Catalent Pharma Solutions, Inc. and Subsidiaries and Predecessor

Consolidated and Combined Financial Statements

As of June 30, 2007 and 2006,
For the periods April 10, 2007 to June 30, 2007,
July 1, 2006 to April 9, 2007 and
The Two Years Ended June 30, 2006

With Report of Independent Auditors

On April 10, 2007, certain businesses of the Pharmaceutical Technologies Services segment of Cardinal Health, Inc. (the “Acquired Businesses”) were acquired by an entity controlled by affiliates of The Blackstone Group, a global private investment and advisory firm (“Blackstone’), pursuant to a Purchase and Sale Agreement dated as of January 25, 2007. This annual report presents the consolidated financial position, results of operations and cash flows of the Acquired Businesses as a stand-alone entity, Catalent Pharma Solutions, Inc. (the “Company” or the “Successor”) and the combined financial position, results of operations and cash flows of the Acquired Businesses as a segment of Cardinal Health, Inc, (the “Predecessor”)

As of the end of the period covered by this report, the Company was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. Consequently, this annual report has not and will not be filed with the Securities and Exchange Commission (“SEC”). However, the Company is obligated pursuant to its senior PIK-election note and senior subordinated note indentures, dated as of April 10, 2007, to post, on its website or provide to the Trustee, financial information that the Company would be required to file with the SEC were it subject to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, subject to exceptions consistent with the presentation of financial information in the Offering Memorandum, dated April 4, 2007, relating to the $565,000,000 9 ½%/10¼% Senior PIK-Election Notes due 2015 and the €225,000,000 9 ¾% Senior Subordinated Notes due 2017 (the “Offering Memorandum”). This report is made available pursuant to such obligation.

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995

This annual report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not based on historical facts, but rather reflect 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. These forward-looking statements generally can be identified by the use of statements that include phrases such as “believe,” “expect,” “anticipate”, “intend”, “estimate”, “plan”, “project”, “foresee”, “likely”, “may”, “will”, “would” or other words or phrases with similar meanings. Similarly, statements that describe our objectives, plans or goals are, or may be, forward-looking statements. Any forward-looking statements are not guarantees of 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. Risks and uncertainties include, but are not limited to general industry conditions and competition; product or other liability risk inherent in the design, development, manufacture and marketing of our offerings; inability to enhance our existing or introduce new technology or services in a timely manner; economic conditions, such as interest rate and currency exchange rate fluctuations; technological advances and patents attained by competitors; and our substantial debt and debt service requirements that restrict our operating and financial flexibility and impose significant interest and financial costs. Except as required by law, we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company’s historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in the Offering Memorandum.

Non-GAAP Financial Matters

In addition to disclosing financial results that are determined in accordance with U.S. GAAP, we disclose EBITDA and Adjusted EBITDA, which are non-GAAP measures. You should not consider EBITDA or Adjusted EBITDA as an alternative to operating or net earnings, determined in accordance with U.S. GAAP, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, determined in accordance with U.S. GAAP, as an indicator of cash flows, or as a measure of liquidity. EBITDA is calculated by the sum of earnings before interest, taxes, depreciation and amortization.

Our credit facilities have certain covenants that use ratios utilizing a measure referred to as Adjusted EBITDA. The supplementary adjustments to EBITDA to derive Adjusted EBITDA may not be in accordance with current SEC practices or the rules and regulations adopted by the SEC that apply to periodic reports filed under the Securities Exchange Act of 1934. Accordingly, the SEC may require that Adjusted EBITDA be presented differently in filings made with the SEC than as presented in this release, or not be presented at all. The most directly comparable GAAP measure to EBITDA and Adjusted EBITDA is net earnings (loss). Included in this report is a reconciliation of earnings/(loss) to EBITDA and to Adjusted EBITDA.

We believe EBITDA and Adjusted EBITDA are measures commonly used by investors to evaluate our performance and that of our competitors. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP and our use of the terms EBITDA and Adjusted EBITDA varies from others in our industry. EBITDA and Adjusted EBITDA should not be considered as alternatives to net income (loss), operating income or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance or operating cash flows as measures of liquidity.

EBITDA and Adjusted EBITDA have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under U.S. GAAP. For example, EBITDA and Adjusted EBITDA:

- exclude certain tax payments that may represent a reduction in cash available to us;

- do not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;

- do not reflect changes in, or cash requirements for, our working capital needs; and

- do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following covers periods prior to the completion of the consummation of The Acquisition. Accordingly, the discussion and analysis of historical periods does not reflect the significant impact that The Acquisition has on us, including significantly increased leverage and liquidity requirements, new stand-alone costs, as well as cost savings initiatives (and related costs) to be implemented. In addition, the statements in the discussion and analysis with respect to our expectations regarding the performance of our business and other non-historical statements in the discussion and analysis are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

The Acquisition

On April 10, 2007, an entity controlled by affiliates of Blackstone acquired from Cardinal Health, Inc. ("Cardinal") certain assets and liabilities of the Pharmaceutical Technologies and Services ("PTS") business segment of Cardinal (excluding certain businesses described in Note 1 to the Company's Financial Statements herein) (hereinafter collectively "Catalent Pharma Solutions, Inc.", "Catalent", the "Company", or the "Successor"), pursuant to a Purchase and Sale Agreement dated as of January 25, 2007 (the "Acquisition"). The Acquisition aggregate purchase price of approximately $3.3 billion was funded with approximately $1.0 billion in cash equity contributions from a Blackstone affiliate, $1.4 billion in proceeds from the issuance of term loans under a new senior credit facility, $565.0 million in proceeds from the issuance of senior toggle notes, and $300.3 million in proceeds from the issuance of senior subordinated notes. In addition, costs associated with issuing these long-term debt obligations approximated $56.3 million and are capitalized on the Company's balance sheet and are being amortized to interest expense over the respective terms of the debt instruments.

Historical Ownership by Cardinal

We historically operated as portion of the PTS business segment of Cardinal and not as a stand-alone company (the "Predecessor"). The combined financial statements for all periods prior to April 10, 2007 included herein reflect the operations that were acquired as part of the Acquisition and have been derived from the historical consolidated financial statements of Cardinal using the historical results of our operations and the historical basis of our assets and liabilities.

As the Predecessor, we were allocated general corporate overhead expenses from Cardinal for corporate-related functions and corporate overhead expense. We believe the assumptions and methodologies underlying the allocations from Cardinal are reasonable. However, such expenses are not indicative of, nor is it practical or meaningful for us to estimate for all historical periods presented, the actual level of expenses that would have been incurred had we been operating as a separate, stand-alone public or private company during such periods. See Note 11 of the notes to the financial statements for further discussion of amounts charged by Cardinal.

Overview

We are one of the leading providers of advanced dose form and packaging technologies, and development, manufacturing and packaging services for pharmaceutical, biotechnology and consumer healthcare companies. Our proprietary drug delivery and packaging technologies help our customers achieve their desired clinical and market outcomes and are used in many well-known products. As part of a strategy to streamline and focus operations, the business was reorganized at the end of June 2007 into three operating segments: Oral Technologies, Sterile Technologies and Packaging Services. This reorganization better aligns the Company with its customers and markets and provides for improved management accountability and strategic decision making within each segment. Previously, we operated our business in six segments: Softgel, Modified Release, Sterile Injectables, Sterile Blow Fill Seal, Packaging Services and Analytical and Other. As part of the reorganization, the Oral Technologies segment includes the Softgel and Modified Release groups, Sterile Technologies segment include the Sterile Injectables and Sterile Blow-Fill-Seal businesses as well as portions of the Other segment (excludes the hormone business which has been classified as discontinued operations). The Packaging Services segment remains the same as previously reported.

- ***Oral Technologies***. We provide formulation, development and manufacturing services for most of the major oral dose forms on the market today. Our advanced oral drug delivery technologies are used in many well-known customer products and include proprietary delivery technologies for drugs, selected biologics and consumer health products. We also provide formulation, development and manufacturing for conventional oral dose forms, including controlled release formulations, as well as tablets and capsules. There are twelve Oral Technologies facilities in ten countries, including three in North America, five in Europe, two in South America and two in the Asia-Pacific region. Our Oral Technologies segment represented approximately 54% of total net revenue for fiscal 2007 on a combined basis before inter-segment eliminations.

- ***Sterile Technologies***. We produce nearly every type of major sterile dose form used in the prescription drug and biologic market today. In addition, this segment provides biologic cell line development and analytical and scientific consulting services. Sterile drugs may be injected, inhaled, or applied to the eye, ear, or other areas, and we offer both proprietary and traditional dose forms necessary for these separate routes of administration. For injectable drugs, we provide formulation and development for injectables as well as lyophilization (freeze drying) for otherwise unstable drugs and biologics. We also fill drugs or biologics into vials, pre-filled syringes, bags and other sterile delivery formats. For respiratory, ophthalmic and other routes of administration, our blow-fill-seal technology provides integrated dose form creation and filling of sterile liquids in a single process, which offers cost and quality benefits for our customers. The complexity of aseptic manufacturing, high start-up capital requirements, long lead time and stringent regulatory requirements serve as significant barriers to market entry. We have six Sterile Technologies manufacturing facilities, including four in North America and two in Europe, plus two analytical and scientific laboratory facilities in North America. Our Sterile Technologies segment represented approximately 14% of total net revenue for fiscal 2007 on a combined basis before inter-segment eliminations.

- ***Packaging Services***. We provide extensive packaging services for thousands of pharmaceuticals, biologics and consumer health and veterinary products, both on a standalone basis and as part of integrated supply-chain solutions that span both manufacturing and packaging. Our Packaging Services segment offers contract packaging services (packaging drugs in blisters, bottles, pouches and unit-doses), printed components (creating package inserts or folding cartons) and clinical trial supply services (providing packaging, inventory and logistics management for clinical trials). We operate through a network of thirteen Packaging Services facilities including eight in North America and five facilities in Europe. Our Packaging Services segment represented approximately 32% of total net revenue for fiscal 2007 on a combined basis before inter-segment eliminations.

Revenues and Expenses

Net Revenue

We sell products and services directly to our pharmaceutical, biotechnology and consumer health customers; the majority of our business is conducted through supply or development agreements. Revenue is recognized net of sales returns and allowances.

The majority of our manufacturing and packaging revenue is charged on a price-per-unit basis and is recognized either upon shipment or delivery of the product.

Our overall net revenue is generally impacted by the following factors:

- Fluctuations in overall economic activity within the geographic markets in which we operate;

- Sales trends for our customers' products, the level of competition they experience, the levels of their outsourcing, and the impact of regulation and healthcare reimbursement upon their products and the timing of their product launches;

- Change in the level of competition we face from our competitors;

- Mix of different products or services that we sell and our ability to provide offerings that meet our customers' requirements;

- New intellectual property we develop and expiration of our patents;

- Changes in prices of our products and services, which are generally relatively stable due to our long-term contracts; and

- Fluctuations in exchange rates between foreign currencies, in which a substantial portion of our revenues and expenses are denominated, and the U.S. dollar.

Operational Expenses

Cost of products sold consists of direct costs incurred to manufacture and package our products and costs associated with supplying other revenue-generating services. Cost of products sold includes labor costs for employees involved in the production process and the cost of raw materials and components used in the process or product. Cost of products sold also includes labor costs of employees supporting the production process, such as production management, quality, engineering, and other support services. Other costs in this category include the depreciation of fixed assets, utility costs, freight, operating lease expenses and other general manufacturing expenses.

Selling, general and administration expenses consist of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative expenses to support our businesses. The category includes salaries and related benefit costs of employees supporting sales and marketing, finance, human resources, information technology and costs related to executive management. Other costs in this category include depreciation of fixed assets, amortization of our intangible assets, professional fees, marketing and other expenses to support selling and administrative areas, as well as amounts allocated to us from Cardinal for historic periods.

Direct expenses incurred by a segment are included in that segment's results. Shared sales and marketing, information technology services and general administrative costs are allocated to each segment based upon the specific activity being performed for each segment or are charged on the basis of the segment's respective revenues or other applicable measurement. Certain corporate expenses are not allocated to the segments. In addition, we do not allocate the following costs to the segments:

- Impairment charges;
- Equity compensation expenses;
- Restructuring expenses and other special items
- Costs to separate from Cardinal
- Historical Cardinal allocated expenses.

Our operating expenses are generally impacted by the following factors:

- The utilization rate of our facilities: as our utilization rate increases, we achieve greater economies of scale as fixed manufacturing costs are spread over a larger number of units produced;

- Production volumes: as volumes change, the level of resources employed also fluctuate, including raw materials, component costs, employment costs and other related expenses, and our utilization rate may also be affected;

- The mix of different products or services that we sell;
- The cost of raw materials, components and general expense;
- Implementation of cost control measures and our ability to effect cost savings through our operational excellence, lean manufacturing and six sigma program;
- The timing of bringing new facilities under construction through their start-up phase and into commercial production;
- Fluctuations in currency exchange rates between foreign currencies and the U.S. dollar.

Impairment, Restructuring and Minority Interest

Impairment charges and (gain)/loss on sale of assets have historically consisted primarily of non-cash impairment charges and the (gain) or loss realized on the sale or disposal of our property and equipment. We review our long-lived assets (property and equipment as well as amortizable intangibles) used in operations for impairment as required by accounting standards. If the fair value of the long-lived asset is less than our recorded net book value, we record an impairment charge to reduce the value of the assets to the fair value. If the long-lived asset is impaired as a result of the restructuring plan, we record the impairment charge in the restructuring and other special items line in the statements of operations.

Restructuring and other special items consist of costs associated with our restructuring plans as well as other infrequent, non-recurring or unusual in nature charges or credits, such as settlements of significant lawsuits and retention bonuses to certain of our employees associated with the Acquisition plus the cots to separate from Cardinal. The majority of our restructuring costs consist primarily of employee-related costs (including severance payments), exit costs (including lease termination costs) and asset impairments.

Minority interest, net of tax expense/(benefit) represents the removal of the minority interest partner's share of the earnings of our joint venture in one of our Oral Technologies' manufacturing facilities in Europe.

Trends Affecting our Business

We estimate that pharmaceutical and biotechnology companies spent approximately **$**120 billion worldwide on outsourcing in 2006, of which we estimate approximately $10 billion was spent on oral manufacturing, packaging services and sterile manufacturing services and certain other services which we offer. We expect several key trends to continue to provide robust growth for the outsourcing market, and we expect to further extend our market position in the categories in which we compete.

We believe that aging populations in North America, Europe and Japan will increase the demand for prescription drugs and increase the demand for our services. As large pharmaceutical companies become more focused the efficiency of their production, we believe the recent trend of large pharmaceutical company facility consolidation will continue and will provide us with an opportunity to work as a strategic partner with these entities.

We expect the growth in sterile injectable drugs to continue to outpace the growth in the remainder of the global prescription drug market, as many newer classes of drugs can only be delivered by injection due to their molecular structure. Market requirements relating to anti-counterfeiting, improved patient compliance and ease of administration are expected to drive demand for innovative dosage forms and package design. Finally, we believe reimbursement shift towards patient self-administered drugs may favor dose forms and packaging innovation that can help improve outcomes by enabling better patient compliance with drug regimens.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts may differ from these estimated amounts. Some of the more significant estimates used include those used in accounting for the Acquisition under the purchase method of accounting, and prior to the acquisition, in allocating certain costs to the Predecessor in order to present the Predecessor's operating results on a stand alone basis. The Company believes that the understanding of certain key accounting policies and estimates are essential in achieving more insight into the Company's operating results and financial condition. These key accounting policies include, but are not limited to allowance for doubtful accounts, the valuation of long-lived and intangible assets, equity-based compensation, income taxes, and currency risk management.

Allowance of doubtful accounts

Trade receivables are comprised of amounts owed to us through our operating activities and are presented net of an allowance for doubtful accounts. In determining the appropriate allowance for doubtful accounts, which includes general and specific reserves, we review accounts receivable aging, industry trends, customer financing strength, credit standing, historical write-off trends and payment history to assess the probability of collection. We monitor the collectability of our receivable portfolio by analyzing the aging of our accounts receivable accounts, assessing credit worthiness of our customers and evaluating the impact of changes in economic conditions that may impact credit risks. If the frequency or severity of customer defaults changes due to changes in customers' financial condition or general economic conditions, our allowance for uncollectible accounts may require adjustment.

Long-lived and Intangible assets valuation

In connection with the Acquisition, the purchase price was allocated to the fair value of the assets acquired, including identifiable intangible assets and liabilities assumed. Purchase price in excess of net assets acquired was recorded as goodwill. The Company assesses changes in economic conditions and makes assumptions regarding estimated future cash flows in evaluating the value of the Company's property and equipment, goodwill and intangible assets. As these assumptions and estimates may change over time, it may or may not be necessary for the Company to record impairment charges.

The Company evaluates the recoverability of its other long-lived assets, including amortizing intangible assets, if circumstances indicate impairment may have occurred pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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 statements of operations.

In connection with SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") 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. The Company uses comparative market multiples and other factors to corroborate the discounted cash flow results, if available. Other indefinite-lived intangible assets are tested for impairment and written down to fair value, in accordance with SFAS No. 142. Following the Acquisition, under the Successor, the Company has elected to perform its annual impairment during its fourth fiscal quarter, commencing in fiscal 2008.

Equity-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 Revised (FAS 123R), *Share-Based Payment*. SFAS 123R requires companies to recognize compensation expense using a fair-value based method for costs related to share-based payments including stock options and employee stock purchase plans. The expense is measured base on the fair value of the award at its grant date based on the estimated number of awards that are expected to vest, and recorded over the applicable requisite service period. In the absence of an observable market price for a share-based award, the fair value is based upon a valuation methodology that takes into consideration various factors, including the exercise price of the award, the expected term of the award, the current price of the underlying shares, the expected volatility of the underlying share price based on peer companies, the expected dividends on the underlying shares and the risk-free interest rate. The Company introduced a stock option plan after the Acquisition, for the purposes of retaining certain key employees and directors. See Note 13 to the Financial Statements for further information.

Income Taxes

In accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes," the Company accounts for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which the Company operates. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the U.S. when it is expected that these earnings are permanently reinvested. The Company has made no provision for U.S. income taxes on undistributed earnings of foreign subsidiaries as those earnings are considered permanently reinvested in the operations of those foreign subsidiaries.

Under the Predecessor, the operations of the Company were included in the consolidated U.S. and certain foreign and state tax returns of Cardinal. In other foreign and state jurisdictions, the Company filed its tax returns as a separate taxpayer or as part of a consolidated or unitary group. The income tax provisions and related deferred tax assets and liabilities have been determined as if the Company were a separate taxpayer. Cardinal managed its tax position for the benefit of its entire portfolio of businesses, and its tax strategies are not necessarily reflective of the tax strategies that the Company would have followed or will follow as a stand-alone company.

Currency risk management

The Company uses derivative instruments as part of its overall strategy to manage its exposure to market risks primarily associated with fluctuations in foreign currency and interest rates. As a matter of policy, the Company does not use derivatives for trading or speculative purposes.

All derivatives are recorded at fair value either as assets or liabilities. Changes in fair value of the hedged item in a fair value hedge are recorded as an adjustment to the carrying amount of the hedged item and recognized currently in earnings as a component of net revenues, cost of revenue or selling, general and administrative expenses, based upon the nature of the hedged item, in the statements of operations. Changes in fair value of derivatives not designated as hedging instruments are recognized currently in earnings in the statements of operations. The effective portion of changes in fair value of derivatives designated as cash flow hedging instruments is recorded as a component of other comprehensive income. The ineffective portion is reported in the statements of operations. Amounts included in other comprehensive income are reclassified into earnings in the same period during which the hedged cash flows affect earnings.

Recent Financial Accounting Standards

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." This Interpretation clarifies the term of conditional asset retirement obligations as used in SFAS No. 143, "Accounting for Asset Retirement Obligations." This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this Interpretation did not have a material impact on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 is a replacement of APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement requires voluntary changes in accounting to be accounted for retrospectively and all prior periods to be restated as if the newly adopted policy had always been used, unless it is impracticable. APB Opinion No. 20 previously required most voluntary changes in accounting to be recognized by including the cumulative effect of the change in accounting in net income in the period of change. This Statement also requires that a change in method of depreciation, amortization or depletion for a long-lived asset be accounted for as a change in estimate that is affected by a change in accounting principle. This Statement is effective for fiscal years beginning after December 15, 2005. The Company adopted this statement in fiscal 2007 and it did not have an impact on the Company's financial position or results of operations.

In November 2005, the FASB issued FASB Staff Position ("FSP") No. SFAS 115-1 and SFAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." This FSP provides guidance on the determination of when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of an impairment loss. This FSP also requires disclosure about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP is effective for reporting periods beginning after December 15, 2005. The adoption of this FSP did not have a material impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated from its host contract. The election to measure a hybrid financial instrument at fair value, in its entirety, is irrevocable and all changes in fair value are to be recognized in earnings. This Statement also clarifies and amends certain provisions of SFAS No. 133 and SFAS No. 140. This Statement is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Early adoption is permitted, provided the Company has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This Interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The adoption of this Interpretation is not expected to have a material impact on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is in the process of determining the impact of adopting this Statement.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. This Statement requires balance sheet recognition of the funded status for all pension and postretirement benefit plans effective for fiscal years ending after December 15, 2006. This Statement also requires plan assets and benefit obligations to be measured as of a company's balance sheet date effective for fiscal years ending after December 15, 2008. The Company adopted this statement and it did not have a material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits an entity, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for the Company in the first quarter of fiscal 2009. The Company is currently assessing the impact that SFAS No. 159 will have on the results of its operations, financial position or cash flows.

Results of Operations

Management changed how it measures operating performance from operating earnings to net earnings before interest expense, provision (benefit) for income taxes and depreciation and amortization ("EBITDA"). The term EBITDA is not defined under generally accepted accounting principles in the United States ("U.S. GAAP"). EDITDA 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 enhances an investor's understanding of our financial performance. We believe that EBITDA 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. We also believe EBITDA is useful to assess our ability to generate cash from operations sufficient to pay taxes, to service debt and to undertake capital expenditures. We use EBITDA for business planning purposes. In addition, given the significant investments that we have made in the past in property, plant and equipment, depreciation and amortization expenses represent a meaningful portion of our cost structure. We believe that EBITDA 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.

SEC rules regulate the use in filings with the SEC of "non-GAAP financial measures," such as EBITDA and segment EBITDA that are derived on the basis of methodologies other than in accordance U.S. GAAP. We present certain non-GAAP measures 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. The non-U.S. GAAP measures may not be the same as similarly titled measures used by other companies.

Fiscal Year Ended June 30, 2007 Compared to the Fiscal Year Ended June 30, 2006

The financial statements present our results for periods April 10, 2007 to June 30, 2007 and on a "predecessor basis" for the period July 1, 2006 to April 9, 2007 and for fiscal 2006 on a "predecessor basis" (reflecting Predecessor ownership by Cardinal). The Successor was created as a result of the Acquisition of the Predecessor's businesses from Cardinal on April 10, 2007. See Notes 1 and 2 of the Financial Statements for further discussion of the Acquisition.

For purpose of management's discussion and analysis of the results of operations, we have compared the combined results of the Successor and the Predecessor for the periods in fiscal 2007 with those of the Predecessor in fiscal 2006. The results of the two periods are not necessarily comparable due to the change in basis of accounting resulting from the Acquisition and the change in the capital structure, which primarily impact depreciation, amortization and interest expense. The captions included within our statements of operations that are materially impacted by the change in basis of accounting include depreciation and amortization expense, in process research and development, gross margin, selling, general and administrative expenses and interest expense. We have disclosed the impact of the change in basis of accounting for each of these captions in the following discussion of our results of operations. While the presentation of the fiscal 2007 results on this combined basis does not comply with U.S. GAAP, management believes that this provides useful information to assess the relative performance of the businesses in all periods presented in the financial statements.

In accordance with SFAS 141 at the date of Acquisition, the acquired assets and liabilities were recorded at their estimated fair values. The following table summarizes the preliminary allocation of fair values of the Company's assets acquired and liabilities assumed at the date of acquisition.

(in millions)	**April 10, 2007**
Current assets	$ 707.0
Property and equipment	1,055.2
Intangible assets	556.3
In-process research and development	112.4
Other assets	64.4
Total assets	2,495.3
Current liabilities	(266.2)
Long term debt	(2,271.4)
Non current liabilities	(135.9)
Deferred taxes	(193.3)
Total liabilities	(2,866.8)
Equity contributions	(1,048.9)
Excess purchase price attributable to goodwill	$ 1,420.4

The following table summarizes the preliminary allocation of the Acquisition purchase price:

	(in millions)
Purchase price allocation:	
Purchase price	$3,216.5
Transaction fees and expenses	69.1
Total purchase price	3,285.6
Less:	
Net tangible assets acquired	1,292.7
Fair value adjustment to inventory (a)	29.4
Fair value adjustment to property and equipment (b)	16.8
Other intangible assets acquired	556.3
In-process research and development (c)	112.4
Net assets held for sale	50.9
Deferred income tax liabilities	(193.3)
Excess purchase price attributable to goodwill	1,420.4

(a) Resulted in an increase in value of inventory and a corresponding charge to cost of products sold related to higher costs of inventory sold during the period April 10, 2007 to June 30, 2007;
(b) Resulted in an increase in value of property, plant and equipment as well as intangible assets and a corresponding increase in depreciation and amortization expense; and
(c) Recording and subsequent write-off of acquired in-process research and development.

Our combined results for the fiscal year ended June 30, 2007 compared to the fiscal year ended June 30, 2006 are as follows:

(in millions)	Successor April 10, 2007 to June 30, 2007	Predecessor July 1, 2006 to April 9, 2007	Combined Fiscal 2007	Predecessor Fiscal 2006	Increase/ (Decrease) $	%
Net revenue	$423.5	$1,280.2	$1,703.7	$1,612.2	$91.5	6
Cost of products sold	333.0	975.2	1,308.2	1,192.0	116.2	10
Gross margin	90.5	305.0	395.5	420.2	(24.7)	(6)
Selling, general and administrative expenses	75.5	235.3	310.8	282.7	28.1	10
Impairment charges and (gain)/loss on sale of asset	(0.2)	(1.3)	(1.5)	8.8	(10.3)	(117)
In process research and development	112.4	-	112.4	-	112.4	*
Restructuring and other special items	25.5	22.0	47.5	11.8	35.7	*
Operating earnings	(122.7)	49.0	(73.7)	116.9	(190.6)	*
Interest expense, net	44.1	8.9	53.0	6.8	46.2	*
Other, net	0.7	0.8	1.5	1.7	(0.2)	(12)
Earnings/(loss) from continuing operations before income taxes and minority interest	(167.5)	39.3	(128.2)	108.4	(236.6)	*
Provision/(benefit) for income taxes	(21.2)	(2.0)	(23.2)	35.3	(58.5)	*
Minority interest	0.7	3.9	4.6	2.0	2.6	*
Earnings/(loss) from continuing operations	(147.0)	37.4	(109.6)	71.1	(180.7)	*
Loss from discontinued operations, net of tax	(3.3)	(12.5)	(15.8)	(20.1)	4.3	*
Net earnings/(loss)	$ (150.3)	$ 24.9	$(125.4)	$ 51.0	$(176.4)	*

* Percentage not meaningful

Net Revenue

Net revenue increased 6% or $91.5 million primarily due to higher volumes within our Packaging Services facilities associated with new customer product launches. In addition, increased volume for certain oral products and increased throughput within our manufacturing facilities due to benefits of our program to improve our manufacturing cycle time contributed to higher revenue in our Oral Technologies segment. The net revenue growth was favorably impacted by a weaker U.S. dollar by approximately 4 percentage points.

These increases were partially offset by:

- Lower production volumes within our Sterile Technologies segment, in particular with our respiratory products, as well as the prior year receipt of a $14.0 million take-or-pay termination payment included in net revenue for fiscal 2006.
- The sale of one of our Oral Technologies facilities, which reduced net revenues by $49.2 million during combined period for fiscal 2007 compared to the comparable fiscal 2006 period.

Gross Margin

Gross margin decreased by 6% or $24.7 million on a combined basis compared to fiscal 2006. The gross margin for fiscal 2007 on a combined basis includes a $31.5 million increase in cost of products sold due to the impact of fair value adjustment to our balance sheet recorded as of the Acquisition. The adjustments resulted in an increase in inventory costs and an increase in the value of property, plant and equipment. The inventory and property, plant and equipment adjustment reduced the gross margin by $29.4 million and $2.1 million, respectively for the period April 10, 2007 to June 30, 2007. Excluding these fair value adjustments, gross margin on a combined basis increased by 2% or $6.8 million.

The gross margin increase of 2% was primarily due to increased revenues and operational efficiencies realized at our facilities, in particular within our Oral Technologies segment. These benefits were partially offset by a lower utilization rate within our Sterile Technologies segment and the inclusion in that same segment of a $14.0 million take-or-pay termination payment in net revenues for fiscal 2006, which led to a higher gross margin during that period.

Selling, General and Administrative expense

Selling, general and administrative expenses increased by 10% or $28.1 million. The increase includes additional depreciation and amortization expense of $10.1 million associated with the intangibles recorded as part of the Acquisition. In addition, the increase is due to (i) an increase of $6.6 million in stock-based compensation, (ii) an increase of $5.6 million due the impact of a weaker U.S. dollar, and (iii) to higher costs allocated to the Predecessor by Cardinal during the period July 1, 2006 to April 9, 2007 compared to fiscal 2006.

Impairment Charges and (Gain)/Loss on Sale of Asset

Impairment charges and (gain)/loss on sale of assets decreased by $10.3 million on a combined fiscal 2007 basis compared to fiscal 2006. During the fiscal 2007 combined basis, we recorded a gain of $5.0 million related to the sale of a facility within our Oral Technologies segment, where as during fiscal 2006 we recorded a charge of $3.2 million associated with a final settlement on the fiscal 2004 sale of a non-strategic business within the same segment.

In-Process Research and Development

In connection with the Acquisition, we recorded a $112.4 million charge related to acquired in-process research and development ("IPR&D"), which has been recorded in the Successor financial statements and included in the combined basis fiscal 2007 results.

Restructuring and Other Special Items

Restructuring and other special items increased by $35.7 million to $47.5 million on a combined fiscal 2007 basis compared to fiscal 2006 of $11.8 million.

The charges in fiscal 2007 primarily relate to the following:

- Retention bonuses for certain employees associated with the Acquisition of $24.7 million, which were expensed during the combined period.
- Separation costs of $7.0 million related to professional fees directly associated with the separation of certain shared service functions and systems from Cardinal.
- $7.4 million of severance costs recorded subsequent to the Acquisition associated with our announced reorganization.
- $6.6 million relates to the Predecessor's previously announced headcount reduction, and the closure and consolidation of facilities. See Note 6 of the Company's financial statements for further discussion.

The charges recorded during fiscal 2006 primarily relate to asset impairment charges and other facility exit costs we recorded within restructuring and other special charges of approximately $5.9 million associated primarily with the announced closure of one of our Sterile Technologies manufacturing facilities. In addition, we reversed the decision to sell one of the facilities deemed impaired in fiscal 2005, resulting in a credit of $3.8 million to restructuring and other special items during fiscal 2006, as the decision not to sell increased the carrying value of the disposal group to its fair value.

Interest Expense, net

Interest expense, net increased by $46.2 million on a combined basis primarily as a result of the interest expense on our new debt issuances used to finance the Acquisition on April 10, 2007. The Acquisition was financed in part with $1.4 billion in proceeds from the issuance of term loans under a new senior secured credit facility, $565.0 million in proceeds from the issuance of senior toggle notes and $300.3 million in proceeds from the issuance of senior subordinated notes. Interest on such financing was $43.5 million during fiscal 2007, including $1.6 million of amortization of deferred financing fees.

Provision/(Benefit) for Income Taxes

The provision/(benefit) for income taxes relative to earnings/(loss) before income taxes, minority interest and discontinued operations was (18.1%) and 32.6% in fiscal 2007 and 2006, respectively. Generally, fluctuations in the effective tax rate are primarily due to change in our geographic pretax income resulting from our business mix and changes in the tax impact of restructuring and 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 tax benefits derived from operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35%. Our fiscal 2007 benefit for income taxes was ($23.2) million and relative to losses before income taxes of ($128.2) million resulting in an effective tax rate of (18.1%). The fiscal 2007 tax rate was negatively impacted by $10.9 million related to purchase accounting. Our fiscal 2006 provision for income taxes was $35.3 million and relative to earnings before income taxes of $108.4 million resulted in an effective tax rate benefit of 32.6%. The fiscal 2006 effective tax rate benefited by $3.5 million related to foreign tax credits

Minority Interest, net

Minority interest expense, net of tax benefit increased by $2.6 million on a combined basis compared to fiscal 2006 due to an increase in pretax earnings from our joint venture facility.

Segment Review

Our results on a segment basis for the period April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and fiscal year 2006 are as follows:

(in millions)	Successor April 10, 2007 to June 30, 2007	Predecessor July 1, 2006 to April 9, 2007	Combined Fiscal Year 2007	Predecessor Fiscal Year 2006	Increase/ (Decrease) $	%
Oral Technologies						
Net revenue	$ 239.1	$ 704.2	$ 943.3	$ 911.1	$ 32.2	4
Segment EBITDA	$ 45.7	$ 173.0	$ 218.7	$ 205.8	$ 12.9	6
Sterile Technologies						
Net revenue	64.3	184.8	249.1	265.1	(16.0)	(6)
Segment EBITDA	5.2	(1.7)	3.5	39.2	(35.7)	(91)
Packaging Services						
Net revenue	129.1	422.6	551.7	482.6	69.1	14
Segment EBITDA	18.8	63.1	81.9	80.4	1.5	2
Unallocated costs (1)	(156.6)	(112.5)	(269.1)	(125.0)	(144.1)	*
Inter-segment revenue elimination	(9.0)	(31.4)	(40.4)	(46.6)	6.2	13
Combined Total						
Net revenue	$ 423.5	$ 1,280.2	$1,703.7	$1,612.2	$ 91.5	6
EBITDA from continuing operations	$ (86.9)	$ 121.9	$ 35.0	$ 200.4	$(165.4)	(82)

* Percentage not meaningful

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

	Successor	Predecessor	
	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal Year ended June 30, 2006
Impairment charges and gain/(loss) on sale of assets	$ 0.2	$ 1.3	$ (8.8)
Equity compensation	(1.0)	(35.1)	(29.5)
Restructuring and other special items	(25.5)	(22.0)	(11.8)
In-process research and development	(112.4)	—	—
Sponsor advisory fee	(2.2)	—	—
Minority interest, net	(0.7)	(3.9)	(2.0)
Other, net	(0.7)	(0.8)	(1.7)
Cardinal allocation	—	(53.1)	(55.1)
Non-allocated corporate costs, net	(14.3)	1.1	(16.1)
Total unallocated costs	$ (156.6)	$ (112.5)	$ (125.0)

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

	Successor	Predecessor	
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal Year ended June 30, 2006
EBITDA	$ (86.9)	$ 121.9	$ 200.4
Depreciation and amortization	(37.2)	(77.6)	(87.2)
Interest expense, net	(44.1)	(8.9)	(6.8)
Benefit/(provision) for income taxes	21.2	2.0	(35.3)
Earnings/(loss) from continuing operations	$ (147.0)	$ 37.4	$ 71.1

Oral Technologies segment

Net revenues increased by 4% or $32.2 million primarily due to increased volume at our European manufacturing facilities, in particular our products in our Zydis® formulation. These increases were partially offset by the sale of one of our facilities within this segment in July 2006, which resulted in a reduction in net revenues of $49.2 million for fiscal 2007 combined and lower volumes of U.S. protease inhibitor products. The weaker U.S. dollar favorably impacted the Oral Technologies segment's revenue growth by approximately 4 percentage points.

Segment EBITDA increased by 6% or $12.9 million. The segment EBITDA for the combined basis fiscal 2007 includes higher inventory costs of $19.8 million associated with the impact of fair value adjustment to our inventory as of the Acquisition. Excluding the inventory adjustment, segment EBITDA increased by $32.7 million primarily due to the increase in net revenues as a result of higher production volumes during the period and increased utilization of our facilities as a result of improved manufacturing cycle time. Lastly, segment EBITDA was favorably impacted by the weaker U.S. dollar by approximately 4 percentage points.

Sterile Technologies segment

Net revenues decreased by 6% or $16.0 million primarily as a result of reduced volumes on respiratory products due to a customer's decision to reduce its inventory holding, lower volumes of a key prescription ophthalmic product, and the inclusion in the prior period of a $14.0 million take-or-pay termination payment in net revenue for fiscal 2006. These factors were offset by increased revenue of $4.1 million generated from our start-up facilities.

Segment EBITDA decreased by 91% or $35.7 million. The segment EBITDA for the combined basis fiscal 2007 includes higher inventory costs of $3.6 million associated with the impact of fair value adjustment to our inventory as of the Acquisition. Excluding the inventory adjustment, segment EBITDA decreased by $32.1 million primarily due to lower capacity utilization as a result of reduced production volumes, as well as, the inclusion of a prior year $14.0 million take-or-pay termination payment in segment EBITDA for fiscal 2006. In addition, we recognized higher costs associated with our start-up facilities in the fiscal 2007 combined results, in particular our Brussels facility as compared to fiscal 2006.

Packaging Services segment

Net revenues increased by 14% or $69.1 million primarily due to increased volumes at our commercial and clinical packaging facilities, which benefited from new product launches by our customers. In addition, the weaker U.S. dollar favorably impacted our Packaging Services segment's revenue growth by approximately 3 percentage points.

Segment EBITDA increased by 2% or $1.5 million. The segment EBITDA for the combined basis fiscal 2007 includes higher inventory costs of $3.4 million associated with the impact of fair value adjustment to our inventory as of the Acquisition. Excluding the inventory adjustment, segment EBITDA increased by $4.9 million primarily due to higher utilization of our commercial packaging facilities as a result of increased customer volumes. This increase was partially offset by a change in product mix, which resulted in higher volumes of production with higher component pass through costs.

Fiscal Year Ended June 30, 2006 Compared to the Fiscal Year Ended June 30, 2005

	Predecessor		Increase/(Decrease)	
(in millions)	2006	2005	Change $	Change %
Net revenue	$1,612.2	$1,517.3	$ 94.9	6
Cost of products sold	1,192.0	1,108.2	83.8	8
Gross margin	420.2	409.1	11.1	3
Selling, general and administrative expenses	282.7	245.3	37.4	15
Impairment charges and (gain)/loss on sale of assets	8.8	74.3	(65.5)	(88)
In process research and development	-	-	-	-
Restructuring and other special items	11.8	74.7	(62.9)	(84)
Operating earnings	116.9	14.8	102.1	*
Interest expense, net	6.8	17.1	(10.3)	(60)
Other, net	1.7	0.9	0.8	89
Earnings/(loss) from continuing operations before income taxes and minority interest	108.4	(3.2)	111.6	*
Provision/(benefit) for income taxes	35.3	(10.8)	46.1	*
Minority interest	2.0	(13.0)	15.0	*
Earnings/(loss) from continuing operations	71.1	20.6	50.5	*
Loss from discontinued operations, net of tax	(20.1)	(6.7)	(13.4)	*
Net earnings	$ 51.0	$ 13.9	$ 37.1	*

* Percentage not meaningful

Net Revenue

Net revenue increased 6% primarily due to increased demand for certain oral products, improved terms with existing customers and increased volume on certain sterile products as well as a significant take-or-pay termination payment from an ongoing customer totaling $14.0 million. Our net revenue growth was adversely affected by the stronger U.S. dollar that negatively impacted revenue growth by approximately 3 percentage points.

Gross Margin

Gross margin declined as percentage of revenue primarily due to a lower utilization rate within our Packaging Services segment and higher product costs within our Oral Technologies segment due to a change in product mix. These items were offset by the take-or-pay termination payment from an ongoing customer of $14.0 million in fiscal 2006.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased by 15% primarily due to (i) an increase from $1.0 million to $29.5 million in stock-based compensation related to the expensing of stock options in connection with the adoption of Statement of Financial Accounting Standards No. 123 (R), “Share-Based Payment” and (ii) an increase in the Cardinal allocation of $7.8 million compared to fiscal 2005.

Impairment Charges and (Gain)/Loss on Sale of Asset

Impairment charges and (gain)/loss on sales of assets decreased by $65.5 million. During fiscal 2005, we made certain strategic business decisions within our Oral Technologies segment, which limited the future cash flows expected to be generated from our property and equipment. We recorded an asset impairment charge of $62.1 million related to certain portions of our Oral Technologies segment’s property and equipment as well as amortizable intangibles as a result of our decision. During fiscal 2006, we did not have a comparable impairment charge.

Restructuring and Other Special Items

Restructuring and other special items decreased by $62.9 million compared to fiscal 2005. During fiscal 2005, we implemented restructuring plans to consolidate our operations and increase efficiencies through process improvements and headcount reductions. We recorded charges of $66.4 million in fiscal 2005 to reflect impairment charges associated with the decision to sell two facilities and the transfer of production from one facility to another to consolidate overlapping operations. In addition, we recorded employee-related costs associated with the headcount reductions. During fiscal 2006, we continued to focus on workforce reductions resulting in additional severance charges to restructuring and other special items. In addition, we reversed the decision to sell one of the facilities impaired in fiscal 2005, resulting in a credit of $3.8 million to restructuring and other special items during fiscal 2006, as the decision not to sell increased the carrying value of the disposal group to its fair value.

Interest Expense, net

Interest expense, net decreased by $10.3 million due to a decrease in interest expense charged to us by Cardinal from $6.8 million for fiscal 2006 to $17.1 million for fiscal 2005. In addition, our net borrowings to non-related parties decreased from $80.5 million at June 30, 2005 to $41.6 million at June 30, 2006.

Provision/(Benefit) for Income Taxes

The provision/(benefit) for income taxes relative to earnings/(loss) from continuing operations before income taxes and minority interest was 32.6% and (337.5)% in fiscal 2006 and 2005, respectively. Generally, fluctuations in the effective tax rate are primarily due to change in our geographic pretax income resulting from our business mix and changes in the tax impact of restructuring and 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 tax benefits derived from operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35%. Our fiscal 2006 provision for income taxes was $35.3 million and relative to earnings from continuing operations before income taxes and minority interest of $108.4 million resulted in an effective tax rate of 32.6%. The fiscal 2006 effective tax rate benefited by $3.5 million related to the foreign tax credits. Our fiscal 2005 benefit for income taxes was $10.8 million and relative to a loss from continuing operations before income taxes and minority interest of $3.2 million resulted in an effective tax rate benefit rate of 337.5%. The fiscal 2005 effective tax amount benefited by $9.3 million related to the release of tax reserves upon the settlement of a non-U.S. tax examination and from tax benefits of $52.6 million related to $151.1 million of asset impairments, restructuring and other special items.

Minority Interest, net

Minority interest, net of tax, changed from a benefit in fiscal 2005 of $13.0 million to a charge of $2.0 million in fiscal 2006, primarily because during fiscal 2005, we recorded a significant asset impairment charge related to our joint venture resulting in a benefit to minority interest associated with the minority partner’s allocable portion of the charge. During fiscal 2006, the facility was in a net profit position, resulting in expense associated with removal of the minority partner’s share of the net profit from our results of operations.

Segment Review

The following is a discussion of the results of each of our reportable segments for the fiscal year ended June 30, 2006 and the fiscal year ended June 30, 2005:

(in millions)	2006	2005	Increase/(Decrease) Change $	Change %
Oral Technologies				
Net revenue	$ 911.1	$ 852.9	$ 58.2	7
Segment EBITDA	$ 205.8	$ 200.8	$ 5.0	2
Sterile Technologies				
Net revenue	265.1	220.3	44.8	20
Segment EBITDA	39.2	11.8	27.4	232
Packaging Services				
Net revenue	482.6	473.4	9.2	2
Segment EBITDA	80.4	99.3	(18.9)	(19)
Unallocated costs [(1)]	(125.0)	(198.1)	73.1	37
Inter-segment revenue elimination	(46.6)	(29.3)	(17.3)	(59)
Combined Total				
Net revenue	$1,612.2	$1,517.3	$ 94.9	6
EBITDA from continuing operations	$ 200.4	$ 113.8	$ 86.6	76

* Percentage not meaningful

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

(in millions)	Predecessor 2006	2005
Impairment charges and gain/(loss) on sale of assets	$ (8.8)	$ (74.3)
Equity compensation	(29.5)	(1.0)
Restructuring and other special items	(11.8)	(74.7)
Minority interest, net	(2.0)	13.0
Other, net	(1.7)	(0.9)
Cardinal allocation	(55.1)	(47.3)
Non-allocated corporate costs, net	(16.1)	(12.9)
Total Unallocated costs	$ (125.0)	$ (198.1)

Provided below is a reconciliation of EBITDA to earnings from continuing operations:

(in millions)	Predecessor 2006	2005
EBITDA	$ 200.4	$ 113.8
Depreciation and amortization	(87.2)	(86.9)
Interest expense, net	(6.8)	(17.1)
(Provision)/benefit for income taxes	(35.3)	10.8
Earnings from continuing operations	$ 71.1	$ 20.6

Oral Technologies segment

Net revenues increased by 7% or $58.2 million primarily due to increased volume in particular within our Zydis® product offering. The stronger U.S. dollar adversely impacted our Oral Technologies segment's revenue by approximately 3 percentage points.

Segment EBITDA increased by 2% or $5.0 million. Growth in segment EBITDA was lower than the growth in net revenues due to product mix shifts in favor of lower margin products as well as lower profits on a generic product that is marketed through a third party. In addition, operating earnings were adversely affected by the strong U.S. dollar by approximately 2 percentage points.

Sterile Technologies segment

Net revenues increased by 20% or $44.8 million primarily due to improved terms from existing customers and additional volume generated from our start up facilities that increased by approximately $6.9 million. In addition, we received a $14.0 million payment from an ongoing customer related to the termination of a minimum purchase requirement in fiscal 2006.

Segment EBITDA increased by $27.4 million primarily due to the increase in revenue offset by low capacity utilization rate of the start-up facilities.

Packaging Services segment

Net revenues increased by 2% or $9.2 million. The revenue growth during fiscal 2006 compared to fiscal 2005 was minimal due to competitive pricing pressures in our U.S. printing business as well as lower volumes at a European packaging facility due to a customer's decision to move product volumes to its own facilities, and to delayed launches of customers' products at one of our U.S. packaging facilities. In addition, the stronger U.S. dollar adversely impacted our Packaging Services segment's revenue growth by approximately 2 percentage points.

Segment EBITDA decreased by 19% or $18.9 million primarily due to lower volume at our European and U.S. packaging facilities as well as lower margins earned from our printing business due to competitive pricing pressures.

Liquidity and Capital Resources

Sources and Use of Cash

Our principal source of liquidity has been cash flow generated from operations, including working capital. The principal uses of cash are to fund planned operating expenditures, capital expenditures, interest rate payments on debt and any mandatory or discretionary principal payments of debt issuances. As of June 30, 2007, our financing needs were supported by $350 million of available capacity in our revolving credit agreement.

Although no assurance can be given, we believe that our cash from operations and available borrowings under our new revolving credit facility will be adequate to meet our future liquidity needs for at least the next twelve months.

Cash Flows

The following table summarizes our statement of cash flows from continuing operations:

(in millions)	Successor April 10, 2007 to June 30, 2007	Predecessor July 1, 2006 to April 9, 2007	Combined Fiscal 2007	Predecessor Fiscal 2006	Change
Net cash provided by / (used in)					
Operating activities	$ 69.0	$ 191.4	$ 260.4	$ 130.8	$ 129.6
Investing activities	(3,304.3)	(85.8)	(3,390.1)	(99.2)	(3,290.9)
Financing activities	3,289.9	(208.3)	3,081.6	(24.9)	3,106.5

Operating activities

On a combined basis for fiscal 2007, cash provided by operating activities was $260.4 million, an increase of $129.6 million as compared to fiscal 2006. The increase was primarily driven by increased cash inflows of $47.2 million associated with timing of accounts payable payments related to timing of inventory purchases of $30.9 million, and to the timing of interest payments totaling approximately $19.4 million.

*Investing activitie*s

On a combined basis for fiscal 2007, cash used in investing activities was $3.4 billion, an increase of $3.3 billion compared to fiscal 2006. The increase was driven primarily by the use of $3.3 billion for the Acquisition. Capital expenditures during fiscal 2007 increased by $21.4 million compared to fiscal 2006 due to the purchase of assets that were formerly subject to operating leases of $44.2 million. This purchase was offset by lower capital expenditures on the start-up sterile manufacturing facilities during current year due to completion of the projects.

Financing activities

On a combined basis for fiscal 2007, cash provided by financing activities was $3.1 billion, an increase of $3.1 billion as compared to fiscal 2006. The source of cash during fiscal 2007 related primarily to $2.2 billion of debt proceeds, net of financing costs, and $1.0 billion in capital contributions received in connection with the Acquisition. This was slightly offset by the Predecessor's repayments of its external debt as well as its debt with Cardinal affiliates prior to the consummation of the Acquisition.

The following table summarizes our statement of cash flows from continuing operations for the fiscal year ended June 30, 2006 to fiscal year ended June 30, 2005:

(in millions)	Predecessor 2006	2005	Change
Net cash provided by / (used in)			
Operating activities	$ 130.8	$ 203.0	$ (72.2)
Investing activities	(99.2)	(222.2)	(123.0)
Financing activities	(24.9)	16.9	(41.8)

Operating activities

Cash provided by operating activities from continuing operations was $130.8 million, a decrease of $72.2 million as compared to fiscal 2005. The decrease was due to an increase in working capital due to timing of receipts and disbursements of accounts receivable and payable.

*Investing activitie*s

Cash used in investing activities from continuing operations was $99.2 million, a decrease of $123.0 as compared to fiscal 2005. The decrease in use of cash was primarily a result in the reduction in cash used for purchase of property and equipment due to the following:

- During fiscal 2005, we purchased certain buildings, equipment and land for approximately $80.8 million that were previously subject to operating leases in Oral Technologies and Packaging Services segments.
- Our level of investment of property and equipment for our Sterile Technologies segment was $38.3 million lower during fiscal 2006 compared to fiscal 2005 due to our start-up facility in Brussels.

Financing activities

Cash used in financing activities was $24.9 million, an increase of $41.8 million as compared to the fiscal year ended June 30, 2005.

- Our net borrowings, or the difference between the proceeds from borrowings and related debt payments, used $38.4 million of cash during fiscal 2006 compared to providing $11.8 million in cash during fiscal 2005. We used $27.0 million to repay amounts borrowed under our short-term credit facilities during fiscal 2006 through additional funding from Cardinal.

- We received additional net funding from Cardinal and its affiliates of $9.8 million during fiscal 2006 compared to fiscal 2005 which included funds to repay our short term borrowings, offset by increased net earnings of $37.1 million.

Debt and Financing Arrangements

Senior Secured Credit Facilities

On April 10, 2007, in connection with the Acquisition, we entered into a $1.8 billion senior secured credit facility consisting of: (i) an approximately $1.4 billion term loan facility and (ii) a $350 million revolving credit facility. We are required to repay the term loans in quarterly installments equal to 1% per annum of the original funded principal amount for the first six years and nine months, with the remaining amount payable on April 10, 2014. These repayments commence on September 28, 2007.

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 will bear interest, at our option, at a rate equal to a margin over either (a) 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 ½ of 1% or (b) 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 plus 2.25%.

In addition to paying interest on outstanding principal under our new senior secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect to the unutilized commitments thereunder. The initial commitment fee is 0.50% per annum. The commitment fee may be reduced subject to our attaining certain leverage ratios. We are also required to pay customary letter of credit fees. As of June 30, 2007, $13.9 million was outstanding under the revolving credit facility.

The senior secured credit facilities are subject to amortization and prepayment requirements and contain certain covenants, events of default and other customary provisions.

Senior Notes

On April 10, 2007, in connection with the Acquisition, we issued $565.0 million of 9 ½%/ 10 1/4% senior PIK-election fixed rate notes due 2015 ("Senior Toggle Notes"). The Senior Toggle Notes are unsecured senior obligations of the Company. Interest on the Senior Toggle Notes is payable semi-annually in arrears on each April 15 and October 15, commencing on October 15, 2007.

For any interest period prior to April 15, 2011, we may at our option elect to pay interest on the Senior Toggle Notes (i) entirely in cash ("Cash Interest"), (ii) entirely by increasing the principal amount of the outstanding Senior Toggle Notes or by issuing PIK Notes ("PIK interest") or (iii) 50% as Cash Interest and 50% as PIK Interest. Cash

Interest on the Senior Toggle Notes accrues at the rate of 9 ½% per annum. PIK Interest on the Senior Toggle Notes accrues at the Cash Interest rate per annum plus ¾% per annum.

At any time prior to April 15, 2011, we may redeem all or a part of the Senior Toggle Notes at a redemption price equal to the principal amount plus a "make-whole" premium plus any accrued and unpaid interest to the date of redemption. In addition, before April 15, 2010, we may redeem up to 35% of the Senior Toggle Notes at a redemption price of 109.5% of their principal amount, plus accrued and unpaid interest to the redemption date, using proceeds from sales of certain kinds of capital stock, provided that after any such redemption, at least 50% of the aggregate principal amount of the Senior Toggle Notes remain outstanding. On and after April 15, 2011, we may redeem the Senior Toggle Notes at par plus specified declining premiums set forth in the indenture plus any accrued and unpaid interest to the date of redemption.

Senior Subordinated Notes

On April 10, 2007, in connection with the Acquisition, we issued EUR 225.0 million 9 ¾% euro-denominated ($300.3 million dollar equivalent) Senior Subordinated Notes due 2017 (the "Senior Subordinated Notes"). The Senior Subordinated Notes are unsecured senior subordinated obligations of the Company and are subordinated in right of payment to all existing and future senior indebtedness of the Company (including the senior credit facilities and the Senior Toggle Notes). Interest on the Senior Subordinated Notes is payable semi-annually in cash only in arrears on each April 15 and October 15, commencing on October 15, 2007.

At any time prior to April 15, 2012, we may redeem all or a part of the Senior Subordinated Notes at a redemption price equal to the principal amount plus a "make-whole" premium plus any accrued and unpaid interest to the date of redemption. In addition, before April 15, 2010, we may redeem up to 35% of the Senior Subordinated Notes at a redemption price of 109.75% of their principal amount, plus accrued interest using proceeds from sales of certain kinds of capital stock, provided that after any such redemption, at least 50% of the aggregate principal amount of the Senior Toggle Notes remain outstanding. On and after April 15, 2012, we may redeem the Senior Subordinated Notes at par plus specified declining premiums set forth in the senior subordinated indenture indenture plus any accrued and unpaid interest to the date of redemption.

Guarantees and Security

All obligations under the senior secured credit agreement, the Senior Toggle Notes and 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.

All obligations under the senior secured credit facilities, and the guarantees of those obligations, are secured by substantially all 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 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 Company and each guarantor, subject to certain limited exceptions.

During fiscal 2007 on a combined basis, our non-guarantor subsidiaries accounted for approximately $1.0 billion, or approximately 60% of our total net revenue, and approximately $81.6 million of our total EBITDA from continuing operations of $35.0 million. The differences between our non-guarantor subsidiaries’ contributions to our revenue and our EBITDA from continuing operations reflect, among other things, Cardinal’s historical policy of charging 100% of the Cardinal corporate allocation to the guarantors, resulting in a reduction of the subsidiary guarantors’ EBITDA by $53.1 million for fiscal 2007. In addition, the differences between our non-guarantor subsidiaries’ contributions to our revenue and our EBITDA from continuing operations reflect the allocation of certain items to the subsidiary guarantors such as non-cash equity compensation of approximately $36.1 million and non-cash retention bonuses associated with the Acquisition of approximately $24.7 million on a combined basis. We did not charge any Cardinal corporate overhead, non-cash equity compensation costs or the non-cash retention bonuses to the non-guarantor subsidiaries during this period. In addition, one-time non-cash charges related to IPR&D and inventory fair value step up impacted both the guarantors and non-guarantors EBITDA from continuing operations by approximately $42.8 million and $99.0 million, respectively.

As of June 30, 2007, our non-guarantor subsidiaries accounted for approximately $693.0 million, or 44.1%, of our total assets (excluding intercompany receivables and issuers' investment in subsidiary), and approximately $434.6 million, or 65.7%, of our total liabilities (excluding intercompany liabilities and issuer's debt of approximately $2.3 billion).

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; engage in certain transactions with affiliates; make investments, loans or advances; make certain acquisitions; and in the case of the Company's senior credit agreement, enter into sale and leaseback transactions; repay subordinated indebtedness, 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 notes and the senior subordinated notes also contains change of control provisions and certain customary affirmative covenants and events of default. As of June 30, 2007, the Company was in compliance with all restrictive covenants related to its long-term obligations.

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 our non-U.S. subsidiaries or Puerto Rico subsidiaries are guarantors of the loans or notes.

As market conditions warrant, we and our major equityholders, including Blackstone and its affiliates, may from time to time repurchase debt securities issued, including the notes, in privately negotiated or open market transactions, by tender or otherwise.

Historical and Adjusted EBITDA

Adjusted EBITDA is based on the definitions in our indentures, is not defined under U.S. GAAP, and is subject to important limitations.

In calculating Adjusted EBITDA, we add back certain non-cash, non-recurring and other items that are included in EBITDA and net income as required by various covenants in the indentures 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 minority interest expense, which represents the 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.

Our Adjusted EBITDA for fiscal 2007 based on the definitions in our indentures is calculated as follows:

(in millions)	Successor April 10, 2007 to June 30, 2007	Predecessor July 1, 2006 to April 9, 2007	Combined Fiscal 2007
Earnings/(loss) from continuing operations	$ (147.0)	$ 37.4	$ (109.6)
Interest expense, net	44.1	8.9	53.0
Benefit for income taxes	(21.2)	(2.0)	(23.2)
Depreciation and amortization	37.2	77.6	114.8
EBITDA	$ (86.9)	$121.9	$ 35.0
Equity compensation [1]			36.1
Impairment charges and (gain)/loss on sale of assets [2]			(1.5)
Restructuring and other special items [3]			189.2
Cardinal allocation [4]			16.9
Other non-recurring/one-time items [5]			18.5
Estimated cost savings [6]			20.6
Other adjustments [7]			11.6
Sponsor monitoring fee [8]			2.2
Disposition adjustments [9]			3.9
Adjusted EBITDA			$332.5

(1) Reflects non-cash stock-based employee compensation expense under the provisions of SFAS No. 123R, *Share-based Payments.*

(2) Reflects non-cash asset impairment charges and losses from the sale of assets not included in restructuring and special items discussed below. See Note 16 to the financial statements for additional information.

(3) Restructuring and other special charges of $189.2 million included $172.7 million of non-cash charges. The total $189.2 reflects the following:

- $14.6 million related to restructuring activities, which includes $12.0 million of employee-related costs. The restructuring programs focus on various aspects of operations, including closing and consolidation of certain operations, rationalizing headcount and aligning operations in a more strategic and cost-efficient structure.
- $24.7 million of retention bonuses associated with the Acquisition that will not have a continuing impact.
- $7.0 million related costs incurred to separate from Cardinal.
- $141.8 million associated with the fair value adjustments to the balance sheet as a result of the Acquisition, including higher inventory costs during the period April 10, 2007 to June 30, 2007, of $29.4 million and the write off of In-process research and development of $112.4 million.
- $1.1 million associated with amortization of a non-compete agreement associated with an acquisition by the Predecessor.

See Note 6 to the financial statements for additional information.

(4) Reflects the excess of the Cardinal Allocation of $53.1 million over our expected stand-alone cash costs of $36.2 million for corporate administrative support services (including cash management, facilities management, security, payroll and employee benefit administration, insurance administration, IT and telecommunication services). However, we cannot guarantee that our actual stand-alone costs will not be higher than our current estimates. See Note 11 to the financial statements for additional information.

(5) Reflects the following one-time items: $13.2 million associated with start-up investment in our new Sterile Technologies facilities in Brussels and North Raleigh, and $4.7 million of other non-recurring items. Although we refer to these as one-time items, there can be no guarantee that we will not incur similar items in the future.

(6) Reflects cost savings that we estimate we would have achieved from our restructuring and operational excellence programs where actions have begun or have already been completed if those actions had been completed at the beginning of the period presented, including $11.3 million from headcount reductions and $9.3 million from other cost reduction initiatives. However, there is no guarantee we will be able to achieve this level of cost savings.

(7) Reflects other adjustments required in calculation our covenant compliance under the indentures governing our notes, primarily $4.6 million of minority interest expense, $2.4 million of severance and relocation costs and $0.6 million of franchise taxes in selling, general and administrative expenses. However, minority interest expense does not represent EBITDA that is available to us, and we expect to incur severance and relocation costs and franchise taxes in the future. In addition, other adjustments reflect the estimated decrease to pension and post-retirement benefits expense resulting from the elimination of amortization and deferral of unrecognized actuarial losses and prior service costs of $2.5 million associated with the purchase accounting related to the Acquisition. Lastly, other adjustments reflect the rent expense that has been eliminated of $1.5 million and replaced by comparable amounts of depreciation expense when we purchased, in January 2007, the buildings and equipment that were previously under an operating lease. See Note 14 to the financial statements for additional discussion.

(8) Represents amount of sponsor monitoring fee. See Note 11 to the financial statements.

(9) Reflects the elimination of $4.1 million of losses from one of our facilities, which we expect to close in February 2008, offset by $0.2 million of EBITDA generated by businesses, which we sold on March 9, 2007. We have not eliminated $3.9 million of EBITDA generated by an Oral Technologies facility, which was sold to a customer in July 2006, because it is part of a larger customer relationship that is expected to continue. We cannot assure you that this customer will continue to generate the same level of cash flows as in the past.

Interest Risk Management

A portion of the debt used to finance our 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 June 30, 2007 is to interest rate fluctuations in the United States and Europe, especially LIBOR and EURIBOR interest rates. We currently use interest rate swaps as the derivative instrument in these hedging strategies. The derivatives used to manage the risk associated with our floating rate debt were designated as cash flow hedges as of June 30, 2007.

Currency Risk Management

We utilize forward currency exchange contracts to manage our exposures to the variability of cash flows primarily related to the foreign exchange rate changes of future foreign currency transaction costs. In addition, from to time to time we will utilize foreign currency forward contracts to protect the value of existing foreign currency assets and liabilities. We expect to continue to evaluate hedging opportunities for foreign currency in the future.

Contractual Obligations

The following table summarizes our future contractual obligations as June 30, 2007:

(in millions)	2008	2009 -2010	2011 -2012	Thereafter	Total
Debt[(1)]	$ 35.4	$ 29.2	$ 28.7	$ 2,213.4	$ 2,306.7
Interest[(2)]	203.6	372.4	368.2	484.6	1,428.8
Capital lease obligations[(3)]	1.5	3.0	2.1	—	6.6
Operating leases[(4)]	17.8	29.4	12.7	14.1	74.0
Purchase obligations[(5)]	55.7	16.8	1.6	0.1	74.2
Total financial obligations	$ 314.0	$ 450.8	$ 413.3	$ 2,712.2	$ 3,890.3

(1) Represents maturities of our long-term debt obligations excluding capital lease obligations. Amounts exclude interest expense, as the amounts ultimately paid will depend on amounts outstanding under our secured obligations and interest rates in effect during each period.

(2) Based on assumed current interest rates, which may change in the future.

(3) Represents maturities of our capital lease obligations included within long-term debt on our balance sheet and the related estimated future interest payments.

(4) Represents minimum rental payments and the related estimated future interest payments for operating leases having initial or remaining non-cancelable lease terms.

(5) Purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding and specifying all significant terms, including the following: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and approximate timing of the transaction. The purchase obligation amounts disclosed above represent estimates of the minimum for which we are obligated and the time period in which cash outflows will occur. Purchase orders and authorizations to purchase that involve no firm commitment from either party are excluded from the above table. In addition, contracts that can be unilaterally cancelled with no termination fee or with proper notice are excluded from our total purchase obligations except for the amount of the termination fee or the minimum amount of goods that must be purchased during the requisite notice period.

Off-Balance Sheet Arrangements

Other than operating leases, we do not have any off-balance sheet arrangements as of June 30, 2007.

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 foreign exchange rate changes. We maintain a comprehensive hedging program to manage volatility related to these market exposures. We will from time to time utilize derivative financial instruments in order to mitigate risk.

Foreign Exchange Rate Sensitivity

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.

Transactional Exposure

Our transactional exposure arises from the purchase and sale of good and services in currencies other than the functional currency of our operational units. As part of our risk management program, at the end of each fiscal year, we perform a sensitivity analysis on our forecasted transactional exposure for the upcoming fiscal year. We assumed a hypothetical 10% strengthening or weakening of the currency exposure in our analysis. Included in the analysis is the estimated impact of our hedging program, which mitigates our transactional exposure. At June 30, 2007 and 2006, we had hedged approximately 26% and 52%, respectively, of our transactional exposures. The following table summarizes the analysis as it relates to our transactional exposure:

	2007	2006
	(in millions)	
Net estimated transactional exposure	$55.9	$25.4
Impact to earnings based upon sensitivity analysis	$ 5.6	$ 2.1
Net estimated impact of hedges	(1.4)	(1.1)
Net impact to earnings after impact of hedging based upon sensitivity analysis	$ 4.2	$ 1.0

Translational Exposure

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. We perform a similar analysis as described above related to this translational exposure. We do not typically hedge any of our translational exposure and no hedging impact was included in our analysis at June 30, 2007 and 2006. The following table summarizes our translational exposure and the impact of a hypothetical 10% strengthening or weakening in the U.S. dollar:

	2007	2006
	(in millions)	
Net estimated translational exposure	$ 90.1	$ 61.2
Impact to earnings based upon sensitivity analysis	9.0	6.1

Interest Rate Sensitivity.

Until the Acquisition, we historically were not exposed to interest rate risk as the majority of our funding requirements were financed through Cardinal. For fixed rate debt, interest rate changes affect the market value, but do not impact earnings or cash flow. Conversely, for variable rate debt, interest rate changes generally do not affect the fair market value, but do impact earnings and cash flow, assuming other factors are held constant. We will be exposed to interest rate changes as a result of our borrowings under our senior term loan facilities, which bear interest at floating rates. A hypothetical 1% increase in variable interest rates for the indebtedness would have impacted earnings and cash flow for the fiscal year ended June 30, 2007 by approximately $14.3 million. At June 30, 2007, we have hedged 43% of our interest rate exposure.

Report of Independent Auditors

The Board of Directors
Catalent Pharma Solutions, Inc.

We have audited the accompanying consolidated balance sheet of Catalent Pharma Solutions, Inc. and subsidiaries (the Company) as of June 30, 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the period from April 10, 2007 (formation) to June 30, 2007 and the combined balance sheet of Pharmaceutical Technologies and Services (the Predecessor) as of June 30, 2006 and the related combined statements of operations, changes in net investment and cash flows for the period from July 1, 2006 through April 9, 2007 and for each of the two years in the period ended June 30, 2006. These consolidated and combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits.

We conducted our audits in accordance with the standards of the accounting principles generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catalent Pharma Solutions, Inc. and subsidiaries at June 30, 2007 and the consolidated results of its operations and its cash flows for the period April 10, 2007 (formation) to June 30, 2007, and the combined financial position of Pharmaceutical Technologies and Services at June 30, 2006, and the combined results of its operations and its cash flows for the period from July 1, 2006 to April 9, 2007 and for each of the two years in the period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the financial statements, at the end of fiscal year 2007 the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans – An amendment of FASB Statement Nos. 87, 88, 106, and 132(R)", and as discussed in Note 13 to the financial statements, at the beginning of fiscal year 2006 the Predecessor adopted SFAS No. 123 (Revised 2004), "Share-Based Payment."

Ernst + Young LLP

MetroPark, New Jersey
October 10, 2007

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

	Successor	Predecessor		
	For the Period April 10, 2007 to June 30, 2007	For the Period July 1, 2006 to April 9, 2007	For the Year ended June 30, 2006	For the Year ended June 30, 2005
Net revenue	$ 423.5	$ 1,280.2	$ 1,612.2	$ 1,517.3
Cost of products sold	333.0	975.2	1,192.0	1,108.2
Gross margin	90.5	305.0	420.2	409.1
Selling, general and administrative expenses	75.5	235.3	282.7	245.3
Impairment charges and (gain)/loss on sale of asset	(0.2)	(1.3)	8.8	74.3
In-process research and development (IPR&D)	112.4	-	-	-
Restructuring and other special items	25.5	22.0	11.8	74.7
Operating (loss)/earnings	(122.7)	49.0	116.9	14.8
Interest expense, net	44.1	8.9	6.8	17.1
Other, net	0.7	0.8	1.7	0.9
Earnings/(loss) from continuing operations before income taxes and minority interest	(167.5)	39.3	108.4	(3.2)
Income tax (benefit) expense	(21.2)	(2.0)	35.3	(10.8)
Minority interest, net of tax expense/(benefit) of $(0.5), $(3.2), $(2.2) and $6.7, respectively	0.7	3.9	2.0	(13.0)
(Loss)/earnings from continuing operations	(147.0)	37.4	71.1	20.6
Loss from discontinued operations, net of tax expense/ (benefit) of $(1.8), $(6.6), $(10.7) and $(2.7), respectively	(3.3)	(12.5)	(20.1)	(6.7)
Net (loss)/earnings	$ (150.3)	$ 24.9	$ 51.0	$ 13.9

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

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

	Successor June 30, 2007	Predecessor June 30, 2006
ASSETS		
Current assets:		
Cash and equivalents	$ 82.7	$ 133.6
Trade receivables, net	310.3	279.5
Receivables due from Cardinal Health, Inc. and affiliates	8.9	1.3
Inventories, net	218.9	203.0
Prepaid expenses and other	73.1	79.4
Assets held for sale	82.3	124.5
Total current assets	776.2	821.3
Property and equipment, net	1,056.1	1,001.4
Other assets:		
Goodwill	1,421.7	704.2
Other intangibles, net	546.3	12.2
Other	62.0	27.0
Total assets	$ 3,862.3	$ 2,566.1
LIABILITIES AND SHAREHOLDER'S EQUITY/PARENT COMPANY EQUITY		
Current liabilities:		
Current portion of long-term obligations and other short-term borrowings	$ 36.4	$ 30.2
Accounts payable	114.6	83.4
Other accrued liabilities	174.5	132.1
Liabilities held for sale	36.1	23.7
Total current liabilities	361.6	269.4
Long-term obligations, less current portion	2,275.6	11.4
Pension liability	106.1	91.0
Deferred income taxes	171.5	109.9
Other liabilities	30.3	23.9
Minority interest	6.6	4.3
Commitment and Contingencies (see Note 15)		
Shareholder's Equity/Parent Company Equity:		
Common stock $0.1 par value; 1,000 shared authorized, 100 shares issued	-	-
Additional paid in capital	1,049.9	-
Accumulated deficit	(150.3)	-
Accumulated other comprehensive income/(loss)	11.0	(21.8)
Cardinal Health, Inc., net investment	-	2,078.0
Total Shareholder's Equity/Parent Company Equity	910.6	2,056.2
Total liabilities and Shareholder's Equity/Parent Company Equity	$ 3,862.3	$ 2,566.1

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

Catalent Pharma Solutions, Inc. and Subsidiaries and Predecessor
Consolidated and Combined Statements of Changes in Shareholder's Equity and Parent Company Equity
(in millions)

	Cardinal Health, Inc. Net Investment	Accumulated Other Comprehensive Income/(loss)	Total Parent Company Equity
Predecessor			
Balance at June 30, 2004	$ 1,970.5	$ (33.1)	$ 1,937.4
Comprehensive income/(loss):			
Net earnings	13.9	-	
Foreign currency translation adjustments	-	0.5	
Change in unrealized gain/(loss) on derivatives	-	(1.2)	
Net change in minimum pension liability	-	(4.4)	
Total comprehensive income	-		8.8
Equity compensation	1.0	-	1.0
Net transfers from Cardinal Health, Inc.	5.1	-	5.1
Balance at June 30, 2005	1,990.5	(38.2)	1,952.3
Comprehensive income/(loss):			
Net earnings	51.0	-	
Foreign currency translation adjustments	-	16.3	
Change in unrealized gain/(loss) on derivatives	-	1.6	
Net change in minimum pension liability	-	(1.5)	
Total comprehensive income	-		67.4
Equity compensation	29.5	-	29.5
Net transfers from Cardinal Health, Inc.	7.0	-	7.0
Balance at June 30, 2006	2,078.0	(21.8)	2,056.2
Comprehensive income/(loss):			
Net earnings	24.9		
Foreign currency translation adjustments		53.7	
Change in unrealized gain/(loss) on derivatives		0.3	
Net change in minimum pension liability		-	
Total comprehensive income			78.9
Equity compensation	35.1		35.1
Net transfers to Cardinal Health, Inc.	(163.5)		(163.5)
Balance at April 9, 2007	$ 1,974.5	$ 32.2	$ 2,006.7

	Common Stock	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholder's Equity
Successor	-	-	-	-	-
Balance April 10, 2007 (Formation Date)					
Issuance of common stock		$ 1,048.9		$ -	$ 1,048.9
Comprehensive income/(loss):					
Net loss			$ (150.3)		
Foreign currency translation adjustments				9.2	
Net change in minimum pension liability				1.8	
Total comprehensive loss					(139.3)
Equity compensation		1.0			1.0
Balance at June 30, 2007	$ -	$ 1,049.9	$ (150.3)	$ 11.0	$ 910.6

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

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

	Successor	Predecessor		
	For the Period April 10, 2007 to June 30, 2007	For the Period July 1, 2006 to April 9, 2007	For the Year ended June 30, 2006	For the Year ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net (loss)/earnings	$ (150.3)	$ 24.9	$ 51.0	$ 13.9
Loss from discontinued operations	3.3	12.5	20.1	6.7
Loss/earnings from continuing operations	(147.0)	37.4	71.1	20.6
Adjustments to reconcile loss/earnings from continued operations to net cash from operations:				
Depreciation and amortization	37.2	77.6	87.2	86.9
Amortization of debt financing costs	1.6	-	-	-
Minority interest	0.7	3.9	2.0	(13.0)
Non-cash restructuring and other special items	0.7	0.6	4.8	70.1
Asset impairments and (gain)/loss on sale of assets	(0.2)	(1.3)	8.6	74.3
Equity compensation	1.0	35.1	29.5	1.0
In-process research and development	112.4	-	-	-
Provision/(benefit) for deferred income taxes	(27.0)	(15.2)	3.5	(10.5)
Provisions for bad debts and inventory	4.4	3.4	1.8	7.3
Change in operating assets and liabilities, net of acquisitions:				
Increase in trade receivables	(31.0)	(2.0)	(34.2)	(0.5)
Decrease/(Increase) in inventories	22.8	(8.0)	(24.0)	(26.2)
Increase/(Decrease) in accounts payable	19.3	11.9	(16.0)	(2.0)
Other accrued liabilities and operating items, net	74.1	48.0	(3.5)	(5.0)
Net cash provided by operating activities from continuing operations	69.0	191.4	130.8	203.0
Net cash provided by/(used in) operating activities from discontinued operations	2.7	(13.4)	10.4	8.3
Net cash provided by operating activities	71.7	178.0	141.2	211.3
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of subsidiaries, net of divestitures and cash acquired	(3,285.5)	10.7	(1.4)	(0.7)
Proceeds from sale of property and equipment	-	8.1	4.2	0.6
Additions to property and equipment	(18.8)	(104.6)	(102.0)	(222.1)
Net cash used in investing activities from continuing operations	(3,304.3)	(85.8)	(99.2)	(222.2)
Net cash used in investing activities from discontinued operations	(1.1)	(8.9)	(10.4)	(7.8)
Net cash used in investing activities	(3,305.4)	(94.7)	(109.6)	(230.0)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net change in short-term borrowings	0.8	(14.0)	(27.0)	2.1
Repayments of long-term obligations	(5.3)	(22.4)	(11.9)	(1.2)
Proceeds from long-term obligations	2,301.8	3.7	0.5	10.9
Long term debt financing costs	(56.3)	-	-	-
Tax benefit from exercises of stock options	-	-	2.4	3.8
Issuance of common stock	1,048.9	-	-	-
Net transfers (to)/from Cardinal Health, Inc. and affiliates	-	(175.6)	11.1	1.3
Net cash (used in)/ provided by financing activities from continuing operations	3,289.9	(208.3)	(24.9)	16.9
Net cash provided by/(used in) from discontinued operations	-	-	-	(5.6)
Net cash provided by/(used in) financing activities	3,289.9	(208.3)	(24.9)	11.3
Effect of foreign currency	4.1	13.9	12.8	(5.3)
NET INCREASE/(DECREASE) IN CASH AND EQUIVALENTS	60.3	(111.1)	19.5	(12.7)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	22.5	133.6	114.1	126.8
CASH AND EQUIVALENTS AT END OF PERIOD	$ 82.8	$ 22.5	$ 133.6	$ 114.1
SUPPLEMENTARY CASH FLOW INFORMATION:				
Interest paid	$ 23.4	$ 0.6	$ 8.1	$ 4.1

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Catalent Pharma Solutions, Inc. (“Catalent”, the “Company, or the “Successor”) 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 LLC, an entity controlled by affiliates of The Blackstone Group (“Blackstone”), a global private investment and advisory firm.

The Company is a provider of advanced dose form and packaging technologies, development, manufacturing and packaging services for pharmaceutical, biotechnology and consumer healthcare companies. The Company’s proprietary drug delivery and packaging technologies help its customers achieve their desired clinical and market outcomes and are used in many well-known products. As part of the Company’s strategy to streamline and focus its operations, the business was reorganized at the end of June 2007 into three operating segments: Oral Technologies, Sterile Technologies and Packaging Services. Previously, the Company operated its business in six segments: Softgel, Modified Release, Sterile Injectables, Sterile Blow Fill Seal, Packaging Services and Analytical and Other. As part of the reorganization, Oral Technologies includes the Softgel and Modified Release business, Sterile Technologies includes the Sterile Injectables and Sterile Blow Fill Seal businesses as well as Analytical and Other (excluding the hormone business which has been classified as discontinued operations, see Note 3 for further discussion). The Packaging Services business remains the same as previously reported.

- ***Oral Technologies***. This segment provides formulation, development and manufacturing services for most of the major oral dose forms on the market today. Its advanced oral drug delivery technologies are used in many well-known customer products and include proprietary technologies for drugs, selected biologics and consumer health products. This segment also provides formulation, development and manufacturing for conventional oral dose forms, including controlled release formulations, as well as immediate release tablets and capsules. There are twelve Oral Technologies facilities in ten countries, including three in North America, five in Europe, two in South America and two in the Asia-Pacific region.

- ***Sterile Technologies***. This segment produces nearly every type of major sterile dose form used in the prescription drug and biologic market today. In addition, this segment provides biologic cell line development and analytical and scientific consulting services. Sterile drugs may be injected, inhaled, or applied to the eye, ear, or other areas, and we offer both proprietary and traditional dose forms necessary for these separate routes of administration. For injectable drugs, the Company provides formulation and development for injectables as well as lyophilization (freeze drying) for otherwise unstable drugs and biologics. The Company also fills drugs or biologics into vials, pre-filled syringes, bags and other sterile delivery formats. For respiratory, ophthalmic and other routes of administration, the Company’s blow-fill-seal technology provides integrated dose form creation and filling of sterile liquids in a single process, which offers cost and quality benefits for its customers. There are six Sterile Technologies manufacturing facilities, including four in North America and two in Europe, plus two analytical and scientific laboratories in North America.

- ***Packaging Services***. This segment provides extensive packaging services for thousands of pharmaceuticals, biologics and consumer health and veterinary products, both on a standalone basis and as part of integrated supply-chain solutions that span both manufacturing and packaging. This segment offers contract packaging services (packaging drugs in blisters, bottles, pouches and unit-doses), printed components (creating package inserts or folding cartons) and clinical trial supply services (providing packaging, inventory and logistics management for clinical trials). The segment operates through a network of thirteen Packaging Services facilities including eight in North America and five facilities in Europe.

Basis of Presentation

On April 10, 2007, certain businesses owned by Cardinal Health, Inc. (“Cardinal”) and operated as part of Cardinal’s Pharmaceutical Technologies Services (“PTS”) segment (the “Acquired Businesses”), were acquired by an entity controlled by affiliates of Blackstone, pursuant to a Purchase and Sale Agreement dated as of January 25, 2007 entered into between Phoenix and Cardinal (the "Purchase Agreement").

These financial statements present the consolidated financial position, results of operations and cash flows of the Successor as a stand-alone entity and the combined financial position, results of operations and cash flows of the Acquired Businesses when operated as part of the Pharmaceutical Technologies and Services ("PTS") segment of Cardinal (hereinafter, the "Predecessor"), including adjustments, allocations and related party transactions (see Note 11) and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The financial statements as of June 30, 2007 and for the period April 10, 2007 to June 30, 2007 include the financial condition, results of operations and cash flows for the Company on a successor basis, and the impact of preliminary purchase price allocation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All inter-company transactions have been eliminated.

The accompanying financial statements of the Predecessor exclude Cardinal's Martindale generic and specialty manufacturing business, Beckloff Associates regulatory consulting business, Healthcare Marketing Services business and Sterile Puerto Rico manufacturing facility, as these PTS businesses were not sold by Cardinal in connection with the Purchase Agreement. The Predecessor's financial statements were derived from the consolidated financial statements of Cardinal using the historical results of operations and the historical basis of assets and liabilities of the Predecessor. The Predecessor financial statements presented may not be indicative of the results that would have been achieved had the Predecessor operated as a separate, stand-alone entity.

Allocation of Cardinal Costs

The financial statements for the Predecessor periods include all costs of the Predecessor and certain costs allocated from Cardinal. Cardinal provided various services to the Predecessor, including but not limited to cash management, tax and legal services, information technologies services, internal audit, facilities management, security, payroll and employee benefit administration, insurance administration, and telecommunication services. Cardinal allocated these expenses and all other central operating costs, first on the basis of direct usage when identifiable, with the remainder allocated among Cardinal's businesses on the basis of their respective revenues, headcount or other measure. In the opinion of management, these methods of allocating costs are reasonable.

The financial statements for the Predecessor periods are not intended to be a complete presentation of the financial position, results of operations and cash flows as if the Predecessor had operated as a stand-alone entity during those periods presented. Had the Predecessor existed as a stand-alone entity, its financial position, results of operations and cash flows could have differed materially from those included in the financial statements included herein. In addition, the future financial position, results of operations and cash flows could differ materially from the historical results presented.

Cardinal used a centralized approach to cash management and the financing of operations. Cash deposits from the Predecessor were transferred to Cardinal on a regular basis within the United States and were netted against Cardinal's net investment account. Similarly, settlements of intercompany interest and income taxes were paid through the Cardinal net investment account. None of Cardinal's cash, cash equivalents or debt was allocated to the Predecessor in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires 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 valuation, goodwill and other intangible asset impairment, equity-based compensation, income taxes, self insurance accruals, loss contingencies and restructuring charge reserves. Actual amounts may differ from these estimated amounts. Some of the more significant estimates used include those used in accounting for the Acquisition under the purchase method of accounting, and prior to the acquisition, in allocating certain costs to the Predecessor in order to present the Predecessor's operating results on a stand alone basis.

Translation of Foreign Currencies

The financial statements of the Company's 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 into 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, net".

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," 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 collectibility 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 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. 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 has been completed and obligations of performance have been completed.

Arrangements containing multiple revenue generating activities are accounted for in accordance with Emerging Issue Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." 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 or vendor specific objective evidence and recognized in accordance with the applicable revenue recognition criteria for each element.

Cash and Equivalents

All liquid investments purchased with a maturity of three months or less are considered to be cash and equivalents. The carrying value of these cash equivalents approximates fair value.

Receivables

Trade receivables are primarily comprised of amounts owed to the Company through its operating activities and are presented net of an allowance for doubtful accounts of $6.7 million and $5.4 million at June 30, 2007 and 2006, respectively. An account is considered past due on the first day after its due date. The Company monitors past due accounts on an ongoing basis and establishes appropriate reserves to cover probable losses. The Company will write-off any amounts deemed uncollectible against an established bad debt reserve.

Receivables due from Cardinal Health, Inc. and affiliates are primarily comprised of reimbursement to the Company of certain transaction costs in connection with the Acquisition as of June 30, 2007 and net amounts owed to the Company through its manufacturing, packaging and analytical service activities provided to other Cardinal businesses as of June 30, 2006. See Note 11.

Concentrations of Credit Risk and Major Customers

Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers and their dispersion across different geographic areas. The customers are primarily concentrated in the pharmaceutical and healthcare industry. The Company normally does not require collateral or any other security to support credit sales. The Company performs ongoing credit evaluations of its customers' financial conditions and maintains reserves for credit losses. Such losses historically have been within the Company expectations. For the period April 10, 2007 to June 30, 2007 and the period July 1, 2006 to April 9, 2007, and fiscal years ended June 30, 2006 and 2005, no customer accounted for more than 10% of the Company revenue or ending accounts receivables.

Inventories

Inventory is primarily stated at the lower of cost or market, using the first-in, first-out ("FIFO") method. See note 2 for discussion regarding the inventory charge of $29.4 million incurred in the period April 10, 2007 to June 30, 2007 as a result of the purchase accounting adjustments made due to the Acquisition.

Goodwill and Other Intangibles

The Company accounts for purchased goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, purchased goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually. Intangible assets with finite lives, primarily customer relationships and patents and trademarks, continue to be amortized over their useful lives. The Company's impairment analysis is based on a discounted cash flow analysis. The methods and assumptions used to test impairment have been consistently applied for the periods presented. The discount rate used for impairment testing is based on the risk-free rate plus an adjustment for 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 impairment. Any identified impairment would result in an adjustment to the Company's results of operations. The Company performed its annual impairment test in fiscal 2007, 2006 and 2005 during the March time period, none of which resulted in the recognition of any impairment charges. Following the Acquisition, under the Successor, the Company has elected to perform its annual impairment during its fourth fiscal quarter, commencing in fiscal 2008. See note 2 for additional discussion regarding goodwill and other intangible assets recorded as a result of the Acquisition and Notes 4 and 5 for additional disclosure regarding goodwill and other intangible assets.

Property and Equipment

The Company evaluates the recoverability of its other long-lived assets, including amortizing intangible assets, if circumstances indicate impairment may have occurred pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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 statements of operations.

Property and equipment are stated at cost adjusted for purchase accounting. Depreciation expense for financial reporting purposes 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 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 $26.9 million, $76.4 million, $85.8 million and $85.6 million for the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005, respectively. The Company charges repairs and maintenance costs to expense as incurred. The amount of capitalized interest was immaterial for all periods presented. See Note 2 for discussion regarding the Company's purchase accounting adjustments made due to the Acquisition, which resulted in an overall net step up of the carrying values of continuing operation's property and equipment to their relative fair values totaling approximately $17.0 million.

Restructuring Costs and Other Special Items

Costs associated with the Company's restructuring activities are recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Under this standard, a liability for an exit cost is recognized as incurred.

Costs associated with integrating acquired companies under the purchase method are recorded in accordance with EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." Certain costs to be incurred by the Successor, as the acquirer, such as employee and lease terminations and other facility exit costs associated with the acquired company, are recognized at the date the integration plan is committed to and adopted by management. Certain other integration costs not meeting the criteria for accrual at the commitment date are charged to expense as the integration plan is implemented.

The Company records settlements of significant lawsuits that are infrequent, non-recurring or unusual in nature as special items.

Self Insurance

The Company is self insured for certain employee health benefits and partially self-insured for product liability and workers compensation claims. Accruals for losses are provided based upon claims experience and actuarial assumptions, including provisions for incurred but not reported losses. In accordance with the Purchase Agreement, Cardinal retained the liabilities associated with employee health benefits, workers compensation and product liability related to the Predecessor for the period prior to the Acquisition.

Equity-Based Compensation

The Company accounts for its stock-based compensation awards in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 Revised (FAS 123R), *Share-Based Payment*. FAS 123R requires companies to recognize compensation expense using a fair-value based method for costs related to share-based payments including stock options and employee stock purchase plans. The expense is measured based on the grand date fair value of the awards that are expected to vest, and the expense is recorded over the applicable requisite service period. In the absence of an observable market price for a share-based award, the fair value is based upon a valuation methodology that takes into consideration various factors, including the exercise price of the award, the expected term of the award, the current price of the underlying shares, the expected volatility of the underlying share price based on peer companies, the expected dividends on the underlying shares and the risk-free interest rate.

Shipping and Handling

Shipping and handling costs are included in cost of products sold in the statements of operations. Shipping and handling revenue received was immaterial for all periods presented and is presented within net revenues.

Accumulated Other Comprehensive Income/(Loss)

Accumulated other comprehensive income/(loss), which is reported in the accompanying Consolidated and Combined Statements of Changes in Shareholder's Equity/Parent Company Equity, consists of net earnings/(loss), currency translation, minimum pension liability and unrealized gains and losses from derivatives.

Derivative Instruments

The Company uses derivative instruments as part of its overall strategy to manage its exposure to market risks primarily associated with fluctuations in foreign currency and interest rates. As a matter of policy, the Company does not use derivatives for trading or speculative purposes.

All derivatives are recorded at fair value either as assets or liabilities. Changes in fair value of the hedged item in a fair value hedge are recorded as an adjustment to the carrying amount of the hedged item and recognized currently in earnings as a component of net revenues, cost of revenue or selling, general and administrative expenses, based upon the nature of the hedged item, in the statements of operations. Changes in fair value of derivatives not designated as hedging instruments are recognized currently in earnings in the statement of operations. The effective portion of changes in fair value of derivatives designated as cash flow hedging instruments is recorded as a component of other comprehensive income. The ineffective portion is reported currently in earnings in the statements of operations. Amounts included in other comprehensive income are reclassified into earnings in the same period during which the hedged cash flows affect earnings.

Research and Development Costs

Costs incurred in connection with the development of new products and manufacturing methods are charged to expense as incurred. Research and development costs included in selling, general and administrative expenses were $6.7 million, $18.2 million, $29.2 million and $27.4 million for the periods April 10, 2007 to June 30, 2007 and July 1, 2006 to April 9, 2007, and fiscal 2006 and 2005, respectively. The Company received reimbursement for certain research and development costs from certain customers of approximately $7.7 million, $11.7 million, $28.1 million and $20.7 million for the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005, respectively. Such amounts are presented within net revenues.

Income Taxes

In accordance with the provisions of SFAS No. 109, “Accounting for Income Taxes,” the Company accounts for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which the Company operates. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred taxes are not provided on the unremitted earnings of subsidiaries outside of the U.S. when it is expected that these earnings are permanently reinvested. The Company has made no provision for U.S. income taxes on undistributed earnings of foreign subsidiaries, as those earnings are considered permanently reinvested in the operations of those foreign subsidiaries.

Under the Predecessor, the operations of the Company were included in the consolidated U.S. and certain foreign and state tax returns of Cardinal. In other foreign and state jurisdictions, the Company filed its tax returns as a separate taxpayer or as part of a consolidated or unitary group. The income tax provisions and related deferred tax assets and liabilities have been determined as if the Company were a separate taxpayer. Cardinal managed its tax position for the benefit of its entire portfolio of businesses, and its tax strategies are not necessarily reflective of the tax strategies that the Company would have followed or will follow as a stand-alone company.

Recent Financial Accounting Standards

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections.” SFAS No. 154 is a replacement of APB Opinion No. 20, “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements.” This Statement requires voluntary changes in accounting to be accounted for retrospectively and all prior periods to be restated as if the newly adopted policy had always been used, unless it is impracticable. APB Opinion No. 20 previously required most voluntary changes in accounting to be recognized by including the cumulative effect of the change in accounting in net income in the period of change. This Statement also requires that a change in method of depreciation, amortization or depletion for a long-lived asset be accounted for as a change in estimate that is affected by a change in accounting principle. This Statement is effective for fiscal years beginning after December 15, 2005. The Company adopted this statement in fiscal 2007 and it did not have an impact on the Company’s financial position or results of operations.

In November 2005, the FASB issued FASB Staff Position (“FSP”) No. SFAS 115-1 and SFAS 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” This FSP amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." This FSP provides guidance on the determination of when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of an impairment loss. This FSP also requires disclosure about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP is effective for reporting periods beginning after December 15, 2005. The adoption of this FSP did not have a material impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise be required to be bifurcated from its host contract. The election to measure a hybrid financial instrument at fair value, in its entirety, is irrevocable and all changes in fair value are to be recognized in earnings. This Statement also clarifies and amends certain provisions of SFAS No. 133 and SFAS No. 140. This Statement is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Early adoption is permitted, provided the Company has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. The adoption of this Statement is not expected to have a material impact on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This Interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to accumulated deficit as of the beginning of the period of adoption. The adoption of this Interpretation is not expected to have a material impact on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is in the process of determining the impact of adopting this Statement.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. This Statement requires balance sheet recognition of the funded status for all pension and postretirement benefit plans effective for fiscal years ending after December 15, 2006. This Statement also requires plan assets and benefit obligations to be measured as of a company's balance sheet date effective for fiscal years ending after December 15, 2008. The Company adopted this statement and it did not have a material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits an entity, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for the Company in the first quarter of fiscal 2009. The Company is currently assessing the impact that SFAS No. 159 will have on the results of its operations, financial position or cash flows.

2. THE ACQUISITION

On January 25, 2007, Phoenix, a newly formed Delaware limited liability company that is controlled by affiliates of Blackstone, entered into the Purchase Agreement with Cardinal to purchase the issued and outstanding shares of capital stock of certain entities controlled by Cardinal and specified related receivables, which together comprised the Predecessor, for an aggregate purchase price of approximately $3.3 billion, as adjusted pursuant to certain provisions in the Purchase Agreement for working capital, cash, indebtedness and earnings before interest, taxes and depreciation and amortization expense of the Successor and a pension adjustment associated with under funded pension liability of approximately $70.0 million. Phoenix subsequently assigned its rights and obligations under the Purchase Agreement to PTS Acquisition Corp., Phoenix's indirect and wholly owned subsidiary, which entity effected the acquisition. In these financial statements, we refer to this acquisition as the "Acquisition." The Acquisition was consummated on April 10, 2007.

The Acquisition was part of a series of transactions which occurred simultaneously on April 10, 2007 (except as discussed below) and included:

- a cash contribution of approximately $1.0 billion from Phoenix to PTS Holdings Corp., an entity controlled by affiliates of Blackstone and Phoenix's direct subsidiary, in exchange for common stock, which amount was in turn contributed to PTS Intermediate Holdings LLC, a direct wholly owned subsidiary of Phoenix, which amount was in turn contributed to PTS Acquisition Corp., and which PTS Acquisition Corp. used to fund the equity portion of the purchase price and which contribution is reflected in the Company's Equity on its Balance Sheet as of June 30, 2007;

- the issuance of senior toggle notes and senior subordinated notes by PTS Acquisition Corp., for proceeds in the amount of $565.0 and $300.3 million in proceeds , respectively;

- the entering into by PTS Acquisition Corp. of a new senior credit facility, and the receipt of approximately $1.4 billion in proceeds under the credit facility;

- the payment of other fees and expenses in connection with the Acquisition; and

- immediately following the Acquisition on April 10, 2007, the merger of PTS Acquisition Corp. with and into the Cardinal Health 409, Inc.

- the surviving entity, Cardinal Health 409, Inc., was subsequently renamed as Catalent Pharma Solutions, Inc., and is referred to herein as "Catalent", the "Successor", or the "Company".

Costs associated with issuing the long term debt obligations above approximated $56.3 million and are capitalized on the Company's balance sheet and are being amortized to interest expense over the respective terms of the debt instruments.

The Company is in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. A valuation study was performed, which supports the Company's purchase price allocation. The valuation study resulted in (i) a fair value step-up to real and personal property and certain identifiable intangible assets, (ii) an increase in value of inventory and a corresponding charge to cost of products sold related to higher costs of inventory sold during the period April 10, 2007 to June 30, 2007; and (iii) recording and writing off acquired in-process research and development ("IPR&D"), which was subsequently charged to expense. As a result, included in the Company's statement of operations is a $29.4 million charge to cost of products sold from continuing operations relating to the sale of inventory that was stepped-up to fair value on the Acquisition date and sold as of June 30, 2007 and a charge of $112.4 million related to the Acquisition for the purchased IPR&D, which is associated with the Company's research and development activities in its Oral Technologies segment. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projections. The range of discount rates applied was between 13.5 to 20.0%.

The Company anticipates that purchase accounting for the Acquisition will be finalized by the third quarter of fiscal 2008. The excess of the purchase price paid over the fair value of the net assets acquired and liabilities assumed has been allocated to goodwill. Intangible assets with indefinite lives consist of amounts related to the Company's assembled workforce, which was calculated as part of the Acquisition valuation study, are not being amortized and are included in goodwill on the Company's balance sheet. Of the total excess purchase price attributable to goodwill, $145.0 million is deductible for tax purposes. The following table summarizes the preliminary allocation of fair values of the Company's assets acquired and liabilities assumed at the date of acquisition.

(in millions)	April 10, 2007
Current assets	$ 707.0
Property and equipment	1,055.2
Intangible assets	556.3
In-process research and development	112.4
Other assets	64.4
Total assets	2,495.3
Current liabilities	(266.2)
Long term debt	(2,271.4)
Non current liabilities	(135.9)
Deferred taxes	(193.3)
Total liabilities	(2,866.8)
Equity contributions	(1,048.9)
Excess purchase price attributable to goodwill	$ 1,420.4

The following table summarizes the preliminary allocation of the Acquisition purchase price:

	(in millions)
Purchase price allocation:	
Purchase price	$3,216.5
Transaction fees and expenses	69.1
Total purchase price	3,285.6
Less:	
Net tangible assets acquired	1,292.7
Fair value adjustment to inventory	29.4
Fair value adjustment to property and equipment	16.8
Other intangible assets acquired	556.3
In-process research and development	112.4
Net assets held for sale	50.9
Deferred income tax liabilities	(193.3)
Excess purchase price attributable to goodwill	1,420.4

3. DISCONTINUED OPERATIONS AND DIVESTITURES

Discontinued Operations

In connection with the Acquisition, the Company made a determination and initiated plans to dispose of its Albuquerque, New Mexico, and Osny, France operations. These two businesses are classified as held for sale on the Company's balance sheet and included in discontinued operations on the Company's statement of operations. Summarized statements of operations data for these discontinued operations are as follows:

	Successor	Predecessor		
(in millions)	For the Period April 10, 2007 to June 30, 2007	For the Period July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Net revenues	$ 28.4	$ 71.6	$ 99.6	$ 110.4
Loss before income taxes	(5.1)	(19.1)	(30.8)	(9.4)
Income tax benefit	(1.8)	(6.6)	(10.7)	(2.7)
Loss from discontinued operations, net of tax	$ (3.3)	$ (12.5)	$ (20.1)	$ (6.7)

Summarized balance sheet data for these discontinued operations is as follows:

(in millions)	Successor June 30, 2007	Predecessor June 30, 2006
Assets held for sale		
Current assets	$ 53.0	$ 47.9
Property and equipment	29.3	76.4
Other assets	—	0.2
Total assets held for sale	$ 82.3	$ 124.5
Liabilities held for sale		
Current liabilities	$ 35.3	$ 23.1
Other liabilities	0.8	0.6
Total liabilities held for sale	$ 36.1	$ 23.7

Divestitures

Under the Predecessor, on July 31, 2006, the Company sold one of its facilities within the Oral Technologies segment to Adams Respiratory Operations, Inc. The terms of the sale included the sale of assets of the facility and resulted in a loss on sale of assets of $1.0 million recorded in the "impairment charges and (gain)/loss on sale of assets" within the statements of operations. In accordance with Emerging Issue Task Force Issue No. 03-13, "Applying the Conditions in Paragraph 42 of SFAS No. 144 in Determining Whether to Report Discontinued Operations ("EITF 03-13"), the results of operations of this sold facility have not been reclassified to discontinued operations because the Company will continue to receive significant cash inflows from the products associated with this facility.

Under the Predecessor, on March 9, 2007, the Company sold one of its businesses within the Oral Technologies segment. The terms of the sale included the sale of certain intellectual property and resulted in a gain on sale of assets of $5.0 million recorded in the "impairment charges and (gain)/loss on sale of assets" within the statements of operations. The results of operations of this sold business have not been reclassified to discontinued operations, as the amounts were not significant.

4. GOODWILL

The following table summarizes the changes in the carrying amount of goodwill in total and by reporting segment:

(in millions)	**Oral Technologies**	**Sterile Technologies**	**Packaging Services**	**Total**
Predecessor				
Balance at June 30, 2005	$ 449.2	$ 125.7	$ 139.4	$ 714.3
Adjustments to previously recorded goodwill	(0.2)	(9.2)	0.8	(8.6)
Foreign currency translation adjustments	(1.2)	(0.5)	0.2	(1.5)
Balance at June 30, 2006	$447.8	$116.0	$140.4	$704.2
Successor				
The Acquisition, April 10, 2007	$ 718.1	$ 452.0	$ 250.3	$ 1,420.4
Foreign currency translation adjustments	0.6	0.5	0.2	1.3
Balance at June 30, 2007	$ 718.7	$ 452.5	$ 250.5	$ 1,421.7

5. OTHER INTANGIBLE ASSETS

Other intangible assets with definite lives are being amortized using the straight-line method over periods that range from five to twenty years. The details of other intangible assets subject to amortization by class as of June 30, 2007 and 2006 are as follows:

Successor:

(in millions)	Weighted Average Life	Gross Intangible	Accumulated Amortization	Net Intangible
June 30, 2007				
Amortized intangibles:				
Core technology	20.0 years	$ 153.4	$ (1.9)	$ 151.5
Customer relationships	12.0 years	148.9	(3.1)	145.8
Product relationships	12.0 years	254.0	(5.0)	249.0
Total amortized intangibles	13.5 years	$ 556.3	$(10.0)	$ 546.3

Predecessor:

(in millions)	Gross Intangible	Accumulated Amortization	Net Intangible
June 30, 2006			
Amortized intangibles:			
Trademarks and patents	$ 6.4	$ (1.2)	$ 5.2
Customer lists and relationships	15.2	(8.6)	6.6
Licenses	0.5	(0.2)	0.3
Other intangibles	3.8	(3.7)	0.1
Total amortized intangibles	$ 25.9	$(13.7)	$ 12.2

Amortization expense for the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005 was approximately $10.3 million, $1.2 million, $1.4 million and $1.3 million, respectively. Amortization expense is estimated to be:

(in millions)	2008	2009	2010	2011	2012
Amortization expense	$ 41.2	$ 41.2	$ 41.2	$ 41.2	$ 41.2

6. RESTRUCTURING AND OTHER SPECIAL ITEMS

Restructuring and other special charges consist of the following:

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Separation costs	$ 7.0	$ –	$ –	$ –
Restructuring costs	8.5	6.1	10.7	77.2
Acquisition costs	10.0	15.9	1.1	(2.5)
Total restructuring and other special charges	$25.5	$22.0	$11.8	$74.7

Separation Costs

As a result of the Acquisition, the Company will incur costs to separate certain shared service functions and systems from Cardinal. For the period April 10, 2007 to June 30, 2007, the Company recorded $7.0 million of separation costs, which consist primarily of professional fees directly related to the separation plan to other special charges. See Note 11 for further discussion of costs to be reimbursed by Cardinal.

Restructuring Costs

During the period April 10, 2007 to June 30, 2007, the Successor reorganized its operations into three operating segments as discussed in Note 1. As part of this reorganization, the Successor eliminated approximately 80 full time positions. The Successor recorded $7.4 million in restructuring costs related to severance activities that were communicated in June 2007 and payable to terminated employees beginning in July 2007.

The Predecessor implemented plans to restructure its operations (both domestically and internationally). The restructuring plans focused on various aspects of operations, including closing and consolidating certain manufacturing operations, rationalizing headcount and aligning operations in a strategic and more cost-efficient structure.

Included in these costs are charges associated with facility consolidations. These projects include planned reductions of headcount within existing operations and consolidation of overlapping operations impacting certain facilities of each of the segments, including the closure of a manufacturing facility within the Sterile Technologies segment. This closure is expected to take place during fiscal 2008. In addition, the Oral Technologies segment planned to partially transfer production from one of its manufacturing facilities to another one to consolidate overlapping operations.

The following table summarizes the significant costs recorded within restructuring costs:

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Restructuring costs:				
Employee-related reorganization (1)	$7.4	$4.6	$ 4.8	$ 8.5
Facility consolidations:				
Employee-related costs (1)	0.5	1.5	0.3	0.6
Asset impairments (2)	—	—	4.1	67.0
Facility exit and other costs (3)	0.6	—	1.5	1.1
Total facility consolidations	1.1	1.5	5.9	68.7
Total restructuring costs	$8.5	$6.1	$10.7	$77.2

(1) Employee-related costs consist primarily of severance accrued upon either communication of terms to employees or management's commitment to the restructuring plan when a defined severance plan exists. Outplacement services provided to employees who have been involuntarily terminated and duplicate payroll costs during transition periods are also included within this classification. The restructuring program announced during fiscal 2007 plus the remaining announced facilities consolidation is expected to reduce headcount by approximately 500 individuals. As of June 30, 2007, 80 individuals were terminated.

(2) Asset impairments recorded by the Predecessor in fiscal 2006 include a charge associated with a Sterile Technologies manufacturing facility closure of $7.0 million. In addition, during fiscal 2006, the Predecessor made the decision not to sell an Oral Technology facility, which was recorded as held for sale during fiscal 2005. As result of this decision, the Predecessor recorded an adjustment of $3.8 million to increase the carrying value of a disposal group to its fair value.

In fiscal 2005, the Predecessor recorded asset impairment charges of $41.8 million including an impairment of goodwill of $15.4 million associated with the decision to sell two facilities (one within the Packaging Services segment and one within the Oral Technologies segment) in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and SFAS No. 142, "Goodwill and Intangible Assets." In addition, the Predecessor commenced a plan to partially transfer production from one Oral Technologies' facility to another existing facility to consolidate operations. As a result of this commitment, the Predecessor recorded an asset impairment of $24.6 million in fiscal 2005 based on an analysis of discounted cash flows in accordance in SFAS No. 144.

(3) Facility exit and other costs consist of accelerated depreciation, equipment relocation costs, project consulting fees and costs associated with the planned facility consolidations.

Acquisition Costs

During December 2006, Cardinal communicated a retention bonus package to certain employees of the Predecessor related to the announced sale of the Predecessor. The retention bonus package is payable by Cardinal if the following conditions are met: (1) Cardinal completes the sale of the Predecessor and (2) the employee transfers with the sale and remains employed with the Company for a period of 90 days after the sale. During the period April 10, 2007 to June 30, 2007, the Company recorded a charge of $9.4 million and during the period July 1, 2006 to April 9, 2007, the Predecessor recorded a charge of $15.3 million related to these bonuses as a charge to restructuring and other special items line. During, July 2007, the Company paid $24.7 million related to these retention bonus packages to the employees and was subsequently reimbursed by Cardinal.

Restructuring and Other Special Items Accrual Roll forward

The following table summarizes activity related to liabilities associated with special items:

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Balance at beginning of period	$ 3.3	$ 6.1	$ 3.2	$ 12.0
Additions [(1)]	11.7	6.7	11.8	74.7
Non cash reductions [(2)]	(0.7)	(0.6)	(4.8)	(70.1)
Payments	(6.1)	(8.9)	(4.1)	(13.4)
Balance at end of period	$ 8.2	$ 3.3	$ 6.1	$ 3.2

(1) Amounts represent items that have been expensed as incurred or accrued in accordance with GAAP, as noted in the preceding paragraphs, excluding items reimbursed by Cardinal for separation costs and retention bonuses of $4.4 million and $9.4 million, respectively, for the period April 10, 2007 to June 30, 2007 and for retention bonuses of $15.3 million for the period July 1, 2006 to April 9, 2007.

(2) Amount includes $0.7 million and $0.6 million of non-compete amortization expense for the period April 10, 2007 to June 30, 2007 and for the period July 1, 2006 to April 9, 2007, respectively.. For fiscal 2006, amount includes $4.1 million related to asset impairments and $0.7 million related to non-compete amortization expense. For fiscal 2005, amount includes $67.0 million related to asset impairments, $0.2 million related to non-compete amortization expense and $2.9 million related to accrual reversal associated with Oral Technologies segments' pension curtailment.

Purchase Accounting Accruals

In connection with restructuring and integration plans related to the businesses the Predecessor acquired through Cardinal's acquisition of The Intercare Group, plc, an European pharmaceutical products and services company during fiscal 2004, the Company planned to close certain acquired facilities. During fiscal 2004, the Predecessor accrued, as part of its acquisition adjustments; a liability of $11.7 million related to employee termination and $3.6 million related to exit costs associated with the planned closure. During fiscal 2006, the Predecessor subsequently decided not to close these facilities and reversed the accrual of $12.1 million for the planned facility closures to goodwill.

Restructuring and other special items have not been recorded within the operating segments of the Company, as these amounts are not reviewed by management in evaluating the results of the segments.

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

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

(in millions)	Maturity Date	Successor 2007	Predecessor 2006
Senior Secured Credit Facilities			
Term loan facility Dollar-denominated	April 2014	$ 1,060.0	$ —
Term loan facility Euro-denominated	April 2014	356.2	—
9 ½% Senior Toggle notes	April 2015	565.0	—
9 ¾% Senior subordinated Euro-denominated notes	April 2017	302.4	—
Revolving credit agreement	July 2007	13.9	—
Cardinal and Predecessor credit facilities and unsecured lines of credit	Various	—	26.8
Other obligations	Through Oct 2015	14.5	14.8
Total		2,312.0	41.6
Less: current portion and other short-term borrowings		36.4	30.2
Long-term obligations, less current portion		$ 2,275.6	$ 11.4

Senior Secured Credit Facilities

On April 10, 2007, in connection with the Acquisition, the Company entered into a $1.8 billion senior secured credit facility consisting of: (i) an approximately $1.4 billion term loan facility and (ii) a $350 million revolving credit facility. The Company is required to repay the term loans in quarterly installments equal to 1% per annum of the original funded principal amount for the first six years and nine months, with the remaining amount payable on April 10, 2014. These repayments commence on September 28, 2007.

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 a 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 ½ 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 plus 2.25%. The interest rate at June 30, 2007 was 7.61%.

In addition to paying interest on outstanding principal under the Company's new 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 thereunder. 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 June 30, 2007, $13.9 million was outstanding under the revolving credit facility. The commitment fee charged to interest expense during the period April 10, 2007 to June 30, 2007 was $0.4 million.

The senior secured credit facilities are subject to amortization and prepayment requirements and contain certain covenants, events of default and other customary provisions.

Senior Notes

On April 10, 2007, in connection with the Acquisition, the Company issued $565.0 million of 9 ½%/ 10 1/4% senior PIK-election fixed rate notes due 2015 ("Senior Toggle Notes"). The Senior Toggle Notes are unsecured senior obligations of the Company. Interest on the Senior Toggle Notes is payable semi-annually in arrears on each April 15 and October 15, commencing on October 15, 2007.

For any interest period prior to April 15, 2011, the Company may at its option elect to pay interest on the Senior Toggle Notes (i) entirely in cash ("Cash Interest"), (ii) entirely by increasing the principal amount of the outstanding Senior Toggle Notes by issuing PIK Notes ("PIK interest") or (iii) 50% as Cash Interest and 50% as PIK Interest. Cash Interest on the Senior Toggle Notes accrues at the rate of 9½% per annum. PIK Interest on the Senior Toggle Notes accrues at the Cash Interest rate per annum plus ¾% per annum. The interest rate at June 30, 2007 was 9.50%.

At any time prior to April 15, 2011, the Company may redeem all or a part of the Senior Toggle Notes at a redemption price equal to 100% principal amount plus a "make-whole" premium plus any accrued and unpaid interest to the date of redemption. In addition, before April 15, 2010, the Company may redeem up to 35% of the Senior Toggle Notes at a redemption price of 109.5% of their principal amount, plus accrued unpaid interest to the redemption date, using proceeds from sales of certain kinds of capital stock, provided that after any such redemption, at least 50% of the aggregate principal amount of the Senior Toggle Notes remain outstanding. On and after April 15, 2011, the Company may redeem the Senior Toggle Notes at par plus specified declining premiums set forth in the indenture, plus any accrued interest to the date of redemption.

Senior Subordinated Notes

On April 10, 2007, in connection with the Acquisition, the Company issued € 225.0 million 9¾% euro-denominated ($300.3 million dollar equivalent). Senior Subordinated Notes due 2017 (the "Senior Subordinated Notes"). The Senior Subordinated Notes are unsecured senior subordinated obligations of the Company and are subordinated in right of payment to all existing and future senior indebtedness of the Company (including the senior credit facilities and the Senior Toggle Notes). Interest on the Senior Subordinated Notes is payable semi-annually in cash only in arrears on each April 15 and October 15, commencing on October 15, 2007.

At any time prior to prior to April 15, 2012, the Company may redeem all or a part of the Senior Subordinated Notes at a redemption price equal to the principal amount plus a "make-whole" premium, plus any accrued interest to date of redemption. In addition, before April 15, 2010, the Company may redeem up to 35% of the Senior Subordinated Notes at a redemption price of 109.75% of their principal amount, plus accrued and unpaid interest to the redemption date, using proceeds from sales or certain kinds of capital stock, provided that after that any such redemption, at least 50% of the aggregate principal amount of the Senior Subordinated Notes remain outstanding. On and after April 15, 2012 we may redeem the Senior Subordinated Notes at par plus specified declining premiums set forth in the senior subordinated indenture, plus any accrued and unpaid interest to the date of redemption.

Cardinal and Predecessor Credit Facilities

The Predecessor participated in Cardinal's centralized system for cash management and the financing of its operations. Cardinal funded the majority of the Predecessor's financing requirements through Cardinal debt capacity. These transactions are reflected in the Cardinal Health, Inc. net investment account.

For the international locations, the Predecessor also maintained short-term credit facilities and an unsecured line of credit. In addition, the Predecessor had the ability to borrow funds through Cardinal's unsecured line of credit. The outstanding balance under these facilities related to the Predecessor was repaid prior to the closing of the Acquisition. The weighted average interest rate related to these obligations was 4.81% for the fiscal year ended June 30, 2006.

Other Obligations

Other obligations consist primarily of loans for equipment, buildings and insurance premium financing. In addition, other obligation includes a capital lease for a building. The weighted average interest rate for such obligations during the period from April 10, 2007 to June 30, 2007 was 7.19%, from July 1, 2006 to April 9, 2007 was 7.93% and for the fiscal year ended June 30, 2006 was 6.19%.

Maturities of long-term obligations including capital leases of $5.2 million and other short-term borrowings for future fiscal years are:

(in millions)	2008	2009	2010	2011	2012	Thereafter	Total
Maturities of long-term obligations	$ 36.4	$ 15.7	$ 15.8	$ 15.8	$ 14.9	$ 2,213.4	$ 2,312.0

Debt Issuance Costs

In connection with the debt issuances associated with the Acquisition, the Company recorded $56.3 million of debt issuance costs. Debt issuance costs are capitalized within other assets on the balance sheet and amortized over the life of the related debt through charges to interest expense in the statement of operations. Amortization of debt issuance costs totaled $1.6 million for the period April 10, 2007 to June 30, 2007.

Guarantees and Security

All obligations under the senior secured credit agreement, the Senior Toggle Notes and 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.

All obligations under the senior secured credit facilities, and the guarantees of those obligations, are secured by substantially all 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 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 Company and each guarantor, subject to certain limited exceptions.

Debt Covenants

The senior secured credit agreement and the indentures governing the Senior Toggle Notes and 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; engage in certain transactions with affiliates; make investments, loans or advances; make certain acquisitions; and in the case of the Company's senior credit agreement, enter into sale and leaseback transactions; repay subordinated indebtedness, 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 notes and the senior subordinated notes also contain change of control provisions and certain customary affirmative covenants and events of default. As of June 30, 2007, the Company was in compliance with all restrictive covenants related to its long-term obligations.

8. FINANCIAL INSTRUMENTS

Interest Rate Risk

A portion of the debt used to finance the Company's operations is exposed to interest rate fluctuations. The Company 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 June 30, 2007, is to interest rate fluctuations in the United States and Europe, primarily the LIBOR and EURIBOR interest rates. At the end of June 2007, the Company entered into interest rate swaps, expiring June 2010, as the derivative instrument to manage the risk associated with the Company's floating rate debt. These interest rate swap agreements are designated as cash flow hedges and, accordingly, are adjusted to current market values through other comprehensive income until the underlying debt instrument being hedged is settled or the Company determines that the specific hedge accounting criteria are no longer met. Upon recognition, such gains and losses are recorded in interest expense, net within the statement of operations. As of June 30, 2007, the market value of the interest rate swaps was less than $0.1 million.

The following table shows the notional amount hedged and the value of the interest rate swap contracts outstanding at June 30, 2007 included in other assets or liabilities. The Predecessor did not have any interest rate hedging instruments outstanding as of June 30, 2006.

(in millions)	Successor 2007	Predecessor 2006
Interest rate swap – cash flow hedge:		
Notional amount	$ 614.6	$ –
Assets	*	–
Liabilities	–	–

* Amount is less than $0.1 million.

Currency Risk Management

The Company conducts business in several major international currencies and is subject to risks associated with fluctuating foreign exchange rates; primarily the British pound, Euro, Argentinean peso, Brazilian real and Australian dollar. Through its centralized currency risk management services, the Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes through offsetting natural hedges or entering into forward contracts to protect the value of existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenue and expenses. During the period April 10, 2007 to June 30, 2007, there were no hedging instruments outstanding.

Prior to April 10, 2007, Cardinal's central treasury group managed the foreign exchange rate policy for the Predecessor. Accordingly, Cardinal entered into various contracts on behalf of the Predecessor that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenue and expenses. The gains and losses on these contracts offset changes in the value of the underlying transactions as they occurred.

At June 30, 2006, the Predecessor held forward contracts expiring through June 2007 to hedge probable, but not firmly committed, revenue and expenses. These hedging contracts were classified as cash flow hedges and, accordingly, were adjusted to current market values through other comprehensive income until the underlying transactions were recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the recorded amounts of the underlying transactions. At June 30, 2006, the Predecessor had net deferred gains related to these forward contract cash hedges of $0.9 million recorded in other comprehensive income. As a result of the Acquisition, these contracts were terminated and the net deferred gain of $0.9 million was recorded to goodwill as part of the purchase accounting adjustments associated with the Acquisition. During fiscal 2006 and fiscal 2005, the Predecessor recognized gains/(losses) of approximately $(1.3) million and $0.3 million, respectively, within net earnings related to these forward contracts.

In addition, Cardinal also entered into, on behalf of the Predecessor, forward contracts, which expired July 2006 to hedge the value of foreign currency assets and liabilities. These forward contracts were classified as fair value hedges. The income/(loss) recorded on the forward contract fair value hedge is offset by the remeasurement adjustment on the foreign currency denominated asset or liability. The settlement of the derivative instrument and the remeasurement adjustment on the foreign currency denominated asset or liability are both recorded in other, net at the end of each period. The amount of net gain/(loss) related to fair value forward contracts recognized through other, net, during the period July 1, 2006 to April 9, 2007 was approximately $(4.9) million, and during the fiscal year 2006 and 2005 was approximately $(0.2) million and $(6.1) million, respectively. There were no outstanding forward contracts during the period April 10, 2007 to June 30, 2007.

The Predecessor did not recognize any material gains/(losses) related to contracts that were not effective or forecasted transactions that did not occur during the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and during fiscal 2006 and 2005.

The following table shows the notional amount hedged and the value of the forward contracts outstanding at June 30, 2007 and 2006 included in other assets or liabilities.

(in millions)	Successor 2007	Predecessor 2006
Forward contracts – cash flow hedge:		
Notional amount	$ –	$ 11.0
Assets	–	0.4
Liabilities	–	–
Forward contracts – fair value hedge		
Notional amount	$ –	$ 54.1
Assets	–	–
Liabilities	–	0.9

The counterparties to these contracts are major financial institutions and the Company or the Predecessor does not have significant exposure to any one counterparty. Management believes the risk of loss is remote and in any event would not be material.

Fair Value of Financial Instruments

The fair value of financial instruments is generally by reference to market values resulting from trading on a national securities exchange or an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques, as appropriate. The carrying amounts of cash and equivalents, trade receivables, accounts payable, notes payable-banks, other short-term borrowings and other accrued liabilities at June 30, 2007 and 2006, approximate their fair value because of the short-term maturities of these items.

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

(in millions)	Successor 2007		Predecessor 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	$2,312.0	$2,301.9	$ 41.6	$ 39.5
Derivatives				
Interest rate swap	*	*	–	–
Foreign exchange contracts	–	–	0.5	0.5

* Amount is less than $0.1 million.

The 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.

9. INCOME TAXES

Earnings/ (loss) from continuing operations before income taxes and minority interest are as follows periods April 10, 2007 to June 30, 2007 and July 1, 2006 to April 9, 2007 and the fiscal years ended 2006 and 2005:

	Successor	Predecessor		
(in millions)	April 10, 2007 through June 30, 2007	July 1, 2006 through April 9, 2007	Fiscal 2006	Fiscal 2005
U.S. Operations	$ (94.0)	$ (42.1)	$ 7.4	$ (65.6)
Non-U.S. Operations	(73.5)	81.4	101.0	62.4
	$ (167.5)	$ 39.3	$ 108.4	$ (3.2)

The provision/(benefit) for income taxes consists of the following for the period April 10, 2007 to June 30, 2007 and the period July 1, 2006 to April 9, 2007 and the fiscal years ended 2006 and 2005:

	Successor	Predecessor		
(in millions)	April 10, 2007 through June 30, 2007	July 1, 2006 through April 9, 2007	Fiscal 2006	Fiscal 2005
Current:				
Federal	$ 1.1	$ (7.6)	$ 5.9	$ (11.1)
State and local	-	-	0.4	0.2
Non-U.S.	4.7	20.8	25.5	10.6
Total	$ 5.8	$ 13.2	$ 31.8	$ (0.3)
Deferred:				
Federal	(22.0)	(13.0)	2.4	(6.6)
State and local	(1.5)	-	(0.8)	(1.2)
Non-U.S.	(3.5)	(2.2)	1.9	(2.7)
Total	$ (27.0)	$ (15.2)	$ 3.5	$ (10.5)
Total (benefit)/provision	$ (21.2)	$ (2.0)	$ 35.3	$ (10.8)

A reconciliation of the provision/(benefit) based on the federal statutory income tax rate to the Company's effective income tax rate is as follows for the periods April 10, 2007 to June 30, 2007 and July 1, 2006 to April 9, 2007 and the fiscal years ended 2006 and 2005:

	Successor	Predecessor		
(in millions)	April 10, 2007 through June 30, 2007	July 1, 2006 through April 9, 2007	Fiscal 2006	Fiscal 2005
Provision at Federal Statutory tax rate	$ (58.6)	$ 13.7	$ 37.9	$ (1.1)
State and local income taxes, net of federal benefit	(4.1)	(2.8)	(3.6)	(7.0)
Foreign tax rate differential	25.9	(12.7)	(11.7)	(6.5)
Permanent Items	11.0	3.4	5.1	3.6
Contingency Reserve	1.1	-	-	-
Tax valuation allowance	3.5	3.0	2.5	5.0
Foreign tax credit	(0.1)	-	(3.5)	-
Benefit from settlement of foreign tax examination	-	-	-	(9.3)
Other	0.1	(6.6)	8.6	4.5
Effective Income Tax	$ (21.2)	$ (2.0)	$ 35.3	$ (10.8)

As of June 30, 2007, the Company had $439.5 million of undistributed earnings from non-U.S. subsidiaries that are intended to be permanently reinvested in non-U.S. operations. As these earnings are considered permanently reinvested, no U.S. tax provision has been accrued related to the repatriation of these earnings. It is not feasible to estimate the amount of U.S tax that might be payable on the eventual remittance of such earnings.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carry forwards for tax purposes. The components of the deferred income tax assets and liabilities are as follows at June 30:

(in millions)	Successor 2007	Predecessor 2006
Deferred income tax assets:		
Receivable basis difference	$ -	$ 1.9
Accrued liabilities	34.7	26.5
Additional minimum pension liability	-	16.9
Equity compensation	0.4	10.6
Loss and tax credit carry forwards	79.0	50.9
Other	2.8	5.7
Total deferred income tax assets	$ 116.9	$ 112.5
Valuation allowance for deferred income tax assets	(8.8)	(30.6)
Net deferred income tax assets	$ 108.1	$ 81.9
Deferred income tax liabilities:		
Inventory basis differences	$ (14.3)	$ (14.6)
Property-related	(70.2)	(112.2)
Goodwill and other intangibles	(190.6)	(33.1)
Leasing	-	(0.7)
Other	(1.4)	(5.9)
Total deferred income tax liabilities	$ (276.5)	$ (166.5)
Net deferred income tax liabilities	$ (168.4)	$ (84.6)

Deferred tax assets and liabilities in the preceding table, after netting by taxing jurisdiction, are in the following captions in the balance sheet at June 30:

(in millions)	Successor 2007	Predecessor 2006
Current deferred tax asset	$ 6.3	$ 22.8
Non-current deferred tax asset	-	11.2
Current deferred tax liability	(3.2)	(8.7)
Non-current deferred tax liability	(171.5)	(109.9)
Net deferred tax liability	$ (168.4)	$ (84.6)

The Company has presented income tax benefits from net operating losses, capital losses and tax credits as if it were a separate taxpayer in the Predecessor periods. However, in certain instances the related capital loss or foreign tax credit carryforward has already been utilized on a consolidated return basis by its former parent. Expectations as to future taxable income and other limitations on these losses and credits have also been calculated as if the company was a separate taxpayer for the periods ending prior to June 30, 2007.

At June 30, 2007, the Company has federal tax loss carryforwards of $131.9 million, $7.8 million of which are subject to Internal Revenue Code Section 382 limitations. The Company expects to utilize these federal loss carryforward prior to their expiration. The loss carryforwards will fully expire in 2027. In accordance with FAS 123(R), the $33.5 million increase to the current year federal loss generated as a result of the tax deduction for equity is not recognized for financial statement purposes because a cash tax benefit was not realized by the Company. Thus, the Company's federal loss carryforward reflected in these financial statements is $98.4 million.

At June 30, 2007, the Company has international tax loss carryforwards of $83.2 million. Substantially all of these carryforwards are available for at least three years or have an indefinite carryforward period. The Company has assessed the utilization of these foreign tax loss carryforwards and has recorded a valuation allowance of $6.3 million as of June 30, 2007.

At June 30, 2007, the Company has state tax loss carryforwards of $287.5 million. Approximately $153.2 million of these losses are separate company state tax losses generated in periods prior to the period ending June 30, 2007. In accordance with FAS 123(R), the $26.7 million increase to the current year state loss generated as a result of the tax deduction for equity is not recognized for financial statement purposes because a cash tax benefit was not realized by the Company. Thus, the Company's state loss carryforward reflected in these financial statements is $260.8 million. Substantially all carryforwards have at least a three year carryforward period. The Company has assessed the utilization of these state tax loss carryforwards and has recorded a valuation allowance of $2.5 million as of June 30, 2007.

As part of the Purchase Agreement, the Company has been indemnified by Cardinal for tax liabilities that may arise in the future that relate to tax periods prior to April 10, 2007 (the "Formation Date"). The indemnification agreement includes, among other taxes, any and all Federal, state and international income based taxes as well as any interest and penalties that may be related thereto.

10. EMPLOYEE RETIREMENT BENEFIT PLANS

The Company sponsors various retirement and pension plans, including defined benefit retirement plans and defined contribution retirement plans. Substantially all of the Company's domestic non-union employees are eligible to be enrolled in employer-sponsored contributory profit sharing and retirement savings plans, which include features under Section 401(k) of the Internal Revenue Code of 1986, as amended, and provide for company matching and profit sharing contributions. The Company's contributions to the plans are determined by its Board of Directors subject to certain minimum requirements as specified in the plans. The Company uses a measurement date of June 30 for all its retirement and postretirement benefit plans.

The total expense for employee defined contribution retirement plans was $2.9 million, for the period April 10, 2007 to June 30, 2007 and $10.2 million for the period July 1, 2006 to April 9, 2007 and $15.2 million and $16.2 million for the fiscal years ended June 30, 2006 and 2005, respectively.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status, measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. This Statement requires balance sheet recognition of the funded status for all pension and postretirement benefit plans effective for fiscal years ending after December 15, 2006. This Statement also requires plan assets and benefit obligations to be measured as of a company's balance sheet date effective for fiscal years ending after December 15, 2008. The Company has adopted this statement and it did not have a material impact on its financial position or results of operations.

Defined Benefit Plans. The Company has several defined benefit retirement plans covering a substantial number of its salaried and hourly employees in the United States and elsewhere around the world. The Company's domestic defined benefit retirement plans provide defined benefits based on years of service and level of compensation. Foreign subsidiaries provide for retirement benefits in accordance with local customs or law. The Company, at a minimum, funds its retirement plans at amounts required by applicable regulations.

Obligations and Funded Status

The following table provides a reconciliation of the change in projected benefit obligation as of June 30:

	Retirement Benefits		Other Post-Retirement Benefits	
	Successor	Predecessor	Successor	Predecessor
(in millions)	2007	2006	2007	2006
Projected benefit obligation at beginning of year	$ 225.2	$ 198.9	$ 5.3	$ 7.4
Service cost	1.8	1.7	-	-
Interest cost	12.1	9.8	0.3	0.5
Benefits paid	(6.8)	(6.4)	(0.3)	(0.3)
Participant contributions	0.1	0.1	-	-
Curtailments	-	(0.4)	-	-
Settlements	-	-	-	-
Actuarial loss/(gain)	0.4	19.3	0.5	(2.4)
Net transfer in/out*	5.0	-	-	-
Cumulative translation adjustment	16.1	2.2	0.1	0.1
Projected benefit obligation at end of year	$ 253.9	$ 225.2	$ 5.9	$ 5.3

*Additional plans recognized under FAS No. 87

The following table provides a reconciliation of the change in fair value of plan assets:

	Retirement Benefits		Other Post-Retirement Benefits	
	Successor	Predecessor	Successor	Predecessor
(in millions)	2007	2006	2007	2006
Fair value of plan assets at beginning of year	$ 133.8	$ 110.7	$ -	$ -
Participant contributions	0.1	0.1	-	-
Employer contributions	3.6	13.4	-	-
Benefits paid	(6.8)	(6.4)	(0.3)	(0.3)
Actual return on plan assets	8.5	15.4	0.3	0.3
Settlements	-	-	-	-
Net transfer in/out*	0.1	-	-	-
Cumulative translation adjustment	8.9	0.6	-	-
Fair value of plan assets at end of year	$ 148.2	$ 133.8	$ -	$ -

*Additional plans recognized under FAS No. 87

The following table provides a reconciliation of the net amount recognized in the balance sheets:

	Retirement Benefits				Other Post-Retirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
(in millions)	2007		2006		2007		2006	
Funded status	$	(105.6)	$	(91.4)	$	(5.9)	$	(5.3)
Unrecognized net transition asset		-		0.4		-		-
Unrecognized prior service cost		-		0.1		-		-
Unrecognized net actuarial loss/(gain)		-		65.0		-		(3.2)
Other		-		0.3		-		0.1
Net amount recognized	$	(105.6)	$	(25.6)	$	(5.9)	$	(8.4)
Amounts Recognized on Balance Sheet								
Prepaid benefit cost	$	0.5	$	10.6	$	-	$	-
Accrued benefit cost		(106.1)		(91.0)		(5.9)		(8.4)
Intangible asset		-		0.4		-		-
Accumulated other comprehensive income		-		54.4		-		-
Net amount recognized	$	(105.6)	$	(25.6)	$	(5.9)	$	(8.4)
<u>After adoption of SFAS No. 158:</u> Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)	$				$			
Actuarial Loss/(Gain), net		(2.0)				(0.1)		
Prior Service Cost		0				0		
Total	$	(2.0)			$	(0.1)		
Estimated amounts to be amortized from AOCI during next fiscal year	$				$			
Actuarial Loss/(Gain), net		-				-		
Prior Service Cost		-				-		
Total	$	-			$	-		

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets are as follows:

	Retirement Benefits				Other Post-Retirement Benefit			
	Successor		Predecessor		Successor		Predecessor	
(in millions)	2007		2006		2007		2006	
Projected benefit obligation	$	219.0	$	195.5	$	5.9	$	5.3
Fair value of plan assets		112.8		99.8		-		-

The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Retirement Benefits		Other Post-Retirement Benefit	
	Successor	Predecessor	Successor	Predecessor
(in millions)	2007	2006	2007	2006
Accumulated benefit obligation	$ 202.8	$ 190.5	$ -	$ -
Fair value of plan assets	107.0	99.8	-	-

Net Periodic Benefit Cost

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

	Retirement Benefits				Other Post-Retirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Components of net periodic benefit cost:								
Service cost	$ 0.4	$ 1.4	$ 1.7	$ 1.3	$ -	$ -	$ -	$ -
Interest cost	2.9	9.2	9.8	10.4	0.1	0.2	0.5	0.4
Expected return on plan assets	(2.1)	(7.1)	(7.4)	(6.9)	-	-	-	-
Amortization[(1)]	-	2.7	2.8	1.7	-	-	-	(0.1)
Other	-	-	(0.3)	-	-	(0.2)	-	-
Net amount recognized	$ 1.2	$ 6.2	$ 6.6	$ 6.5	$ 0.1	$ -	$ 0.5	$ 0.3

(1) Amount primarily represents the amortization of unrecognized actuarial losses, as well as the amortization of the transition obligation and prior service costs.

Assumptions

The weighted average assumptions used in determining benefit obligations are as follows:

	Retirement Benefits		Other Post-Retirement Benefit	
	Successor	Predecessor	Successor	Predecessor
	2007	2006	2007	2006
Discount rate	5.58%	5.15%	5.86%	5.91%
Rate of increase in compensation levels	2.51%	2.41%	N/A	N/A

The weighted average assumptions used in determining net periodic pension cost are as follows:

	Retirement Benefits				Other Post-Retirement Benefits			
	Successor	Predecessor			Successor	Predecessor		
	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Discount rate	5.24%	5.15%	4.96%	5.46%	5.61%	5.92%	5.75%	5.98%
Rate of increase in compensation levels	2.51%	2.50%	2.41%	2.59%	N/A	N/A	N/A	N/A
Expected long-term rate of return	6.26%	6.36%	6.81%	6.36%	N/A	N/A	N/A	N/A

Plan Assets

The Company's weighted average asset allocations at the measurement date and the target asset allocations by category are as follows:

	2007			2006		
(in millions)	Actual $	Actual %	Target%	Actual $	Actual %	Target
Asset Category						
Equity Securities	$77.0	52%	50%	$ 67.6	51%	50%
Debt Securities	33.5	23%	26%	32.1	24%	26%
Real Estate	9.7	7%	6%	8.0	6%	6%
Other	28.0	18%	18%	26.1	19%	18%
Total	$148.2	100%	100%	$133.8	100%	100%

The investment policy reflects the long-term nature of the plans' funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a long-term goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. All equity investments are made within the guidelines of quality, marketability and diversification mandated by the Employee Retirement Income Security Act ("ERISA") (for plans subject to ERISA) and other relevant statutes. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for that portfolio. Assets invested in fixed income securities and pooled fixed income portfolios are managed actively to pursue opportunities presented by changes in interest rates, credit ratings or maturity premiums.

Healthcare Cost Trend Rates

The United States healthcare cost trend rates assumed for next year for the other postretirement benefits at June 30 are as follows:

		Other Postretirement Benefits	
		2007	**2006**
Healthcare cost trend rate assumed for next year:			
	Pre - Medicare	10.00%	9.80%
	Post - Medicare	11.00%	10.20%
Rate to which the cost trend is assumed to decline (ultimate trend rate)			
	Pre - Medicare	5.50%	5.60%
	Post - Medicare	5.50%	5.70%
Year that the rate reaches the ultimate trend rate:			
	Pre - Medicare	2016	2014
	Post - Medicare	2018	2012

A one percentage point change in the assumed healthcare cost trend rates would not have a material impact on total service cost, total interest cost or the accumulated post-retirement benefit obligation.

Contributions

The total estimated contributions for the 2008 measurement year for Retirement Benefits and Other Postretirement benefits are $31.0 million and $0.5 million, respectively.

Estimated Future Benefit Payments

Future benefit payments, which reflect expected future service, as appropriate, during the next five fiscal years, and in the aggregate for the five fiscal years thereafter, are:

Fiscal Year Ended June 30, (in millions)	Retirement Benefits	Other Post-Retirement Benefits
2008	$ 6.5	$ 0.5
2009	7.0	0.5
2010	7.5	0.5
2011	8.2	0.5
2012	8.7	0.5
2013 – 2017	49.6	2.6

11. RELATED PARTY TRANSACTIONS AND PARENT COMPANY EQUITY

Advisor Transaction and Management Fees - In connection with the Acquisition, the Successor entered into a transaction and monitoring fee agreement with Blackstone and certain other Investors in BHP PTS Holdings LLC (the "Investors"), the investment entity controlled by affiliates of Blackstone that was formed in connection with the Investors investment in Phoenix. Under this agreement, the Company, at the closing of the Acquisition, paid a $39.0 million transaction fee together with a payment of $0.4 million for related reimbursement of expenses (the "Transaction fee"), in consideration of Blackstone providing certain strategic and structuring, advice and assistance. The Transaction fee and related expenses were considered costs of the Acquisition, and thus, were allocated to goodwill.

In addition, the Company pays an annual sponsor monitoring fee to Blackstone and the Investors for certain monitoring, advisory and consulting services to the Company. During the period April 10, 2007 to June 30, 2007, this management fee was approximately $2.2 million. This fee was expensed in selling, general and administrative expenses.

Cardinal Related Party - The Purchase Agreement provides for Cardinal to retain certain liabilities associated with the Predecessor, including, among others, those liabilities arising out of obligations for equity based compensation awards in existence prior to the completion of the Acquisition, events occurring prior to closing that are otherwise covered under certain Cardinal product liability, workers compensation and general commercial liability insurance policies, taxes imposed on the Company for any taxable period ending before the closing and with respect to the taxable period beginning before and ending after the closing and obligations under certain retirement and postretirement benefit plans.

In addition, the Successor has entered into a transition services agreement with Cardinal in order to maintain certain critical general and administrative functions immediately after the Acquisition and continuing for various periods of time, none of which extend beyond September 2008, including certain human resources, IT support, tax and other services. During the period April 10, 2007 to June 30, 2007, the Company was charged $5.6 million for these services. The expenses associated with the transition services agreement are included in selling, general and administrative expenses in the statement of operations.

As a result of the Acquisition, the Company will incur costs to separate certain shared service functions and systems from Cardinal. These costs are recorded as other special items as incurred in the statements of operations. As part of the Purchase Agreement, Cardinal will reimburse $12.0 million of these separation expenses. For the period April 10, 2007 to June 30, 2007, the Company charged to expense $7.0 million and capitalized within property, plant and equipment $1.1 million in separation costs primarily related to professional fees and services. Through June 30, 2007, Cardinal reimbursed $4.9 million of the $8.1 million.

At June 30, 2007, the Company has recorded a receivable due from Cardinal of $13.7 million, primarily related to the remaining separation costs to be reimbursed of $7.1 million and $4.8 million of tax liabilities related to periods prior to Acquisition that are the responsibility of Cardinal.

Cardinal provided various services to the Predecessor, including but not limited to cash management, tax and legal services, internal audit, facilities management, security, payroll and employee benefit administration, insurance administration, and telecommunication services. Cardinal allocated these expenses and all other central operating costs ("Cardinal Allocation"), first on the basis of direct usage when identifiable, with the remainder allocated among Cardinal's businesses on the basis of their respective revenues, headcount or other measure. In the opinion of management, these methods of allocating costs were reasonable.

In addition, during fiscal 2006, Cardinal centralized its domestic information technology ("IT") support services. Prior to fiscal 2005, Cardinal managed centrally only the infrastructure related to IT services such as global email and Wide Area Networks.

The Cardinal Allocation and the IT shared service fee allocated to the Predecessor are included in selling, general and administrative expenses in the statements of operations. Total expenses allocated to the Predecessor are as follows:

(in millions)		Predecessor July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Cardinal Allocation	Administrative support services	$53.1	$55.1	$47.3
IT shared service fee	IT support services	-	30.3	9.1
		$53.1	$85.4	$56.4

In addition, the Company's businesses provide manufacturing services to the other Cardinal segments. Under the Successor, sales to and purchases from other Cardinal segments are recorded as trade receivables and accounts payable, respectively, within the Company's consolidated balance sheet. The total sales to other Cardinal segments for the period July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005 were $8.5 million, $11.3 million and $15.9 million, respectively. Also, the Company purchased certain supplies from the other Cardinal segments. The total purchases by the Company from other Cardinal segments for the period July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005 were $1.7 million, $7.9 million and $4.7 million, respectively.

Cardinal charged interest expense to the Predecessor for the use of cash based upon the Predecessor's total capital. The interest rate charged was based upon Cardinal's external borrowing rate. In addition, the Predecessor had loans payable to affiliates that are included in the Cardinal net investment.

Other Related-Party Transactions

Certain Oral Technology facilities purchase gelatin materials and an Oral Technology's German subsidiary leases plant facilities, purchases other services and receives loans from time-to-time from a German company that is also the minority partner of the Oral Technology's German subsidiary. Gelatin purchases, amounted to $9.3 million, $14.0 million, $21.7 million and $21.9 million for the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005, respectively. Rental payments amounted to $2.0 million, $4.5 million, $5.5 million and $6.0 million and purchased services amounted to $1.3 million, $4.0 million, $5.0 million and $4.9 million for those same periods, respectively.

12. EQUITY

Description of Capital Stock

The Company is authorized to issue 1,000 shares of capital stock all of which are Common Stock, with a par value of $0.01 per share. In accordance with the Certificate of Incorporation of the Company, each share of Common Stock shall have one vote, and the Common Stock shall vote together as a single class. As of June 30, 2007, 100% of the outstanding shares of the capital stock of the Company have been issued to, and are held by, PTS Intermediate Holdings, LLC. In accordance with the By-Laws of the Company, the Board of Directors may declare dividends upon the stock of the Company as and when the Board deems appropriate.

Accumulated other comprehensive income/(loss)

Accumulated other comprehensive income/(loss) consist of:

(in millions)	Currency Translation Adjustments		Unrealized Gains/(Losses) on Derivatives		Pension Liability Adjustments		Other Comprehensive Earnings/(Loss)	
Predecessor								
Balance at June 30, 2004	$	(1.8)	$	0.2	$	(31.5)	$	(33.1)
Activity, net of tax		0.5		(1.2)		(4.4)		(5.1)
Balance at June 30, 2005		(1.3)		(1.0)		(35.9)		(38.2)
Activity, net of tax		16.3		1.6		(1.5)		16.4
Balance at June 30, 2006		15.0		0.6		(37.4)		(21.8)
Activity, net of tax		53.7		0.3		—		54.0
Balance at April 9, 2007	$	68.7	$	0.9	$	(37.4)	$	32.2
Sucessor								
Balance at April 10, 2007	$	—	$	—	$	—	$	—
Activity, net of tax		9.2		—		1.8		11.0
Balance at June 30, 2007	$	9.2	$	—	$	1.8	$	11.0

13. EQUITY-BASED COMPENSATION

The Company has an equity-based compensation plan outstanding as of June 30, 2007. In addition, the Predecessor was a party to the Cardinal equity-based compensation plan prior to the Acquisition. These plans are described below. The following table summarizes the impact of the equity-based compensation recorded in the Company's statement of operations as follows:

	Successor	Predecessor	
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006
Stock compensation expense in selling, general and administrative	$1.0	$35.1	$29.5
Income tax benefit on stock compensation expense	0.4	11.6	12.6

Successor Plan - Summary of Plan

The Board of Directors of the Parent approved a stock option plan ("2007 Plan") for the purpose of retaining certain key employees and directors of its subsidiaries. Under this program, key employees and directors of the Company ("Participants") were granted stock option awards in Parent.

The total number of shares that may be issued under the 2007 Plan is 76,000 of the Parent available shares subject to adjustment in certain events, including equity restructurings. The exercise price of stock option awards granted under the 2007 Plan will not be less than 100% of the fair market value of the underlying shares on the date of grant, as determined under the 2007 Plan. In addition, the Company also adopted a form of non-statutory stock option agreement (the "Form Option

(in millions, except shares)

Agreement") for awards under the 2007 Plan. Under the Form Option Agreement, certain stock option awards will vest over a five-year period of time contingent solely upon the Participants' continued employment with the Company. Other stock option awards will vest over a specified performance period from the grant date upon the achievement of pre-determined operating performance targets over time, while others are market-based awards and vest based upon the Blackstone Group's realization of certain internal rates of return goals and the occurrence of a liquidity event subject to certain other performance criteria. The Form Option Agreement includes certain forfeiture provisions upon a Participant's separation from service with the Company. As of June 30, 2007, 64,500 options have been granted to employees and directors of the Company.

Summary of Assumptions and Activity

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model for service and performance based awards, and an adaptation of the Black-Scholes-Merton option valuation model, which takes into consideration the internal rate of return thresholds for market based awards. This model adaptation is essentially equivalent to the use of a path-dependant lattice model. In estimating fair value, expected volatility used by the Company in 2007 is based on the historical volatility of closing share price of a comparable peer group and other factors. The expected life assumptions for the awards were based upon the guidance provided by the Securities and Exchange Commission in Staff Accounting Bulletin No. 107. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Time and Performance Based Awards	Market Based Awards
Expected volatility	30.35%	30.35%-34.71%
Expected dividends	0%	0%
Expected term (in years)	6.5	6.5-7.5
Risk-free rate	4.58%-5.10%	4.58%-4.62%

The activity of the Company's equity based compensation program is presented below:

(in dollars)	Time Based Awards		Performance Based Awards		Market Based Awards	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance at April 10, 2007	—	—	—	—	—	—
Granted at fair value	21,665	$1,000.00	21,415	$1,000.00	21,420	$1,000.00
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Balance at June 30, 2007	21,665		21,415		21,420	
Weighted average remaining contractual term		9.8 years		9.8 years		9.8 years
Weighted average grant date fair value		$409.36		$409.21		$92.14

The total estimated fair value of the all awards granted is $16.6 million. As of June 30, 2007, none of the options have vested. The Company recorded non-cash compensation expense of approximately $1.0 million selling, general and administrative expenses in the statement of operations for the period from April 10, 2007 to June 30, 2007 associated with the time based and performance based awards. There was unrecognized compensation of $13.7 million related to time and performance based awards , which are expected to be recognized over a weighted average remaining period of 1.95 years. The Company did not record any compensation expense for the market-based awards, as it was determined that it is not probable that these awards will vest due to the contingent performance criteria. Unrecognized compensation of $1.9 million for the market condition awards will be recognized once the contingent performance criteria are met.`

Predecessor Plan - Cardinal Stock-Based Compensation Plans

Employees of the Predecessor were eligible to participate in certain of Cardinal's stock-based compensation plans, receive stock options, restricted shares and/or restricted share units as well as participate in Cardinal's employee stock purchase plan. The following information relates to all of Cardinal's stock-based compensation plans and reflects all assumptions used by Cardinal in its allocation of expenses to the Predecessor.

Cardinal maintains several stock incentive plans (collectively, the "Predecessor Plans") for the benefit of certain of its officers, directors and employees. Prior to fiscal 2006, employee options granted under the Predecessor Plans typically vested in full on the third anniversary of the grant date and were exercisable for periods up to ten years from the date of grant at a price equal to the fair market value of the Cardinal common stock at the date of the grant. Employee options granted under the Predecessor Plans during the period July 1, 2006 to April 9, 2007 and fiscal 2006 generally vest in equal annual installments over four years and are exercisable for periods up to seven years from the date of grant at a price equal to the fair market value of Cardinal common stock underlying the option at the date of grant.

During the first quarter of fiscal 2006, Cardinal adopted SFAS No. 123(R), "Share-Based Payment," applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of employee options, to be recognized in the statement of operations based on the grant date fair value of the award. Under the modified prospective method, Cardinal is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The fair values of options granted after Cardinal adopted this Statement were determined using a lattice valuation model and all options granted prior to adoption of this Statement were valued using a Black-Scholes model. Cardinal believes the lattice model provides for better estimates as it has the ability to take into account employee exercise patterns based on changes in Cardinal's stock price and other variables and it provides for a range of input assumptions. The impact of adopting SFAS No. 123(R) as it relates to employee stock options and Cardinal's employee stock purchase plan allocated to the Predecessor was approximately $16.9 million on net earnings.

In anticipation of the adoption of SFAS No. 123(R), Cardinal did not modify the terms of any previously granted options. Cardinal made significant changes to its equity compensation program with its annual equity grant in the first quarter of fiscal 2006, including reducing the overall number of employee options granted and utilizing a mix of restricted share and option awards. Cardinal also moved from three-year cliff vesting to installment vesting over four years for annual employee option awards and shortened the option term from ten to seven years.

The fair value of restricted shares and restricted share units is determined by the number of shares granted and the grant date market price of Cardinal's common stock. The compensation expense recognized for all equity-based awards associated with the Predecessor employees is net of estimated forfeitures and is recognized using the straight-line method over the awards' service period. In accordance with SAB No. 107, the Predecessor classified equity-based compensation within selling, general and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees. The Predecessor does not allocate the equity-based compensation to its reportable segments.

As a result of the Acquisition, the Predecessor employee's unvested options as of April 9, 2007 were automatically vested on a pro rata basis due to change in control, with the exception of the options granted during the period July 1, 2006 to April 9, 2007, which vested August 2007 on a pro rata basis. As a result of this acceleration and modification, the Predecessor recognized an additional $16.4 million of compensation expense during the period July 1, 2006 to April 9, 2007. In addition, the Predecessor employees have ninety days after the Acquisition to exercise their vested stock options under the Predecessor Plan.

The following summarizes all stock option transactions for Predecessor under the Plans from July 1, 2005 to April 9, 2007:

(in millions, except per share amounts)	Predecessor Options Outstanding	Predecessor Weighted Average Exercise Price per share
Balance at June 30, 2005	5.7	$56.01
Granted	0.6	59.22
Exercised	(0.4)	54.05
Canceled	(0.6)	57.55
Balance at June 30, 2006	5.3	$56.36
Granted	0.6	66.38
Exercised	(1.4)	58.61
Canceled/forfeited	(1.0)	55.97
Balance at April 9, 2007	3.5	$57.27

(in millions, except per share amounts)	Successor Options Outstanding	Successor Weighted Average Exercise Price per share
Balance at April 9, 2007	3.5	$57.27
Exercised	(1.9)	55.81
Canceled	(0.6)	58.29
Balance at June 30, 2007	1.0	$59.14

Additional information concerning the Predecessor stock options outstanding under the Predecessor Plans as of June 30, 2007 is presented below:

	Outstanding			Exercisable	
Range of exercise prices per Cardinal Share	Options (in millions)	Weighted average remaining contractual life in years	Weighted average exercise price per Cardinal Share	Options (in millions)	Weighted average exercise price per Cardinal Share
$ 0.01 - $44.14	0.1	0.6	$ 31.52	0.1	$ 31.52
$44.15 - $59.19	0.3	1.0	$ 48.07	0.2	$ 48.33
$59.20 - $64.11	0.2	0.7	$ 61.49	0.1	$ 61.38
$64.12 - $67.90	0.3	0.9	$ 66.82	0.2	$ 67.24
$67.91- $80.86	0.1	1.3	$ 68.49	0.1	$ 68.45
$ 0.01 - $80.86	1.0	0.9	$ 59.14	0.7	$ 58.61

The aggregate intrinsic value of options exercised during the period April 10, 2007 to June 30, 2007 was approximately $33.1 million and options outstanding and exercisable at June 30, 2007 is approximately $33.1 million, $11.0 million and $8.5 million, respectively. The aggregate intrinsic value of options exercised during the period July 1, 2006 to April 9, 2007 is $17.9 million. The aggregate intrinsic value of options exercised during fiscal 2006 was approximately $7.0 million and options outstanding and exercisable at June 30, 2006, was approximately $45.8 million and $10.8 million, respectively. The weighted average fair value of options granted during the period July 1, 2006 to April 9, 2007 and fiscal 2006 and 2005 is $21.30, $18.08 and $17.11, respectively.

The fair values of the options granted to the Predecessor's employees during the period July 1, 2006 to April 9, 2007 and fiscal 2006 were estimated on the date of grant using a lattice valuation model. The lattice valuation model incorporates ranges of assumptions that are disclosed in the table below. The risk-free rate is based on the United States Treasury yield curve at the time of the grant. Cardinal analyzed historical data to estimate option exercise behaviors and employee terminations to be used within the lattice model. Cardinal calculated separate option valuations for three separate groups of employees with similar historical exercise behaviors. The expected life of the options granted was calculated from the option valuation model and represents the length of time in years that the options granted are expected to be outstanding. The range of expected lives in the table below results from the separate groups of employees identified by Cardinal based on their option exercise behaviors. Expected volatilities are based on implied volatility from traded options on Cardinal shares and historical volatility over a period of time commensurate with the contractual term of the option grant (seven years).

(in millions, except shares)

The following table provides the range of assumptions used for options valued during the period July 1, 2006 to April 9, 2007 and fiscal 2006:

	Predecessor	
	For the period July 1, 2006 to April 9, 2007	**Fiscal 2006**
Risk-free interest rate	4.5% - 5.1%	3.3 % - 5.1%
Expected life in years	5.7 – 7.0	5.6 - 7.0
Expected volatility	27%	20.9% - 27.0%
Dividend yield	0.50% - 0.69%	0.32% - 0.55%

The fair values of the options granted to Predecessor during fiscal year 2005 were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants in the respective periods:

	Predecessor
	Fiscal 2005
Risk-free interest rate	3.5%
Expected life in years	5
Expected volatility	38%
Dividend yield	0.27%

The Predecessor's portion of Cardinal's restricted shares and share units is charged to expense over the awards' service period, generally over three years. As of April 9, 2007, all compensation expense associated with these shares and units were expensed in the statement of operations.

The Predecessor's employees were eligible to participate in Cardinal's employee stock purchase plans under which the sale of 12.0 million of Cardinal shares has been authorized. Employees who had been employed by Cardinal for at least 30 days may be eligible to contribute from 1% to 15% of eligible compensation. The purchase price is determined by the lower of 85% of the closing market price on the first day of the offering period or 85% of the closing market price on the last day of the offering period. During any given calendar year, there are two offering periods: January 1–June 30; and July 1–December 31.

Fair Value Disclosures – Prior to adopting SFAS No. 123(R)

Prior to July 1, 2005, Cardinal accounted for options granted under the plans in accordance with the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

Effective July 1, 2005 (the first quarter of fiscal 2006), Cardinal adopted SFAS No. 123(R), "Share-Based Payment", applying the modified prospective method. This Statement requires all equity-based payments to employees, including grants of options, to be recognized in the statement of operations based on the grant date fair value of the awards.

Except for costs related to restricted shares, restricted share units, stock appreciation rights and an insignificant number of amended options requiring a new measurement date, no compensation expense was recognized in net earnings, as all options granted had an exercise price equal to the market value of the underlying stock on the date of grant. The following table illustrates the effect on net earnings as if the Predecessor had adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation":

	Predecessor Fiscal Year Ended June 30, 2005
(in millions)	
Net earnings, as reported	$ 13.9
Stock-based employee compensation expense, included in net earnings, net of related tax effects	1.0
Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(18.8)
Pro forma net (loss)	$ (3.9)

14. OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2007, the Company does not have any off-balance sheet arrangements. Through January 2007, Cardinal periodically entered into certain off-balance sheet arrangements on behalf of the Predecessor, primarily operating leases, in order to maximize diversification of funding and return on assets.

Operating Leases

Cardinal had entered into operating lease agreements with several third party banks for the construction of various facilities and equipment. The initial terms of the lease agreements had varied maturity dates ranging from September 2008 through June 2013. In the event of termination, Cardinal was required (at its election) to either purchase the facility or vacate the property and make reimbursement for a portion of any unrecovered property cost. The maximum portion of unrecovered property costs that Cardinal could be required to reimburse does not exceed the amount expended to acquire and/or construct the facilities. The required lease payments related to the buildings equal the interest expense for the period on the amounts drawn based primarily upon LIBOR and are subject to interest rate fluctuations.

In January 2007, Cardinal purchased on behalf of the Predecessor the remaining buildings and equipment previously under the operating lease for $44.2 million. Based upon current market information obtained from a third-party valuation expert and other market data, the purchase price did not exceed the fair market value of the related properties and equipment. The Predecessor's lease payments related to these lease agreements during the period July 1, 2006 to April 9, 2007 were $1.5 million.

During fiscal 2006 and 2005, Cardinal purchased on behalf of the Predecessor certain buildings and equipment of approximately $7.0 million and $80.8 million, respectively, that were previously accounted for as operating lease agreements. Based upon current market information obtained from a third-party valuation expert, the payment obligation for fiscal 2005 exceeded the fair market value of the related properties and equipment. Therefore, the Predecessor recorded impairment charges during fiscal 2005 of $3.7 million. See Note 16 below for additional information regarding these impairment charges.

15. COMMITMENTS AND CONTINGENT LIABILITIES

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2007 are:

(in millions)	2008	2009	2010	2011	2012	Thereafter	Total
Minimum rental payments	$ 17.8	$ 17.2	$ 12.2	$ 6.9	$ 5.8	$ 14.1	$ 74.0

Rental expense relating to operating leases was approximately $2.6 million, $10.2 million, $17.0 million and $18.5 million for the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005, respectively. Sublease rental income was not material for any period presented herein.

Other Matters

The Company, along with several pharmaceutical companies, is involved in four product liability lawsuits relating to Amnesteem (isotretinoin), a product manufactured by us. While it is not possible to determine with any degree of certainty the ultimate outcome of these legal proceedings including 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.

The Company also becomes involved from time-to-time in disputes or litigation incidental to its business, including without limitation, inclusion of certain of its subsidiaries as a potentially responsible party for environmental clean-up costs and disputes involving the loss of a customer's active pharmaceutical ingredient incidental to the Company's manufacturing services. The Company intends to vigorously defend itself against such disputes and litigation and does not currently believe that the outcome of any such disputes or litigation will have a material adverse effect on the Company's financial statements.

16. IMPAIRMENT CHARGES AND OTHER

The Company classifies certain asset impairments related to restructurings in special items, which are included in operating earnings within the statements of operations. Asset impairments and gains and losses from the sale of assets not eligible to be classified as special items or discontinued operations are classified within "impairment charges and other" within the statements of operations. These asset impairment charges were included within the Unallocated line in the segment results in Note 17.

During the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005, the Company recorded charges/(gains) of $(0.2) million, $(1.3) million, $8.8 million and $74.3 million, respectively.

Successor Period

During the period April 10, 2007 to June 30, 2007, the Company did not record any significant asset impairment and (gain)/loss on sale of assets.

Predecessor Periods

During the period July 1, 2006 to April 9, 2007, the Company incurred the following significant asset impairment and (gain)/loss on sale of assets:

- A loss of $1.0 million associated with the sale of one of the Oral Technologies segment facilities. See Note 3 to the Company's financial statements.

- A gain of $5.0 million on sale of business within the Oral Technologies segment. See Note 3 to the Company's financial statements.

- An asset impairment of $1.8 million based upon a discounted cash flow analysis performed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" based upon change in management's expected use of the assets related to the Sterile Technologies segment.

During fiscal 2006, The Company incurred the following significant asset impairment charges:

- The Packaging Services segment recorded an impairment of $3.9 million. These impairments related primarily to recognizing reductions in the value of assets based on discounted cash flow analyses performed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" based upon change in management's expected use of the assets.

- An additional charge of $3.2 million was recorded based upon final settlement of a purchase agreement associated with a sale of a non-Strategic business within the Oral Technologies segment during fiscal 2004.

During fiscal 2005, the Company incurred the following significant asset impairment charges:

- The Oral Technologies segment recorded asset impairments of $62.1 million related primarily to recognizing reductions in the value of assets based on discounted cash flow analyses performed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" as a result of strategic business decisions made during the second quarter of fiscal 2005.

- Impairments of approximately $3.7 million related to lease agreements for certain real estate and equipment used in the operations of the Company (see Note 13 and 14 above for additional information regarding these lease agreements).

17. SEGMENT INFORMATION

The Company conducts its business, which were reorganized at the end of June 2007, within the following three segments: Oral Technologies, Sterile Technologies, and Packaging Services (See Note 1 for description of segments and the reorganization of the segments). The Company evaluates the performance of its segments based on segment net earnings before interest income/expense, provision (benefit) for income taxes and depreciation and amortization ("EBITDA"). The Company's presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

The following tables include net revenue and EBITDA during the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005.

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal Year 2006	Fiscal Year 2005
Oral Technologies				
Net revenue	$ 239.1	$ 704.2	$ 911.1	$ 852.9
Segment EBITDA	$ 45.7	$ 173.0	$ 205.8	$ 200.8
Sterile Technologies				
Net revenue	64.3	184.8	265.1	220.3
Segment EBITDA	5.2	(1.7)	39.2	11.8
Packaging Services				
Net revenue	129.1	422.6	482.6	473.4
Segment EBITDA	18.8	63.1	80.4	99.3
Unallocated Costs[1]	(156.6)	(112.5)	(125.0)	(198.1)
Inter-segment revenue elimination	(9.0)	(31.4)	(46.6)	(29.3)
Combined Total				
Net revenue	$ 423.5	$1,280.2	$1,612.2	$1,517.3
EBITDA from continuing operations	$ (86.9)	$ 121.9	$ 200.4	$ 113.8

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

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal Year ended June 30, 2006	Fiscal Year ended June 30, 2005
Impairment charges and gain/(loss) on sale of assets	$ 0.2	$ 1.3	$ (8.8)	$ (74.3)
Equity compensation	(1.0)	(35.1)	(29.5)	(1.0)
Restructuring and other special items	(25.5)	(22.0)	(11.8)	(74.7)
In-process research and development	(112.4)	—	—	—
Sponsor advisory fee	(2.2)	—	—	—
Minority interest, net	(0.7)	(3.9)	(2.0)	13.0
Other, net	(0.7)	(0.8)	(1.7)	(0.9)
Cardinal allocation	—	(53.1)	(55.1)	(47.3)
Non-allocated corporate costs, net	(14.3)	1.1	(16.1)	(12.9)
Total EBITDA	$ (156.6)	$ (112.5)	$ (125.0)	$ (198.1)

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

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal Year ended June 30, 2006	Fiscal Year ended June 30, 2005
EBITDA	$ (86.9)	$ 121.9	$ 200.4	$ 113.8
Depreciation and amortization	(37.2)	(77.6)	(87.2)	(86.9)
Interest expense, net	(44.1)	(8.9)	(6.8)	(17.1)
Benefit/(provision) for income taxes	21.2	2.0	(35.3)	10.8
Earnings/(loss) from continuing operations	$ (147.0)	$ 37.4	$ 71.1	$ 20.6

The following tables include depreciation and amortization expense and capital expenditures for the periods April 10, 2007 to June 30, 2007, July 1, 2006 to April 9, 2007 and for the fiscal years ended June 30, 2006 and 2005 for each segment, as well as reconciling items necessary to total the amounts reported in the financial statements:

Depreciation and Amortization Expense

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Oral Technologies	$ 20.3	$ 38.3	$ 45.0	$ 39.0
Sterile Technologies	7.2	14.7	14.0	13.1
Packaging Services	7.9	20.4	25.0	26.1
Corporate	1.8	4.2	3.2	8.7
Total depreciation and amortization expense	$ 37.2	$ 77.6	$ 87.2	$ 86.9

Capital Expenditures

	Successor	Predecessor		
(in millions)	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005
Oral Technologies	$ 6.8	$ 28.7	$ 53.2	$ 116.7
Sterile Technologies	4.7	50.2	21.6	59.8
Packaging Services	2.3	24.0	26.6	37.6
Corporate	5.0	1.7	0.6	8.0
Total capital expenditures	$ 18.8	$ 104.6	$ 102.0	$ 222.1

The following table includes total assets at June 30, 2007 and 2007 for each segment as well as reconciling items necessary to total the amounts reported in the financial statements:

Assets

(in millions)	Successor (Consolidated) 2007	Predecessor (Combined) 2006
Oral Technologies	$ 2,173.7	$ 1,447.0
Sterile Technologies	918.3	313.9
Packaging Services	861.1	543.8
Corporate and eliminations	(173.1)	136.9
Assets held for sale	82.3	124.5
Total assets	$ 3,862.3	$ 2,566.1

The following table presents revenue and long-lived assets by geographic area:

(in millions)	Net Revenue				Long-Lived Assets	
	Successor	Predecessor			Successor	Predecessor
	April 10, 2007 to June 30, 2007	July 1, 2006 to April 9, 2007	Fiscal 2006	Fiscal 2005	As of June 30, 2007	As of June 30, 2006
United States	$ 170.2	$ 526.6	$ 760.7	$ 676.5	$ 533.7	$ 530.3
Europe	211.3	638.3	718.2	697.7	435.0	381.4
International other	45.8	129.3	162.8	177.9	87.4	89.7
Eliminations	(3.8)	(14.0)	(29.5)	(34.8)	-	-
Total	$ 423.5	$ 1,280.2	$ 1,612.2	$ 1,517.3	$ 1,056.1	$ 1,001.4

Long-lived assets include property and equipment, net of accumulated depreciation.

18. SUPPLEMENTAL BALANCE SHEET INFORMATION

Supplementary balance sheet information at June 30, 2007 and June 30, 2006 are detailed in the following tables, and reflect the impact of the evaluation of the fair values of the real and personal property, inventory and certain identifiable intangible assets in connection with the purchase price allocation related to the Acquisition, as follows:

Inventories

Work-in-process and finished goods inventories include raw materials, labor and overhead. Inventories consisted of the following at June 30:

(in millions)	Successor 2007	Predecessor 2006
Raw materials and supplies	$ 116.9	$ 117.4
Work-in-process	34.3	30.3
Finished goods	70.3	69.0
Total inventory, gross	221.5	216.7
Inventory reserves	(2.6)	(13.7)
Total inventory, net	$ 218.9	$ 203.0

Prepaid and other assets

Prepaid and other assets consist of the following at June 30:

(in millions)	Successor 2007	Predecessor 2006
Prepaid expenses	$ 21.6	$ 15.2
Spare parts supplies	13.5	10.1
Deferred taxes	6.3	22.8
Other current assets	31.7	31.3
Total prepaid and other assets	$ 73.1	$ 79.4

Property and equipment

Property and equipment consist of the following at June 30:

(in millions)	Successor 2007	Predecessor 2006
Land, buildings and improvements	$ 431.5	$ 576.0
Machinery and equipment	566.1	926.8
Furniture and fixtures	11.1	27.0
Construction in progress	76.0	141.2
Property and equipment, at cost	1,084.7	1,671.0
Accumulated depreciation	(28.6)	(669.6)
Property and equipment, net	$1,056.1	$1,001.4

Other assets

Other assets consist of the following at June 30:

(in millions)	Successor 2007	Predecessor 2006
Deferred long term debt financing costs	$ 54.7	$ —
Deferred taxes	—	11.2
Other	7.3	15.8
Total other assets	$ 62.0	$ 27.0

Other accrued liabilities

Other accrued liabilities consist of the following at June 30:

(in millions)	Successor 2007	Predecessor 2006
Accrued employee-related expenses	$ 68.8	$ 63.8
Restructuring accrual (see Note 6)	8.2	6.1
Deferred income taxes	3.2	8.7
Accrued interest	19.4	—
Due to Cardinal, Inc. and affiliates	5.8	—
Other accrued liabilities and expenses	69.1	53.5
Total other accrued liabilities	$174.5	$132.1