compared to the Six Months ended December 31, 2010 are as follows:

(in millions)	Six Months Ended December 31,		Increase/(Decrease)	
	2011	2010	Change \$	Change %
<b>Oral Technologies</b>				
Net revenue	\$557.1	\$505.5	\$ 51.6	10%
Segment EBITDA	140.0	118.8	21.2	18%
<b>Sterile Technologies</b>				
Net revenue	106.9	117.6	(10.7)	-9%
Segment EBITDA	11.4	15.9	(4.5)	-28%
<b>Development and Clinical Services</b>				
Net revenue	95.9	75.4	20.5	27%
Segment EBITDA	18.2	15.2	3.0	20%
<b>Packaging Services</b>				
Net revenue	77.3	88.1	(10.8)	-12%
Segment EBITDA	8.8	1.7	7.1	*
<b>Inter-segment revenue elimination</b>				
	(10.2)	(12.7)	2.5	-20%
<b>Unallocated Costs<sup>(1)</sup></b>				
	(17.4)	(35.8)	18.4	-51%
<b>Combined Total</b>				
Net revenue	827.0	773.9	53.1	7%
EBITDA from continuing operations	\$161.0	\$115.8	\$ 45.2	39%

\* Percentage not meaningful

(1) Unallocated costs include equity-based compensation, impairment charges, certain other corporate directed costs, and other costs that are not allocated to the segments as follows:

(in millions)	Six Months Ended December 31,	
	2011	2010
Impairment charges and gain/(loss) on sale of assets	\$ 0.8	\$ (0.1)
Equity compensation	(1.7)	(2.3)
Restructuring and other special items	(19.3)	(14.4)
Property and casualty losses	14.6	—
Sponsor advisory fee	(5.7)	(5.0)
Noncontrolling interest	(0.3)	(0.6)
Other income (expense) <sup>(2)</sup> , net	2.4	(13.5)
Non-allocated corporate costs, net	(8.2)	0.1
<b>Total unallocated costs</b>	<b><u>\$(17.4)</u></b>	<b><u>\$(35.8)</u></b>

(2) Primarily relates to realized and unrealized gains/(losses) related to foreign currency translation.

Provided below is a reconciliation of earnings/ (loss) from continuing operations to EBITDA from continuing operations

(in millions)	Six Months Ended	
	December 31,	
	2011	2010
Earnings/(loss) from continuing operations	\$ 7.2	\$ (35.1)
Depreciation and amortization	60.1	59.1
Interest expense, net	83.2	81.8
Income tax (benefit)/expense	10.8	10.6
Noncontrolling interest	(0.3)	(0.6)
EBITDA from continuing operations	<u>\$161.0</u>	<u>\$115.8</u>

#### *Oral Technologies segment*

Net revenue increased by 10%, or \$51.6 million, compared to the same period a year ago. The weaker U.S. dollar favorably impacted revenue by approximately 2%, or \$11.8 million. Excluding the impact of foreign exchange rates, net revenue increased by 8%, or \$39.8 million. This increase was primarily related to increased demand for Zydys and controlled release products, as well consumer health and prescription softgel products in North American, South American and European operations.

Segment EBITDA increased by 18%, or \$21.2 million. Oral Technologies' EBITDA was favorably impacted by the weaker U.S. dollar by approximately 1%, or \$1.5 million. Excluding the impact of foreign exchange rates, the increase was \$19.7 million, or 17%, and was primarily related to favorable product mix in the segment and the previously mentioned demand increases for modified release, consumer health softgel, and prescription softgel products.

#### *Sterile Technologies segment*

Net revenue decreased by 9%, or \$10.7 million, as compared to the same period of the prior fiscal year. The weaker U.S. dollar favorably impacted revenue by approximately 2%, or \$2.6 million. Excluding the impact of foreign exchange rates, net revenue decreased by 11%, or \$13.3 million, primarily driven by decreased demand for injectable products in our European pre-filled syringe operations, partially offset by increased demand in our Blow-Fill-Seal offering.

Segment EBITDA decreased by 28%, or \$4.5 million, as compared to the same period of the prior fiscal year. The weaker U.S. dollar favorably impacted the segment's EBITDA by approximately 2%, or \$0.3 million. Excluding the impact of foreign exchange rates, EBITDA decreased by 30%, or \$4.8 million, primarily attributable to the decreased demand for injectable products in our European operations, partially offset by favorable product mix and an improved fixed manufacturing cost base in our Blow-Fill-Seal offering.

#### *Development and Clinical Services segment*

Net revenue increased by 27%, or \$20.5 million. The weaker U.S. dollar favorably impacted the segment's revenue by approximately 1%, or \$1.0 million. Excluding the impact of foreign exchange rates, revenue increased by 26%, or \$19.5 million, primarily driven by increased demand for our clinical services offerings in North America and Europe.

Segment EBITDA increased by 20%, or \$3.0 million. Development and Clinical Services' EBITDA was favorably impacted by the weaker U.S. dollar by approximately 2%, or \$0.3 million. Excluding the impact of foreign exchange rates, segment EBITDA increased 18%, or \$2.7 million, due to the clinical services volume related increases discussed above; partially offset by unfavorable product mix in the segment and increased investments related to the execution of the segment's strategic plan.

#### *Packaging Services segment*

Net revenue decreased by 12%, or \$10.8 million. The decrease in revenue was partially attributable to customer insourcing impacting North American operations. Another contributing factor was the lower revenue generated from product manufacturing associated with our U.K. based packaging operation since the fire damage experienced in the third quarter of the prior year. The weaker U.S. dollar had an immaterial impact on the segment's revenue.

Segment EBITDA increased \$7.1 million. The increase was primarily attributable to improved manufacturing efficiencies and favorable product mix, as well as fixed overhead cost saving initiatives implemented throughout the segment. In addition, Packaging Services EBITDA was impacted by the receipt of \$3.8 million pursuant to the terms of our business interruption insurance claim resulting from the Corby U.K. facility fire in March 2011. Approximately \$2.3 million of the proceeds received and recognized as income recovery related to the third and fourth fiscal quarter of fiscal year 2012. Due to the finalization of our business interruption claim with our insurance carrier, these amounts were recorded upon approval and cash receipt. This amount represents the final and complete lost profit recovery that was awarded for the full fiscal year ended June 30, 2012.

## **Liquidity and Capital Resources**

### ***Sources and Uses of Cash***

The Company's principal source of liquidity has been cash flow generated from operations. The principal uses of cash are to fund planned operating and capital expenditures, interest payments on debt and any mandatory or discretionary principal payments on debt issuances. As of December 31, 2011, the Company's financing needs were supported by a \$350.0 million revolving credit agreement, which was reduced by \$19.4 million of outstanding letters of credit. The revolving credit agreement matures in two tranches on each of April 10, 2013 and April 10, 2016, respectively. The April 10, 2016 maturity date is subject to certain conditions regarding the refinancing or repayment of the Company's term loans, the senior toggle notes, the senior subordinated notes and certain other unsecured debt. As of December 31, 2011, we had no outstanding borrowings under the Company's revolving credit agreement.

We continue to believe that the Company's cash from operations and available borrowings under the revolving credit facility will be adequate to meet the Company's future liquidity needs for at least the next twelve months.

## Cash Flows

The following table summarizes the Company's consolidated statement of cash flows from continuing operations:

(in millions)	Six Months Ended December		\$ Change
	2011	2010	
Net cash provided by/(used in):			
Operating activities	\$ 50.0	\$ 16.4	\$ 33.6
Investing activities	\$(28.6)	\$(29.6)	\$ 1.0
Financing activities	\$(14.3)	\$(16.5)	\$ 2.2

### Cash flows from operating activities

Cash flows from operating activities consist of net earnings/(loss) adjusted for certain non-cash items and changes in assets and liabilities. For the six months period ended December 31, 2011, cash provided by operating activities was \$50 million, an increase of \$33.6 million compared to the six months period ended December 31, 2010. The year-over-year increase primarily reflected a decreased net loss and was impacted by the cash received from our business interruption and property damage insurance claim associated with the March 2011 plant fire at the Corby U.K. facility.

### Cash flows from investing activities

For the six months period ended December 31, 2011, cash used in investing activities was \$28.6 million as compared to \$29.6 million in the prior year. Cash used in investing activities related to investments in property, plant and equipment was \$51.4 million for the six month period ended December 31, 2011 as compared to \$32 million in the prior year period. The total cash outflow related to investing activities in the current year period was offset by approximately \$21 million of cash proceeds received from our insurance provider related to our property damage claims resulting from the March 2011 plant fire at the Corby U.K. facility.

### Cash flows from financing activities

For the six months ended December 31, 2011, cash used in financing activities was \$14.3 million compared to \$16.5 million for the same period last year. The cash used in financing activities was generally flat due our similar debt and interest rate profile as compared to the comparable period of the prior year.

## Debt and Financing Arrangements

The Company uses interest rate swaps to manage the economic effect of variable rate interest obligations associated with our floating rate term loans so that the interest payable on the term loans effectively becomes fixed at a certain rate, thereby reducing the impact of future interest rate changes on our future interest expense. As of December 31, 2011, we had four interest rate swap agreements that have the economic effect of modifying the variable interest obligations associated with our floating rate term loans. These agreements include two U.S dollar-denominated, one Euro-denominated and one Yen-denominated interest rate swap agreement. The unrealized losses on our interest rate swaps that are designated as effective cash flow hedges for accounting purposes were \$36.3 million, net of tax and are recorded in Accumulated Other Comprehensive Loss on our balance sheet at December 31, 2011.

The current Japanese Yen interest rate swap was designed as an effective economic hedge but not designated as effective for financial reporting purposes and is included in the Consolidated Statements of Operations as Other (Income)/Expense. Conversely, unrealized gains/losses on the U.S. Dollar and Euro interest rate swaps are designated as effective hedges and are included in Accumulated Other Comprehensive Income/(Loss) and the corresponding payables are included in other current liabilities in our Consolidated Balance Sheet.

As of December 31, 2011, the Company was in compliance with all restrictive covenants related to its long-term obligations

## Guarantees and Security

All obligations under the senior secured credit agreement, the Senior Toggle Notes and the Senior Subordinated Notes (together, the "notes") are unconditionally guaranteed by each of the Company's existing U.S. wholly-owned subsidiaries, other than the Company's Puerto Rico subsidiaries, subject to certain exceptions.

All obligations under the Senior Secured Credit Facilities, and the guarantees of those obligations, are secured by substantially all of the following assets of the Company and each guarantor, subject to certain exceptions:

- a pledge of 100% of the capital stock of the Company and 100% of the equity interests directly held by the Company and each guarantor in any wholly-owned material subsidiary of the Company or any guarantor (which pledge, in the case of any non-U.S. subsidiary of a U.S. subsidiary, will not include more than 65% of the voting stock of such non-U.S. subsidiary); and
- a security interest in, and mortgages on, substantially all tangible and intangible assets of the Company and of each guarantor, subject to certain limited exceptions.

### ***Debt Covenants***

The senior secured credit agreement and the indentures governing the senior toggle notes and the senior subordinated notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's (and the Company's restricted subsidiaries') ability to incur additional indebtedness or issue certain preferred shares; create liens on assets; engage in mergers and consolidations; sell assets; pay dividends and distributions or repurchase capital stock; repay subordinated indebtedness; engage in certain transactions with affiliates; make investments, loans or advances; make certain acquisitions; in the case of the Company's senior credit agreement, enter into sale and leaseback transactions, amend material agreements governing the Company's subordinated indebtedness (including the senior subordinated notes) and change the Company's lines of business.

The senior credit facility and indentures governing the senior toggle notes and the senior subordinated notes also contain change of control provisions and certain customary affirmative covenants and events of default. As of December 31, 2011, the Company was in compliance with all covenants related to its long-term obligations. The Company's long-term debt obligations do not contain any financial maintenance covenants.

Subject to certain exceptions, the senior credit agreement and the indentures governing the notes will permit the Company and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness. None of the Company's non-U.S. subsidiaries or Puerto Rico subsidiaries is a guarantor of the loans or notes.

As market conditions warrant and subject to the Company's contractual restrictions and liquidity position, we, the Company's affiliates and/or the Company's major equity holders, including Blackstone and its affiliates, may from time to time repurchase the Company's outstanding debt securities, including the senior toggle notes and the senior subordinated notes and/or the Company's outstanding bank loans in privately negotiated or open market transactions, by tender or otherwise. Any such repurchases may be funded by incurring new debt, including additional borrowings under the Company's existing credit facility. Any new debt may also be secured debt. We may also use available cash on the Company's balance sheet. The amounts involved in any such transactions, individually or in the aggregate, may be material. Further, any such purchases may result in the Company's acquiring and retiring a substantial amount of any particular series, with the attendant reduction in the trading liquidity of any such series.

### **Historical and Adjusted EBITDA**

Under the credit agreement governing the notes, the Company's ability to engage in certain activities such as incurring certain additional indebtedness, making certain investments and paying certain dividends is tied to ratios based on Adjusted EBITDA (which is defined as "EBITDA" in the indentures).

Adjusted EBITDA is based on the definitions in the Company's indentures, is not defined under U.S. GAAP, and is subject to important limitations. We have included the calculations of Adjusted EBITDA for the period presented below as Adjusted EBITDA is the covenant compliance measure used in certain covenants under the indentures governing the notes, particularly those governing debt incurrence and restricted payments. Because not all companies use identical calculations, the Company's presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

In calculating Adjusted EBITDA, we add back certain non-cash, non-recurring and other items that are included in the definitions of EBITDA and consolidated net income as required in the credit agreement governing the notes. Adjusted EBITDA, among other things:

- does not include non-cash stock-based employee compensation expense and certain other non-cash charges;
- does not include cash and non-cash restructuring, severance and relocation costs incurred to realize future cost savings and enhance our operations;
- adds back noncontrolling interest expense, which represents minority investors' ownership of certain of our consolidated subsidiaries and is, therefore, not available to us; and
- includes estimated cost savings which have not yet been fully reflected in our results.

The Company's Adjusted EBITDA for the last twelve months ended December 31, 2011 based on the definitions in the Company's indentures agreement is calculated as follows:

(in millions)	Last Twelve Months December 31, 2011
Earnings/(loss) from continuing operations	\$ 2.9
Interest expense, net	167.0
Income tax (benefit)/provision	24.3
Depreciation and amortization	120.5
Noncontrolling interest	(3.6)
EBITDA from continuing operations	311.1
Equity compensation <sup>(1)</sup>	3.2
Impairment charges and (gain)/loss on sale of assets <sup>(2)</sup>	2.6
Restructuring and special items <sup>(3)</sup>	31.6
Property and casualty losses, net <sup>(4)</sup>	(3.0)
Foreign Exchange loss(gain) (included in other, net) <sup>(5)</sup>	12.1
Other adjustments	3.6
Sponsor monitoring fee <sup>(6)</sup>	11.3
Subtotal	372.5
Estimated cost savings	0.0
Adjusted EBITDA	<u>\$ 372.5</u>

<sup>(1)</sup> Reflects non-cash stock-based compensation expense under the provisions of ASC 718 Compensation – Stock Compensation.

<sup>(2)</sup> Reflects non-cash asset impairment charges and gains/losses from the sale of assets.

<sup>(3)</sup> Restructuring and other special charges were primarily attributable to restructuring activities which focus on various aspects of operations, including consolidating certain operations, rationalizing headcount and aligning operations in a more strategic and cost-efficient structure to optimize our business.

<sup>(4)</sup> Reflects property and casualty losses and related insurance proceeds resulting from fire damage to our Corby U.K. Packaging Services facility. Costs are primarily related to inventory losses and other transition costs resulting from the fire and have been offset by insurance proceeds. US GAAP accounting rules contribute to timing differences as costs can be recognized in different periods than the related insurance proceeds. See Note 13 to the unaudited Consolidated Financial Statements.

<sup>(5)</sup> Includes \$3.1 million of unrealized foreign currency translation primarily related to inter-company loans denominated in a currency different from the functional currency of either the borrower or the lender. These unrealized losses were offset by the exclusion of realized foreign currency exchange rate losses from the non-cash and cash settlement of inter-company loans totaling \$11.6 million and \$9.0 million, respectively. Inter-company loans are between Catalent entities and do not reflect the ongoing results of the companies trade operations.

<sup>(6)</sup> Represents amount of sponsor advisory fee. See Related Party Transactions (Note 10) of the unaudited Consolidated Financial Statements.

## **Interest Risk Management**

A portion of the debt used to finance the Company's operations is exposed to interest rate fluctuations. We may use various hedging strategies and derivative financial instruments to create an appropriate mix of fixed and floating rate assets and liabilities. The primary interest rate exposure as of December 31, 2011 was to interest rate fluctuations in the United States and Europe, especially USD LIBOR and EURIBOR interest rates. We currently use interest rate swaps as the derivative instruments in these hedging strategies. The derivatives used to manage the risk associated with the Company's floating USD LIBOR and EURIBOR rate debt were designated as effective cash flow hedges. The derivative used to manage the risk associated with the Company's floating TIBOR (Tokyo inter-bank Domestic Yen Offered rate) rate debt is an effective economic hedge but is not designated as an effective cash flow hedge for financial reporting purposes.

## **Currency Risk Management**

The Company is exposed to fluctuations in the EUR-USD exchange rate on its investments in foreign operations in Europe. While the Company does not actively hedge against changes in foreign currency, it has mitigated the exposure of investments in its European operations by denominating a portion of the debt in Euros. At December 31, 2011, the Company had Euro denominated debt outstanding of \$612.5 million that qualifies as a hedge of a net investment in foreign operations. For non-derivatives designated and qualifying as net investment hedges, the effective portion of the translation gains or losses are reported in the cumulative translation adjustment as part of accumulated other comprehensive income/(loss). During the three and six months ended December 31, 2011, the Company recorded \$20.2 million and \$48.7 million, respectively, as a gain in cumulative translation adjustment. The net accumulated gain of this net investment as of December 31, 2011 included in other comprehensive income was approximately \$63.3 million. In addition, during the three and six months ended December 31, 2011 the Company recognized an unrealized foreign exchange gain of \$5 million and \$9.5 million, respectively, in the consolidated statement of operations related to a portion of its Euro debt which was not designated as a net investment hedge. Amounts are reclassified out of accumulated other comprehensive income into earnings when the hedged net investment is either sold or substantially liquidated.

Periodically, we may utilize forward currency exchange contracts to manage the Company's exposures to the variability of cash flows primarily related to the foreign exchange rate changes of future foreign currency transaction costs. In addition, we may utilize foreign currency forward contracts to protect the value of existing foreign currency assets and liabilities. Currently, we do not utilize foreign currency exchange contracts. We expect to continue to evaluate hedging opportunities for foreign currency in the future.

## **Contractual Obligations**

There have been no material changes outside the ordinary course of business since June 30, 2011 with respect to the contractual obligations disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

## **Off-Balance Sheet Arrangements**

Other than operating leases, we do not have any off-balance sheet arrangements as of December 31, 2011.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to cash flow and earnings fluctuations as a result of certain market risks. These market risks primarily relate to changes in interest rates associated with our long-term debt obligations and foreign exchange rate changes. We utilize derivative financial instruments, such as interest rate swaps, in order to mitigate risk associated with our variable rate debt.

#### ***Interest Rate Risk***

The Company uses interest rate swaps to manage the economic effect of variable rate interest obligations associated with our floating rate term loans and so that the interest payable on the term loans effectively becomes fixed at a certain rate, thereby reducing the impact of future interest rate changes on our future interest expense. As of December 31, 2011, we had four interest rate swap agreements that have the economic effect of modifying the variable interest obligations associated with our floating rate term loans due in April and May 2013. These agreements include two U.S dollar-denominated, one Euro-denominated and one Yen-denominated interest rate swap agreements.

As of December 31, 2011, the Company had four outstanding interest rate derivatives, three of which were effective December 31, 2011 with a combined notional value of \$760.0 million and €240.0 million. These instruments are designated for financial accounting purposes as cash flow hedges of interest rate risk. Amounts reported in Accumulated Other Comprehensive Income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. In addition, the Company has a Japanese Yen interest rate swap which is economically effective but is not designated as an effective hedge for financial reporting and is included in the Consolidated Statements of Operations as Other (Income)/Expense.

#### ***Foreign Currency Exchange Risk***

By nature of our global operations, we are exposed to cash flow and earnings fluctuations resulting from foreign exchange rate variation. These exposures are transactional and translational in nature. Since we manufacture and sell our products throughout the world, our foreign currency risk is diversified. Principal drivers of this diversified foreign exchange exposure include the European Euro, British pound, Argentinean peso, Brazilian real and Australian dollar. Our transactional exposure arises from the purchase and sale of goods and services in currencies other than the functional currency of our operational units. We also have exposure related to the translation of financial statements of our foreign divisions into U.S. dollars, the functional currency of the parent. The financial statements of our operations outside the U.S. are measured using the local currency as the functional currency. Adjustments to translate the assets and liabilities of these foreign operations in U.S. dollars are accumulated as a component of other comprehensive income utilizing period-end exchange rates. Foreign currency transaction gains and losses calculated by utilizing weighted average exchange rates for the period are included in the statements of operations in "other expense, net". Such foreign currency transaction gains and losses include inter-company loans denominated in non- U.S. dollar currencies.

### **Item 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended ("Exchange Act") is recorded, processed, summarized and reported in the time periods specified in the U.S. Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's President and Chief Executive Officer, and the Company's Senior Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's President and Chief Executive Officer, and the Company's Senior Vice President and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the Company's President and Chief Executive Officer and the Company's Senior Vice President and Chief Financial Officer concluded that, as of December 31, 2011, the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

#### **Changes in Internal Control over Financial Reporting**

There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

Beginning in November 2006, the Company, along with several pharmaceutical companies, has been named in civil lawsuits filed by individuals allegedly injured by their use of the prescription acne medication Amnesteem<sup>®</sup>, a branded generic form of isotretinoin, and in some instances of isotretinoin products made and/or sold by other firms as well. Currently, the Company is a named defendant in three hundred and sixteen pending isotretinoin lawsuits. Plaintiffs allege that they suffer from inflammatory bowel disease and other disorders as a result of their ingestion of Amnesteem. The geographic distribution of these three hundred and sixteen lawsuits is as follows: one in the U.S. District Court for the Middle District of North Carolina that has been transferred to the Accutane<sup>®</sup> (Isotretinoin) federal Multi-District Litigation (“Accutane MDL”) in the Middle District of Florida; two in the Court of Common Pleas, Washington County, Pennsylvania; and three hundred and thirteen in the Superior Court, Atlantic County, New Jersey. The New Jersey cases and several of the other cases have been brought by a consortium of plaintiffs’ law firms, including Seeger Weiss LLP. The following discussion contains more detail about the lawsuits.

Three hundred and thirteen lawsuits are pending in the Superior Court of New Jersey, Law Division, Atlantic County by individual plaintiffs who claim to have ingested Amnesteem, and, in some cases, one or more competing branded generic isotretinoin products, including Sotret<sup>®</sup> (Ranbaxy) and/or Claravis<sup>®</sup> (Barr), as well as Accutane (the innovator isotretinoin product sold by Hoffmann-La Roche). One hundred and fifty-two of these cases allegedly involve the use of both Accutane and one or more of the branded generic forms of isotretinoin. Such cases, which include one or more Roche entities as defendants, are filed as part of the New Jersey consolidated mass tort proceeding set up in 2005 for all Accutane lawsuits pending in New Jersey state courts. The remaining one hundred and sixty-one cases do not involve the use of Accutane, but allegedly involve the use of one or more branded generic isotretinoin products, including Amnesteem. These cases are not part of the Accutane mass tort litigation; these non-mass tort, generics-only cases have been consolidated for discovery purposes but not for trial. All three hundred and thirteen of the cases pending in New Jersey, both mass tort and non-mass tort, are assigned to the same judge. In addition to the Company, these lawsuits name the pharmaceutical companies whose respective isotretinoin products each plaintiff allegedly ingested.

Two lawsuits involving only Amnesteem use are pending in the Court of Common Pleas, Washington, County, Pennsylvania. One lawsuit was filed in the General Court of Justice, Superior Court Division, Durham County, North Carolina, but was removed to the United States District Court for the Middle District of North Carolina, Durham Division. Pursuant to a tolling agreement, the case had been dismissed without prejudice pending the outcome of the United States Court of Appeals for the Eleventh Circuit’s review of the decision of the Accutane MDL Court to exclude plaintiff’s general causation expert. On August 26, 2008, the Eleventh Circuit affirmed the exclusion of plaintiff’s expert, and a subsequent petition for rehearing was denied. Plaintiffs have since re-filed the case in the Middle District of North Carolina and the Company successfully moved to transfer the case to the Accutane MDL in the Middle District of Florida.

One lawsuit appearing to involve only Amnesteem use was served on the Company in February 2009 and had been pending in the District Court of Bowie County, Texas. This plaintiff ultimately dismissed his Texas lawsuit, shortly after filing a new lawsuit in New Jersey, and this New Jersey lawsuit is included among the above-referenced one hundred and sixty-one consolidated non-mass tort cases.

Although expressed in various terms, generally speaking, all three hundred and sixteen lawsuits set forth some or all of the standard array of product liability claims, including strict liability for defective design, strict liability for failure to warn, negligence (in both design and warnings), fraud and misrepresentation, and breach of warranty. The lawsuits seek unspecified amounts of compensatory and punitive damages. The Company believes it has valid defenses to these lawsuits and intends to vigorously defend them.

From time to time, we may be involved in legal proceedings arising in the ordinary course of business, including, without limitation, inquiries and claims concerning environmental contamination as well as litigation and allegations in connection with acquisitions, product liability, manufacturing or packaging defects and claims for reimbursement for the cost of lost or damaged active pharmaceutical ingredients, the cost of which could be significant. We intend to vigorously defend ourselves against such other litigation and do not currently believe that the outcome of any such other litigation will have a material adverse effect on our financial statements. In addition, the healthcare industry is highly regulated and government agencies continue to scrutinize certain practices affecting government programs and otherwise.

From time to time, we receive subpoenas or requests for information from various government agencies, including from state attorneys general and the U.S. Department of Justice relating to the business practices of customers or suppliers. We generally respond to such subpoenas and requests in a timely and thorough manner, which responses sometimes require considerable time and effort and can result in considerable costs being incurred by us. We expect to incur additional costs in the future in connection with existing and future requests.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the section entitled “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2011 which could materially affect the Company’s business, financial condition and/or operating results. The risks described in the Company’s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect the Company’s business, financial condition and/or operating results. There have been no material changes to the risk factors disclosed in the Company’s Annual Report on Form 10-K.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not Applicable

**Item 5. OTHER INFORMATION**

On February 6, 2012 Peter Baird resigned from his position as a member of the Board of Directors of Catalent Pharma Solutions, Inc. (the “Company”). The Company is grateful to Mr. Baird for his dedicated service to the board.

**Item 6. EXHIBITS**

Exhibits:

- |        |   |
|--------|---|
| 10.1   | Letter Agreement, dated December 12, 2011, by and among PTS Holdings Corp., Catalent Pharma Solutions, Inc. and John R. Chiminski*  |
| 10.2   | Employment Agreement, dated as of October 11, 2011, and effective as of September 26, 2011, by and between Catalent Pharma Solutions, Inc. and Matthew Walsh*   |
| 31.1   | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*   |
| 31.2   | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*   |
| 32.1   | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**   |
| 32.2   | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**   |
| 101.1† | The following financial information from Catalent Pharma Solutions, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2011 formatted in XBRL: (i) Consolidated Statement of Income for the Three and Six Months ended December 31, 2011 and 2010; (ii) Consolidated Balance Sheet at December 31, 2011 and June 30, 2011; (iii) Consolidated Statement of Changes in Shareholders' Equity for the Three and Six Months ended December 31, 2011; (iv) Consolidated Statement of Cash Flows for the Six Months ended December 31, 2011 and 2010; and (v) Notes to un-audited Consolidated Financial Statements. |

\* Filed herewith

\*\* Furnished herewith.

**SIGNATURES**

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

CATALENT PHARMA SOLUTIONS, INC.  
(REGISTRANT)

Date: February 10, 2012

By: /s/ John R. Chiminski  
John R. Chiminski  
President & Chief Executive Officer

Date: February 10, 2012

By: /s/ Matthew M. Walsh  
Matthew M. Walsh  
Senior Vice President & Chief Financial Officer

December 12, 2011

Mr. John R. Chiminski  
c/o Catalent Pharma Solutions, Inc.  
14 Schoolhouse Road  
Somerset, NJ 08873

Dear John:

As you are aware, in connection with your employment with PTS Holdings Corp. (together with its successors and assigns, "PTS") and Catalent Pharma Solutions, Inc. (together with its successors and assigns, "Catalent") you entered into an employment agreement, dated as of February 23, 2009, as amended on October 30, 2009 and June 30, 2010, and as it may be further amended from time to time (the "Employment Agreement"), which sets forth the terms and conditions of such employment. Section 12(d) of the Employment Agreement provides that the Employment Agreement may not be altered, modified or amended except by written instrument signed by you, PTS and Catalent.

Notwithstanding anything to the contrary in Section 1 of the Employment Agreement, subject to the provisions of Section 7 of the Employment Agreement, you will be employed by PTS and Catalent (collectively, the "Companies") for a period commencing on the date hereof and ending on December 11, 2014 (the "Employment Term") on the terms and subject to the conditions set forth in the Employment Agreement; provided, however, that commencing with December 12, 2014 and on each December 12<sup>th</sup> thereafter (each, an "Extension Date"), the Employment Term shall be automatically extended for an additional one-year period, unless PTS, Catalent or you (each, a "Party") provides the other Party hereto (which in the case of you shall be either to PTS or Catalent) sixty (60) days' prior written notice before the next Extension Date that the Employment Term shall not be so extended.

Notwithstanding anything to the contrary in Section 3 of the Employment Agreement, during the Employment Term, Catalent shall pay you an annual base salary at the annual rate of \$850,000, payable in regular installments in accordance with Catalent's usual payment practices (but in all events no less frequently than semi-monthly). You shall be entitled to such increases, if any, in your base salary as may be determined from time to time in the sole discretion of the Board of Directors of PTS (the "PTS Board"). Your annual base salary may not be decreased during the Employment Term (including for purposes of determining severance amounts under Section 7 of the Employment Agreement) without your prior consent (other than a general reduction in annual base salary that affects all members of senior management proportionately; provided, however, that any such reduction shall not be taken into account for purposes of determining severance amounts under the Employment Agreement and any severance provided thereunder following such reduction shall be calculated based on your annual base salary being no less than \$850,000). Your annual base salary, as in effect from time to time, consistent herewith, will be referred to for purposes of this letter agreement and the Employment Agreement as the "Base Salary."

Notwithstanding anything to the contrary in Section 4(b) of the Employment Agreement, with respect to the 2012 fiscal year and each full fiscal year during the Employment Term, commencing with the 2013 fiscal year, subject to your continued employment with Catalent and PTS through the end of each such fiscal year (except as otherwise provided in Section 7 of the Employment Agreement or as otherwise provided for under the terms of Catalent's Management Incentive Plan, as it may be amended from time to time (the "MIP")), you shall be entitled to receive an annual cash bonus award (the "Annual Bonus") under the MIP with a target amount equal to \$1,000,000 (the "Target Bonus") and a maximum of two hundred percent (200%) of the Target Bonus, based upon and subject to the achievement of annual performance targets established by the Board under the MIP, in consultation with you, within the first three (3) months of each fiscal year during the Employment Term; provided, however, that in no event shall such targets or the method of determining payouts based on the degree to which such targets are attained, be less favorable to you than those applying to other senior executives of Catalent. As the actual amount payable to you as an Annual Bonus will be dependent upon the achievement of performance goals established under the MIP and referred to herein, your actual Annual Bonus may be less than, greater than or equal to the Target Bonus; provided, that the maximum Annual Bonus that you may be eligible to receive for a fiscal year shall not exceed two hundred percent (200%) of the Target Bonus. Subject to the terms set forth in that certain letter agreement among you, Catalent and PTS, entered into June 30, 2010, the Annual Bonus, if any, shall be paid to you in cash in accordance with the terms and conditions of the MIP. Notwithstanding anything in this letter agreement, the Employment Agreement or the MIP to the contrary, your Annual Bonus, if any, under the MIP, earned in respect of the 2012 fiscal year, will be determined as follows: (i) the portion of your Annual Bonus, if any, that relates to your employment with Catalent and PTS from July 1, 2011 through the day immediately prior to the date hereof will be calculated by reference to the base salary earned by you during such period, which, for the avoidance of doubt was \$750,000, and (ii) the portion of your Annual Bonus, if any, that relates to your employment with Catalent and PTS from the date hereof through the last day of the 2012 fiscal year will be calculated by reference to the Target Bonus.

Notwithstanding anything to the contrary in Section 5 of the Employment Agreement and in addition to the benefits provided for therein, with respect to each calendar year during the Employment Term, you will be entitled to be reimbursed by Catalent (on a tax grossed-up basis) for the reasonable cost of (i) premiums for an executive life insurance policy and (ii) financial services/planning, subject to (x) receiving customary back-up documentation regarding such insurance or financial services/planning, as applicable, and (y) an aggregate cap of \$15,000 for each of the premiums and the services/planning. Reimbursement shall be made within thirty (30) days after receipt of documentation reasonably acceptable to Catalent, but in no event later than the last day of the taxable year following the taxable year in which the expenses were incurred.

This letter agreement, upon execution by the Parties, hereby serves as an amendment to the Employment Agreement and shall be deemed to be a part thereof.

Except as expressly set forth above, the Employment Agreement shall remain in full force and effect.

This letter agreement shall be construed, interpreted and governed in accordance with the laws of the State of Delaware without regards to conflicts of laws principles thereof and any dispute hereunder shall be resolved in accordance with Section 12(c) of the Employment Agreement.

This letter agreement may be executed by fax or pdf and in any number of counterparts, all of which, when taken together, shall constitute one and the same instrument.

*[The remainder of this page intentionally left blank.]*

If the foregoing terms and conditions are acceptable and agreed to by you, please sign on the line provided below to signify such acceptance and agreement and return the executed copy to the undersigned.

**PTS HOLDINGS CORP.**

By: /s/ Michael Dal Bello  
Name: Michael Dal Bello  
Title:

**CATALENT PHARMA SOLUTIONS, INC.**

By: /s/ Michael Dal Bello  
Name: Michael Dal Bello  
Title:

Accepted and Agreed

/s/ John R. Chiminski  
John R. Chiminski

**EMPLOYMENT AGREEMENT**

**(Matthew Walsh)**

EMPLOYMENT AGREEMENT (the "Agreement") dated as of October 11, 2011 and effective as of September 26, 2011 (the "Effective Date") by and between Catalent Pharma Solutions, Inc. (together with its successors and assigns, "Catalent") and Matthew Walsh ("Executive").

WHEREAS, Catalent desires to employ Executive and to enter into an agreement embodying the terms of such employment; and

WHEREAS, Executive desires to accept such employment with Catalent and enter into such an agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Employment. Subject to the provisions of Section 7 of this Agreement, Executive shall be employed by Catalent for a period commencing on the Effective Date and ending on September 25, 2014 (the "Employment Term") on the terms and subject to the conditions set forth in this Agreement; provided, however, that commencing with September 26, 2014 and on each September 26<sup>th</sup> thereafter (each an "Extension Date"), the Employment Term shall be automatically extended for an additional one-year period, unless Catalent or Executive (each, a "Party") provides the other Party hereto sixty (60) days' prior written notice before the next Extension Date that the Employment Term shall not be so extended.

2. Position.

a. During the Employment Term, Executive shall serve as a Senior Vice President and the Chief Financial Officer of Catalent. In such positions, Executive shall have such duties, authority and responsibilities, commensurate with Executive's positions in a company the size and nature of Catalent and such related duties and responsibilities, as from time to time may be assigned to Executive by the Chief Executive Officer of Catalent (the "CEO") and the audit committee of the Board of Directors of Catalent (the "Board"). Executive shall report directly to the CEO. During the Employment Term, Executive's principal place of employment shall be at Catalent's headquarters, currently located in Somerset, New Jersey.

b. During the Employment Term, except during vacations and authorized leave, Executive will devote Executive's full business time and reasonable best efforts to the performance of his duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services either directly or indirectly, without the prior written consent of the CEO; provided that nothing herein shall preclude Executive from (x) managing his personal and family investments and affairs, (y) engaging in charitable activities and community affairs, and (z) subject to the prior approval of the CEO, from accepting appointment to or continuing to serve on any boards of directors or trustees of any business, corporation or charitable organization; provided that, in each case, such activities described in this Section 2(b) do not conflict or interfere in more than a de minimus way with the performance of Executive's duties hereunder or violate Sections 8 and 9.

3. Base Salary. During the Employment Term, Catalent shall pay Executive an annual base salary at the annual rate of \$600,000, payable in regular installments in accordance with Catalent's usual payment practices. Executive shall be entitled to such increases, if any, in his base salary as may be determined from time to time in the sole discretion of the Board. Executive's annual base salary, as in effect from time to time, consistent with this Section 3, is hereinafter referred to as the "Base Salary".

4. Annual Bonus. With respect to the 2012 fiscal year and each full fiscal year during the Employment Term, commencing with the 2013 fiscal year, subject to Executive's continued employment with Catalent through the end of each such fiscal year (except as otherwise provided in Section 7 or as provided for under the terms of Catalent's Management Incentive Plan, as it may be amended from time to time (the "MIP")), Executive shall be eligible to receive an annual cash bonus award (the "Annual Bonus") under the MIP with a target amount equal to seventy-five percent (75%) of the annualized Base Salary received by Executive for such fiscal year (the "Target Bonus"), based upon and subject to the achievement of annual performance targets established by the Board under the MIP. As the actual amount payable to Executive as an Annual Bonus will be dependent upon the achievement of performance goals established under the MIP, Executive's actual Annual Bonus may be less than, greater than or equal to the Target Bonus. The Annual Bonus, if any, shall be paid to Executive in accordance with the terms and conditions of the MIP. Notwithstanding anything in this Agreement or the MIP to the contrary, Executive's Annual Bonus, if any, under the MIP, earned in respect of the 2012 fiscal year, will be determined as follows: (i) the portion of Executive's Annual Bonus, if any, that relates to his employment with Catalent from July 1, 2011 through the day immediately prior to the Effective Date will be calculated by reference to the base salary earned by Executive during such period, and (ii) the portion of Executive's Annual Bonus, if any, that relates to his employment with Catalent from the Effective Date through the last day of the 2012 fiscal year will be calculated by reference to the Base Salary earned by Executive during such period.

5. Employee Benefits; Equity Awards.

a. During the Employment Term, Executive shall continue to be entitled to participate in all group health, life, disability and other employee benefit and perquisite plans and programs in which other senior executives of Catalent participate, as in effect from time to time, on a basis no less favorable to Executive than that applying generally to other senior executives of Catalent (not taking into account for purposes of the foregoing, any sign-on or initial awards made to other executives), to the extent consistent with applicable law and the terms of the applicable plans and programs.

b. For each full year during the Employment Term, Executive shall continue to be (i) entitled to seven (7) paid company holidays and (ii) eligible to receive twenty-six (26) days of paid time off, which days will not be permitted to be carried over into a subsequent year unless required by applicable law.

c. As soon as practicable following the Effective Date, in accordance with and pursuant to the terms of the 2007 PTS Holdings Corp. Stock Incentive Plan, as it may be amended from time to time, PTS Holdings Corp. (“PTS”) shall grant Executive (i) 500 restricted stock units in the form of the award agreement attached hereto as Exhibit B (the “RSU Agreement”) and (ii) options to purchase 1,500 shares of PTS’s common stock in the form of the award agreement attached hereto as Exhibit C (the “Stock Option Agreement”). The restricted stock units and options and any shares issued (or issuable) or settled in connection therewith shall be subject to the terms and conditions of the Management Equity Subscription Agreement, by and between Executive and PTS, made as of June 5, 2008, which shall be amended and restated in connection with such equity grants (the “Management Equity Subscription Agreement”).

6. Business Expenses. During the Employment Term, reasonable business expenses incurred by Executive in the performance of Executive’s duties hereunder shall be reimbursed by Catalent in accordance with Catalent’s policies.

7. Termination. The Employment Term and Executive’s employment hereunder may be terminated by Catalent or Executive at any time and for any reason consistent with this Section 7; provided that, Executive will be required to give Catalent at least sixty (60) days’ advance written notice of any resignation of Executive’s employment without Good Reason (other than due to death or Disability (as defined below)). Notwithstanding any other provision of this Agreement, the provisions of this Section 7 shall exclusively govern Executive’s rights upon termination of employment with Catalent.

a. By Catalent For Cause or By Executive Without Good Reason.

(i) The Employment Term and Executive’s employment hereunder may be terminated for Cause by Catalent or by Executive without Good Reason (other than due to death or Disability).

(ii) If Executive’s employment is terminated by Catalent for Cause or if Executive resigns without Good Reason (other than due to death or Disability), Executive shall be entitled to receive:

(A) Base Salary, accrued through the date of termination, payable in accordance with Catalent’s usual payment practices;

(B) earned, but unpaid Annual Bonus, if any, for the immediately preceding fiscal year, paid in accordance with Section 4 (except to the extent payment is otherwise deferred pursuant to any applicable deferred compensation arrangement with Catalent);

(C) reimbursement, within sixty (60) days following submission by Executive to Catalent, of appropriate supporting documentation, for any unreimbursed business expenses properly incurred by Executive in accordance with Catalent’s policies prior to the date of Executive’s termination of employment; provided claims for such reimbursement (accompanied by appropriate supporting documentation) are submitted to Catalent within ninety (90) days following the date of Executive’s termination of employment; and

(D) all amounts and benefits then or thereafter due to Executive under the then or thereafter applicable terms of any applicable plan, program, agreement or arrangement of Catalent or any of its affiliates, including, without limitation, pursuant to the RSU Agreement, the Stock Option Agreement and the Management Equity Subscription Agreement (the amounts described in clauses (A) through (D) hereof being referred to as the “Accrued Rights”).

Following such termination of Executive’s employment by Catalent for Cause or by Executive without Good Reason (other than due to death or Disability), except as set forth in this Section 7(a)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(iii) For purposes of this Agreement, the terms:

(A) “Cause” shall mean (I) Executive’s willful failure to perform his duties hereunder, which failure is not cured within fifteen (15) days following written notice from Catalent, (II) Executive’s conviction of or confessing to, or his becoming subject to proceedings that provide a reasonable basis for Catalent to believe that Executive has engaged in a (x) felony, (y) crime involving dishonesty, or (z) crime involving moral turpitude and which is demonstrably injurious to Catalent and its subsidiaries, (III) Executive engages in willful malfeasance or misconduct that, in either case, is demonstrably injurious to Catalent and its subsidiaries, or (IV) a breach by Executive of the material terms of any non-competition, non-solicitation or confidentiality provisions. For purposes of this definition, no act or failure to act by Executive shall be deemed “willful” unless effected by Executive not in good faith.

(B) “Good Reason” shall mean, the occurrence of any of the following events without Executive’s consent, (I) any substantial diminution in Executive’s position or duties, adverse change in reporting lines, up and down, or the assignment to him of duties that are materially inconsistent with his position, (II) any reduction in Executive’s Base Salary, (III) any failure of Catalent to pay compensation or benefits when due, (IV) Catalent’s failure to provide Executive with an annual bonus opportunity that is at the same level as established in his offer letter, dated February 29, 2008 (the “Offer Letter”), or (V) Executive is required to move his principal business location more than fifty (50) miles. No termination of Executive’s employment based on a specified Good Reason event shall be effective as a termination for Good Reason unless (x) Executive gives notice to Catalent of such event within thirty (30) days after he learns that such event has occurred, (y) such Good Reason event is not fully cured within thirty (30) days after such notice (such period, the “Cure Period”), and (z) Executive’s employment hereunder terminates within sixty (60) days following the end of the Cure Period.

b. Disability or Death.

(i) The Employment Term and Executive’s employment hereunder shall terminate upon Executive’s death and may be terminated by Catalent if Executive becomes physically or mentally incapacitated and is therefore unable for a period of six (6) consecutive months or for an aggregate of nine (9) months in any twenty-four (24) consecutive month period to perform Executive’s duties (such incapacity is hereinafter referred to as “Disability”).

(ii) Upon termination of Executive's employment hereunder due to either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive:

(A) the Accrued Rights; and

(B) a pro-rata portion of the Annual Bonus, if any, that Executive would have been entitled to receive under the MIP pursuant to Section 4 hereof for the fiscal year of termination based on Catalent's actual performance in respect of the full fiscal year in which the date of termination occurs, assuming Executive was employed for such full fiscal year, multiplied by a fraction, the numerator of which is the number of days during which Executive was employed by Catalent in the fiscal year in which Executive's date of termination occurs, and the denominator of which is 365 (the "Pro-Rata Bonus"), with such Pro-Rata Bonus payable to Executive in accordance with the terms and conditions of the MIP as if Executive's employment had not terminated.

Following Executive's termination of employment due to death or Disability, except as set forth in this Section 7(b)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

c. By Catalent Without Cause; Resignation by Executive for Good Reason.

(i) The Employment Term and Executive's employment hereunder may be terminated by Catalent without Cause (other than by reason of death or Disability) or by Executive's resignation for Good Reason.

(ii) If Executive's employment is terminated by Catalent without Cause (other than by reason of death or Disability) or if Executive resigns for Good Reason, Executive shall be entitled to receive:

(A) the Accrued Rights;

(B) the Pro-Rata Bonus, with such Pro-Rata Bonus payable to Executive in accordance with the terms and conditions of the MIP as if Executive's employment had not terminated;

(C) provided Executive executes and delivers a general release of claims against Catalent and its affiliates, in the form attached hereto as Exhibit A (the "Release"), on or prior to the sixtieth (60<sup>th</sup>) day following the date of Executive's termination of employment and does not revoke such Release within the time period provided therein, payment of an amount equal to two (2) times the sum of (1) Executive's then annualized Base Salary and (2) the Target Bonus, payable in equal monthly installments over a two-year period following the date of termination of employment (such two-year period, the "Severance Period"), consistent with Catalent's past payroll practices; provided further that, in either case, Catalent reserves the right to cease making such payments and Executive shall be obligated to repay any such amounts to Catalent already paid if he fails to execute and deliver the Release within the period provided for in this Section 7(c)(ii)(C) or, after timely delivery, revokes it within the time period specified in such Release; and

(D) Executive and his spouse and eligible dependents (to the extent covered immediately prior to such termination) shall continue to be eligible to participate in all of Catalent's group health plan(s) for which Executive was eligible immediately prior to the date of his termination (or to the extent such coverage is not permissible under the terms of such plan(s), comparable coverage) commencing on the first day of the Severance Period and ending on the earlier to occur of (x) the expiration of the Severance Period and (y) the date Executive is or becomes eligible for coverage under the group health plan(s) of another employer (or comparable coverage to the extent applicable) (such period, the "Continued Coverage Period"); provided, however, that if such coverage is longer than eighteen (18) months and such continued coverage cannot be provided under the applicable plan(s), Catalent shall pay Executive, on the first business day of each month, an amount (on a tax grossed-up basis) equal to the premium subsidy Catalent would have otherwise paid on Executive's behalf for such coverage during the balance of the Continued Coverage Period. The COBRA health care continuation coverage period under Section 4980B of the Code, or any replacement or successor provision of United States tax law, shall run concurrently with the Severance Period. In addition, any tax gross up payment made to Executive hereunder shall be made promptly, but in no event later than the end of the calendar year following the year in which the applicable taxes are remitted.

Notwithstanding the foregoing, Catalent's obligation to make the payments contemplated under Section 7(c)(ii)(C) above shall cease in the event of Executive's material breach of Section 8 or 9, which breach remains uncured for a period of ten (10) days following Catalent's written notice to Executive of such breach.

Following Executive's termination of employment by Catalent without Cause (other than by reason of Executive's death or Disability) or by Executive's resignation for Good Reason, except as set forth in this Section 7(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

d. Non-Renewal of Employment Term.

(i) In the event Executive elects not to extend the Employment Term pursuant to Section 1, unless Executive's employment is earlier terminated pursuant to paragraphs (a), (b) or (c) of this Section 7, the expiration of the Employment Term and Executive's termination of employment hereunder shall be deemed to occur on the close of business on the day immediately preceding the next scheduled Extension Date and Executive shall be entitled to receive the Accrued Rights.

Following such termination of Executive's employment under this Section 7(d)(i), except as set forth in this Section 7(d)(i), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(ii) In the event Catalent elects not to extend the Employment Term pursuant to Section 1, unless Executive's employment is earlier terminated pursuant to paragraphs (a), (b) or (c) of this Section 7, the expiration of the Employment Term and Executive's termination of employment hereunder shall be deemed to occur on the close of business on the day immediately preceding the next scheduled Extension Date and Executive shall be entitled to receive the Accrued Rights.

In addition to the Accrued Rights, as a result of such termination of employment, Executive shall be entitled to receive:

(A) the Pro-Rata Bonus, with such Pro-Rata Bonus payable to Executive in accordance with the terms and conditions of the MIP as if Executive's employment had not terminated;

(B) provided Executive executes and delivers the Release on or prior to the sixtieth (60<sup>th</sup>) day following the date of Executive's termination of employment and does not revoke such Release within the time period provided therein, payment of an amount equal to two (2) times the sum of (1) Executive's then annualized Base Salary and (2) the Target Bonus, payable in equal monthly installments over the Severance Period, consistent with Catalent's past payroll practices; provided further that, in either case, Catalent reserves the right to cease making such payments and Executive shall be obligated to repay any such amounts to Catalent already paid if he fails to execute and deliver the Release within the period provided for in this Section 7(d)(ii)(B) or, after timely delivery, revokes it within the time period specified in such Release; and

(C) Executive and his spouse and eligible dependents (to the extent covered immediately prior to such termination) shall continue to be eligible to participate in all of Catalent's group health plan(s) for which Executive was eligible immediately prior to the date of his termination (or to the extent such coverage is not permissible under the terms of such plan(s), comparable coverage) during the Continued Coverage Period; provided, however, that if such coverage is longer than eighteen (18) months and such continued coverage cannot be provided under the applicable plan(s), Catalent shall pay Executive, on the first business day of each month, an amount (on a tax grossed-up basis) equal to the premium subsidy Catalent would have otherwise paid on Executive's behalf for such coverage during the balance of the Continued Coverage Period. The COBRA health care continuation coverage period under Section 4980B of the Code, or any replacement or successor provision of United States tax law, shall run concurrently with the Severance Period. In addition, any tax gross up payment made to Executive hereunder shall be made promptly, but in no event later than the end of the calendar year following the year in which the applicable taxes are remitted.

Notwithstanding the foregoing, Catalent's obligation to make the payments contemplated under Section 7(d)(ii)(B) above shall cease in the event of Executive's material breach of Section 8 or 9, which breach remains uncured for a period of ten (10) days following Catalent's written notice to Executive of such breach.

Following such termination of Executive's employment under this Section 7(d)(ii), except as set forth in this Section 7(d)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(iii) Unless the Parties otherwise agree in writing, continuation of Executive's employment with Catalent beyond the expiration of the Employment Term shall be deemed an employment at-will and shall not be deemed to extend any of the provisions of this Agreement and Executive's employment may thereafter be terminated at will by either Executive or Catalent; provided that the provisions of Sections 8, 9 and 10 of this Agreement shall survive any termination of this Agreement or Executive's termination of employment hereunder.

e. Any payments under this Section 7 shall not be taken into account for purposes of any retirement plan (including any supplemental retirement plan or arrangement) or other benefit plan sponsored by Catalent or any of its subsidiaries except as otherwise expressly required by such plans or applicable law.

f. Notice of Termination. Any purported termination of employment by Catalent or by Executive (other than due to Executive's death) shall be communicated by written Notice of Termination (as defined below) to the other Party in accordance with Section 11(j) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated.

#### 8. Non-Competition.

a. Executive acknowledges and recognizes the highly competitive nature of the businesses of Catalent and its subsidiaries and accordingly agrees as follows:

(1) During the Employment Term and for a period of two (2) years following the date Executive's employment ceases for any reason (the "Restricted Period"), Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever ("Person"), directly or indirectly solicit or assist in soliciting in competition with Catalent or any of its subsidiaries, the business of any client or prospective client:

- (i) with whom Executive had personal contact or dealings on behalf of Catalent or any of its subsidiaries during the one year period preceding Executive's termination of employment;
- (ii) with whom employees reporting to Executive have had personal contact or dealings on behalf of Catalent or any of its subsidiaries during the one year immediately preceding Executive's termination of employment; or
- (iii) for whom Executive had direct or indirect responsibility during the one year immediately preceding Executive's termination of employment.

(2) During the Employment Term and for a period of one year following the date Executive ceases to be employed by Catalent for any reason, Executive will not directly or indirectly:

- (i) engage in any business that competes with the business of Catalent or any of its subsidiaries, including, contract services to pharmaceutical, biotechnology and vitamin/mineral supplements manufacturers related to formulation, analysis manufacturing and packaging and any other product or service of the type developed, manufactured or sold by Catalent or any of its subsidiaries

(including, without limitation, any other business which Catalent or any of its subsidiaries have plans to engage in as of the date of Executive's termination of employment) in any geographical area where Catalent or any of its subsidiaries conduct business (a "Competitive Business");

- (ii) enter the employ of, or render any services to, any Person (or any division or controlled or controlling affiliate of any Person) who or which engages in a Competitive Business;
- (iii) acquire a financial interest in, or otherwise become actively involved with, any Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant; or
- (iv) interfere with, or attempt to interfere with, business relationships (whether formed before, on or after the date of this Agreement) between Catalent or any of its subsidiaries and customers, clients, suppliers, partners, members or investors of Catalent or any of its subsidiaries.

(3) Notwithstanding anything to the contrary in this Agreement, Executive may, directly or indirectly, own, solely as an investment, securities of any Person engaged in the business of Catalent or any of its subsidiaries which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (i) is not a controlling person of, or a member of a group which controls, such Person and (ii) does not, directly or indirectly, own 5% or more of any class of securities of such Person.

(4) During the Restricted Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any Person, directly or indirectly:

- (i) solicit or encourage any employee of Catalent or any of its subsidiaries to leave the employment of Catalent or any of its subsidiaries; or
- (ii) hire any such employee who was employed by Catalent or any of its subsidiaries as of the date of Executive's termination of employment with Catalent or who left the employment of Catalent or any of its subsidiaries coincident with, or within twelve (12) months prior to, the termination of Executive's employment with Catalent.

(5) During the Restricted Period, Executive will not, directly or indirectly, solicit or encourage to cease to work with Catalent or any of its subsidiaries any consultant then under contract with Catalent or any of its subsidiaries.

b. It is expressly understood and agreed that although Executive and Catalent consider the restrictions contained in this Section 8 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other

restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

The provisions of this Section 8 shall survive the termination of Executive's employment for any reason.

9. Confidentiality; Intellectual Property.

a. Confidentiality.

(i) Executive will not at any time (whether during or after Executive's employment with Catalent), other than in the ordinary course of business for Catalent or any of its subsidiaries (x) retain or use for the benefit, purposes or account of Executive or any other Person; or (y) disclose, divulge, reveal, communicate, share, transfer or provide access to any Person outside Catalent (other than its professional advisers who are bound by confidentiality obligations), any non-public, proprietary or confidential information of Catalent and its subsidiaries—including without limitation trade secrets, know-how, research and development, software, databases, inventions, processes, formulae, technology, designs and other intellectual property, information concerning finances, investments, profits, pricing, costs, products, services, vendors, customers, clients, partners, investors, personnel, compensation, recruiting, training, advertising, sales, marketing, promotions, government and regulatory activities and approvals—concerning the past, current or future business, activities and operations of Catalent, its subsidiaries or affiliates and/or any third party that has disclosed or provided any of same to Catalent on a confidential basis ("Confidential Information") without the prior written authorization of the Board.

(ii) "Confidential Information" shall not include any information that is (a) generally known to the industry or the public other than as a result of Executive's breach of this covenant or any breach of other confidentiality obligations by third parties; (b) made legitimately available to Executive by a third party without breach of any confidentiality obligation; or (c) required by law to be disclosed or in any judicial or administrative process; provided that, unless prohibited by law or regulation, Executive shall give prompt written notice to Catalent of such requirement, disclose no more information than is so required, and cooperate with any attempts by Catalent to obtain a protective order or similar treatment.

(iii) Upon termination of Executive's employment with Catalent for any reason, Executive shall (x) cease and not thereafter commence use of any Confidential Information or intellectual property (including, without limitation, any patent, invention, copyright, trade secret, trademark, trade name, logo, domain name or other source indicator) owned or used by Catalent or any of its subsidiaries or affiliates; (y) immediately destroy, delete, or return to Catalent, at its option, all originals and copies in any form or medium (including memoranda, books, papers, plans, computer files, letters and other data) in Executive's possession or control (including any of the foregoing stored or located in Executive's office,

home, laptop or other computer, whether or not property of Catalent) that contain Confidential Information or otherwise relate to the business of Catalent or any of its affiliates or subsidiaries, except that Executive may retain only those portions of any personal notes, notebooks and diaries that do not contain any Confidential Information; and (z) notify and fully cooperate with Catalent regarding the delivery or destruction of any other Confidential Information of which Executive is or becomes aware.

b. Intellectual Property.

(i) If Executive creates, invents, designs, develops, contributes to or improves any works of authorship, inventions, intellectual property, materials, documents or other work product (including without limitation, research, reports, software, databases, systems, applications, presentations, textual works, content, or audiovisual materials), either alone or with third parties, at any time during Executive's employment by Catalent and within the scope of such employment and/or with the use of any of Catalent's resources ("Company Works"), Executive shall promptly and fully disclose same to Catalent and hereby irrevocably assigns, transfers and conveys, to the maximum extent permitted by applicable law, all rights and intellectual property rights therein (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition and related laws) to Catalent to the extent ownership of any such rights does not vest originally in Catalent.

(ii) Executive agrees to keep and maintain adequate and current written records (in the form of notes, sketches, drawings, and any other form or media requested by Catalent) of all Company Works. The records will be available to and remain the sole property and intellectual property of Catalent at all times.

(iii) Executive shall take all requested actions and execute all requested documents (including any licenses or assignments required by a government contract) at Catalent's expense (but without further remuneration) to assist Catalent in validating, maintaining, protecting, enforcing, perfecting, recording, patenting or registering any of Catalent's rights in the Company Works. If Catalent is unable for any other reason to secure Executive's signature on any document for this purpose, then Executive hereby irrevocably designates and appoints Catalent and its duly authorized officers and agents as Executive's agent and attorney in fact, to act for and in Executive's behalf and stead to execute any documents and to do all other lawfully permitted acts in connection with the foregoing.

(iv) Executive shall not improperly use for the benefit of, bring to any premises of, divulge, disclose, communicate, reveal, transfer or provide access to, or share with Catalent any confidential, proprietary or non public information or intellectual property relating to a former employer or other third party without the prior written permission of such third party. Executive shall comply with all relevant policies and guidelines of Catalent, including regarding the protection of confidential information and intellectual property and potential conflicts of interest (the "Company Policies"). Executive acknowledges that Catalent may amend any such policies and guidelines from time to time, and that Executive remains at all times bound by their most current version.

c. The provisions of this Section 9 shall survive the termination of Executive's employment for any reason.

10. Specific Performance. Executive acknowledges and agrees that Catalent's remedies at law for a breach or threatened breach of any of the provisions of Section 8 or Section 9 would be inadequate and Catalent would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, Catalent, without posting any bond, shall be entitled to (x) obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available and (y) cease making any payments or providing any benefit to the extent provided for in Sections 7(c) and 7(d).

11. Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflicts of laws principles thereof.

b. Arbitration. Except as otherwise provided in Section 10 of this Agreement, any controversy, dispute or claim arising out of, in connection with, or in relation to, the interpretation, performance or breach of this Agreement, its Exhibits or the Management Equity Subscription Agreement, including, without limitation, the validity, scope and enforceability of this Section, may at the election of either Party, be solely and finally settled by arbitration conducted in New York, New York, by and in accordance with the then existing rules for commercial arbitration of the American Arbitration Association, or any successor organization and with the Expedited Procedures thereof (collectively, the "Rules"). Catalent shall select one arbitrator, Executive shall select one arbitrator and the two arbitrators so designated shall select a third arbitrator; provided that such arbitrators shall be experienced in deciding cases concerning the matter which is the subject of the dispute. Each of the Parties further agrees that the determination of the arbitrators shall be by reasoned award and that the arbitrators shall apply the substantive laws of the State of Delaware. Either of the Parties may demand arbitration by written notice to the others and to the Arbitrator set forth in this Section 11(b) ("Demand for Arbitration"). Each of the Parties agrees that if possible, the award shall be made in writing no more than thirty (30) days following the end of the proceeding. Any award rendered by the arbitrators shall be final and binding and judgment may be entered on it in any court of competent jurisdiction sitting in the State of Delaware. Each of the Parties hereto agrees to treat as confidential the results of any arbitration (including, without limitation, any findings of fact and/or law made by the arbitrator) and not to disclose such results to any unauthorized person. The Parties intend that this agreement to arbitrate be valid, enforceable and irrevocable. In the event of any arbitration with regard to this Agreement, each Party shall pay its own legal fees and expenses.

c. Entire Agreement/Amendments. This Agreement, together with its Exhibits contains the entire understanding of the Parties with respect to the employment of Executive by Catalent and shall be binding on the Parties as of the Effective Date. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the Parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not be altered, modified, or amended except by written instrument signed by the Parties hereto.

d. No Waiver. The failure of a Party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such Party's rights or deprive such Party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. No provision of this Agreement may be waived or discharged unless such waiver or discharge is agreed to in writing, signed by the Party against whom the waiver or discharge is being enforced, and which specifically references the provision being waived or discharged. No waiver by any Party hereto at any time of any breach by any other Party or compliance with any condition or provision of this Agreement to be performed by such other Party will be deemed to be a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

e. Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

f. Assignment. This Agreement, and all of Executive's rights and duties hereunder, shall not be assignable or delegable by Executive other than rights that may be transferred by Executive's will or by the laws of descent and distribution. Any purported assignment or delegation by Executive in violation of the foregoing shall be null and void *ab initio* and of no force and effect. This Agreement may be assigned by Catalent to a person or entity which is an affiliate or a successor in interest to substantially all of the business operations of Catalent without the written consent of Executive. Upon such assignment, the rights and obligations of Catalent hereunder shall become the rights and obligations of such affiliate or successor person or entity.

g. Set Off; Mitigation. Catalent's obligation to pay Executive the amounts provided and to make the arrangements provided hereunder shall be subject to setoff, counterclaim or recoupment of amounts owed by Executive to Catalent or any of its affiliates. Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment. Catalent's obligation to make the payments and provide the benefits required under Section 7 hereof shall not be reduced or otherwise affected by any compensation or benefits paid or provided to Executive as a result of any other employment (except to the extent otherwise provided in Section 7(c)(ii)(D) or Section 7(d)(ii)(C) with respect to the time when Catalent's obligation to provide continued group health coverage ceases).

h. Compliance with Section 409A of the Code. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and will be interpreted accordingly. References under this Agreement to Executive's termination of employment shall be deemed to refer to the date upon which Executive has experienced a "separation from service" within the meaning of Section 409A of the Code. Notwithstanding anything herein to the contrary, (i) if at the time of Executive's termination of employment with Catalent and its affiliates Executive is a "specified employee" as defined in Section 409A of the Code (and any related regulations or other pronouncements thereunder) and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then Catalent will defer the commencement of

the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six months following Executive's termination of employment with Catalent (or the earliest date as is permitted under Section 409A of the Code), at which point all payments deferred pursuant to this Section 11(h) shall be paid to Executive in a lump sum and (ii) if any other payments of money or other benefits due to Executive hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Board, that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due to Executive under this Agreement constitute "deferred compensation" under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to Executive in a manner consistent with Treasury Regulation Section 1.409A-3(i)(1)(iv). For purposes of Section 409A of the Code, each payment made under this Agreement will be designated as a "separate payment" within the meaning of Section 409A of the Code. Catalent shall consult with Executive in good faith regarding the implementation of the provisions of this Section 11(h); provided that neither Catalent nor any of its employees or representatives shall have any liability to Executive with respect to thereto.

i. Successors; Binding Agreement. This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. In the event of Executive's death while any payment, benefit or entitlement is due to Executive under this Agreement or any other agreement between or among Executive and Catalent (or any of its affiliates), except as may otherwise be prohibited by the terms of such other agreement, such payment, benefit or entitlement shall be paid or provided to Executive's designated beneficiary (or if Executive has not designated a beneficiary, to his estate).

j. Notice. For the purpose of this Agreement, notices, consents which are explicitly required to be in writing hereunder and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below in this Agreement, or to such other address as any Party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to Catalent:

14 Schoolhouse Road  
Somerset, NJ 08873  
Attention: General Counsel

If to Executive:

To the most recent address of Executive set forth in the personnel records of Catalent

k. Executive Representation. Executive hereby represents to Catalent that the execution and delivery of this Agreement by Executive and the performance by Executive of Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement, separation agreement or other agreement or policy to which Executive is a party or otherwise bound.

l. Prior Agreements. This Agreement supersedes all prior agreements and understandings (including the Offer Letter, that certain severance agreement, dated February 29, 2008, by and between the Executive and Catalent and verbal agreements, but not the equity or equity-based agreements) between Executive and Catalent and/or any of its affiliates regarding the terms and conditions of Executive's employment with Catalent. In the event of any conflict between any provision of this Agreement, including Exhibit A, and any other provision of any plan, policy, program, arrangement or other agreement of Catalent or any of its subsidiaries or affiliates, this Agreement (or such exhibit) shall control.

m. Further Assurances. The Parties shall, with reasonable diligence, do all things and provide all reasonable assurances as may be required to complete the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by any other party as may be reasonably necessary or desirable to give effect to this Agreement and carry out its provisions.

n. Cooperation. If and to the extent requested by Catalent, Executive shall provide Executive's reasonable cooperation in connection with any action or proceeding (or any appeal from any action or proceeding) which relates to events occurring during Executive's employment hereunder relating to Catalent and of which he has knowledge (or reasonably should have had knowledge). This provision shall survive any termination of this Agreement.

o. Survivability. Except as otherwise expressly set forth in this Agreement, upon the expiration of the Employment Term, the respective rights and obligations of the Parties shall survive such expiration to the extent necessary to carry out the intentions of the Parties as embodied in the rights (such as vested rights) and obligations of the Parties under this Agreement.

p. Withholding Taxes. Catalent may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

q. Legal Fees. Executive shall be entitled to reimbursement by Catalent for the reasonable legal fees and expenses incurred in connection with his acceptance of Catalent's offer of employment hereunder and the review of this Agreement, its Exhibits and the Management Equity Subscription Agreement, subject to (x) receiving customary back-up documentation regarding such fees and expenses and (y) and aggregate cap of \$12,000. Reimbursement shall be made within thirty (30) days after receipt of documentation reasonably acceptable to Catalent, but in no event later than the last day of the taxable year following the taxable year in which the expenses were incurred.

r. Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

*[The remainder of this page intentionally left blank.]*

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the day and year first above written.

CATALENT PHARMA SOLUTIONS, INC.

MATTHEW WALSH

/s/ John R. Chiminski

/s/ Matthew Walsh

By:  
Title:

Agreed to and acknowledged by with respect to Section 5(c):

PTS HOLDINGS CORP.

/s/ John R. Chiminski

By:  
Title:

**RELEASE AND WAIVER OF CLAIMS**

This Release and Waiver of Claims ("Release") is entered into as of this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between Catalent Pharma Solutions, Inc. ("Catalent") and Matthew Walsh ("Executive").

The Executive and Catalent agree as follows:

1. The employment relationship between Executive and Catalent and its subsidiaries and affiliates, as applicable, terminated on \_\_\_\_\_ (the "Termination Date").
2. In accordance with the employment agreement, effective as of September 26, 2011, between Executive and Catalent (the "Employment Agreement"), Executive is entitled to receive certain payments and benefits after the Termination Date.
3. In consideration of the above, the sufficiency of which Executive hereby acknowledges, Executive, on behalf of Executive and Executive's heirs, executors and assigns, hereby releases and forever discharges Catalent and its members, parents, affiliates, subsidiaries, divisions, any and all current and former directors, officers, employees, agents, and contractors and their heirs and assigns, and any and all employee pension benefit or welfare benefit plans of Catalent, including current and former trustees and administrators of such employee pension benefit and welfare benefit plans (the "Released Parties"), from all claims, charges, or demands, in law or in equity, whether known or unknown, which may have existed or which may now exist from the beginning of time to the date of this Release, including, without limitation, any claims Executive may have arising from or relating to Executive's employment or termination from employment with Catalent, including a release of any rights or claims Executive may have under Title VII of the Civil Rights Act of 1964, as amended, and the Civil Rights Act of 1991 (which prohibits discrimination in employment based upon race, color, sex, religion, and national origin); the Americans with Disabilities Act of 1990, as amended, and the Rehabilitation Act of 1973 (which prohibits discrimination based upon disability); the Family and Medical Leave Act of 1993 (which prohibits discrimination based on requesting or taking a family or medical leave); Section 1981 of the Civil Rights Act of 1866 (which prohibits discrimination based upon race); Section 1985(3) of the Civil Rights Act of 1871 (which prohibits conspiracies to discriminate); the Employee Retirement Income Security Act of 1974, as amended (which prohibits discrimination with regard to benefits); the Fair Labor Standards Act, as amended, 29 U.S.C. Section 201 *et. seq.*; any other federal, state or local laws against discrimination; or any other federal, state, or local statute, or common law relating to employment, wages, hours, or any other terms and conditions of employment. This includes a release by Executive of any and all claims or rights arising under contract, covenant, public policy, tort or otherwise.
4. Executive acknowledges that Executive is waiving and releasing any rights that Executive may have under the Age Discrimination in Employment Act of 1967, as amended ("ADEA") and that this Release is knowing and voluntary. Executive and Catalent agree that this Release does not apply to any rights or claims that may arise under the ADEA after the effective date of this Agreement. Executive acknowledges that the consideration given for this Release is in addition to anything of value to which Executive is already entitled. Executive

further acknowledges that Executive has been advised by this writing that: (i) Executive should consult with an attorney prior to executing this Release; (ii) Executive has at least twenty-one (21) days within which to consider this Release, although Executive may, at Executive's discretion, sign and return this Release at an earlier time; (iii) for a period of 7 days following the execution of this Release in duplicate originals, Executive may revoke this Release, and this Release shall not become effective or enforceable, and Catalent nor any other person is obligated to provide any benefits to Executive until the revocation period has expired; and (iv) nothing in this Release prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this Release under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law. If Executive has not returned the signed Release within the time permitted in the Employment Agreement, then the offer of payments and benefits set forth in the Employment Agreement will expire by its own terms at such time.

5. This Release does not release the Released Parties from (i) any obligations due to Executive under the Employment Agreement or under this Release, (ii) any rights Executive has to indemnification, reimbursement of expenses by Catalent under the Employment Agreement or otherwise or coverage under directors' and officers' liabilities insurance policies, (iii) any vested rights Executive has under any employee pension benefit and welfare benefit plans of Catalent in which he participated, or (iv) any vested awards (or awards which may vest) which Executive has under any equity, equity-based, profits interest, stock option or similar plans, agreements and/or notices, which awards shall be subject to all the terms and conditions of such documents.

6. This Release is not an admission by the Released Parties of any wrongdoing, liability or violation of law.

7. Executive waives any right to reinstatement or future employment with Catalent following Executive's separation from Catalent on the Termination Date.

8. Executive agrees to refrain from making any statement, oral or written, which disparages the relationships between Catalent and its subsidiaries and affiliates and Catalent and its subsidiaries' employees, customers, suppliers and/or others. Notwithstanding the foregoing, Executive shall be permitted to respond to incorrect, disparaging or derogatory statements about him to the extent reasonably necessary to correct or refute such statements or to make any truthful statement to the extent necessary in connection with any arbitration or litigation involving any agreement between Executive and Catalent or any of its subsidiaries or as required by law or by any court, arbitrator, or administrative or legislative body with apparent or actual jurisdiction to order him to disclose or make accessible any information.

9. Executive shall continue to be bound by Sections 8, 9 and 11(n) of the Employment Agreement.

10. Executive shall promptly return all property in Executive's possession of Catalent and its subsidiaries and affiliates, including, but not limited to, keys, credit cards, cellular phones, computer equipment, software and peripherals and originals or copies of books, records, or other information pertaining to Catalent or any of its subsidiaries' or affiliates' businesses. In addition, Executive shall promptly return all electronic documents or records relating to Catalent or any of its subsidiaries or affiliates that Executive may have saved to any such cellular phone,

laptop computer or other electronic or storage device, whether business or personal, including any PowerPoint or other presentation stored in hard copy or electronically. Further, if Executive stored any information relating to Catalent on a personal computer or other storage device, Executive shall permanently delete all such information; provided, however, that, prior to deleting that information, Executive shall print out one copy and provide it to Catalent. Nothing herein shall require Executive to return property, documents or information he is permitted to retain under Section 9 of the Employment Agreement.

11. This Release shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws. Exclusive jurisdiction with respect to any legal proceeding brought concerning any subject matter contained in this Release shall be settled in the manner provided in the Employment Agreement.

12. This Release represents the complete agreement between Executive and Catalent concerning the subject matter in this Release and supersedes all prior agreements or understandings, written or oral. This Release may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

13. Each of the sections contained in this Release shall be enforceable independently of every other section in this Release, and the invalidity or unenforceability of any section shall not invalidate or render unenforceable any other section contained in this Release.

**14. The Executive acknowledges that Executive has carefully read and understands this Release, that Executive has the right to consult an attorney with respect to its provisions and that this Release has been entered into voluntarily. Executive acknowledges that no representation, statement, promise, inducement, threat or suggestion has been made by any of the Released Parties to influence Executive to sign this Release except such statements as are expressly set forth herein or in the Employment Agreement.**

*[The remainder of this page intentionally left blank.]*

The parties to this Release have executed this Release as of the day and year first written above.

CATALENT PHARMA SOLUTIONS, INC.

MATTHEW WALSH

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By:  
Title:

*[Restricted Stock Unit Agreement]*

*[Non-Qualified Stock Option Agreement]*

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, John R. Chiminski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended December 31, 2011 of Catalent Pharma Solutions, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 10, 2012

/s/ John R. Chiminski

**John R. Chiminski**

**President and Chief Executive Officer  
(Principal Executive Officer)**

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Matthew M. Walsh, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended December 31, 2011 of Catalent Pharma Solutions, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 10, 2012

/s/ Matthew M. Walsh

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**Matthew M. Walsh**  
**Senior Vice President and**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

**Certification of the Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Catalent Pharma Solutions, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Chiminski, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2012

/s/ John R. Chiminski

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**John R. Chiminski**  
**President and**  
**Chief Executive Officer**

**Certification of the Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Catalent Pharma Solutions, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew M. Walsh, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2012

/s/ Matthew M. Walsh

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**Matthew M. Walsh**  
**Senior Vice President and**  
**Chief Financial Officer**