TARO PHARMACEUTICAL INDUSTRIES LTD
Form 20-F
July 01, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended March 31, 2015

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number 001-35463

TARO PHARMACEUTICAL INDUSTRIES LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant s name into English)

Israel

(Jurisdiction of incorporation or organization)

14 Hakitor Street, Haifa Bay 2624761, Israel

(Address of principal executive offices)

Michael Kalb

Chief Financial Officer

Taro Pharmaceutical Industries Ltd.

c/o Taro Pharmaceuticals U.S.A., Inc.

3 Skyline Drive

Hawthorne, NY 10532

Tel: 914-345-9000

Fax: 914-345-6169

Email: Michael.Kalb@taro.com

(Name, telephone, email and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.0001 nominal (par) value per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report:

42,833,273 Ordinary Shares, NIS 0.0001 nominal (par) value per share, and 2,600 Founders Shares NIS 0.00001 nominal

(par) value per share were issued and outstanding as of March 31, 2015

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued Other ¨

by the International Accounting Standards Board ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an Annual Report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Table of Contents

INTRODUCTION

We, among other business activities, develop, manufacture and market prescription (Rx) and over-the-counter (OTC) pharmaceutical products, primarily in the United States (the U.S.), Canada and Israel. We also develop and manufacture active pharmaceutical ingredients (APIs), primarily for use in our finished dosage form products. We were incorporated in 1959 under the laws of the State of Israel. In 1961, we completed the initial public offering of our ordinary shares in the United States. As of March 22, 2012, our ordinary shares are traded on the New York Stock Exchange (the NYSE), under the symbol TARO.

As used in this Annual Report on Form 20-F for the fiscal year ended March 31, 2015 (the 2015 Annual Report), the terms we, us, our, Taro and the Company mean Taro Pharmaceutical Industries Ltd. (Taro Israel) and its subs unless otherwise indicated.

This 2015 Annual Report is being filed in respect of the fiscal year ended March 31, 2015, and contains the audited consolidated financial statements for the year then ended. To disclose information as of the latest practicable date and to provide material information to shareholders, this 2015 Annual Report discloses events and other information occurring after the fiscal year ended March 31, 2015.

FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this 2015 Annual Report, the statements contained herein, in particular with respect to our business, financial condition and results of operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in Item 3D Key Information: Risk Factors and elsewhere in this Annual Report. We urge you to consider that statements which use the terms *believe, expect, plan, intend, estimate, anticipate, should, will, may, hope* and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements appearing in this 2015 Annual Report are reported in U.S. dollars in thousands, unless otherwise indicated, and are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). Totals presented in this 2015 Annual Report may not total correctly due to rounding of numbers.

All references in this 2015 Annual Report to dollars, or $, are to U.S. dollars and all references in this Annual Report to NIS are to New Israeli Shekels. The published [1] representative exchange rate between the NIS and the dollar for March 31, 2015 was NIS 3.98 per $1.00. The published [2] representative exchange rate between the Canadian dollar and the dollar for March 31, 2015 was $1.27 Canadian dollar per $1.00. No representation is made that the NIS amounts or Canadian dollar amounts could have been, or could be, converted into dollars at rates specified herein or any other rate.

(1) As published by The Bank of Israel.
(2) As published by The Bank of Canada.

Table of Contents

TABLE OF CONTENTS

PART I	1
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	1
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	1
ITEM 3. KEY INFORMATION	1
A. SELECTED FINANCIAL DATA	1
B. CAPITALIZATION AND INDEBTEDNESS	2
C. REASONS FOR THE OFFER AND USE OF PROCEEDS	2
D. RISK FACTORS	2
ITEM 4. INFORMATION ON THE COMPANY	20
A. HISTORY AND DEVELOPMENT OF THE COMPANY	20
B. BUSINESS OVERVIEW	22
C. ORGANIZATIONAL STRUCTURE	34
D. PROPERTY, PLANT AND EQUIPMENT	34
ITEM 4A. UNRESOLVED STAFF COMMENTS	36
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	36
A. OPERATING RESULTS	36
B. LIQUIDITY AND CAPITAL RESOURCES	47
C. RESEARCH AND DEVELOPMENT, PATENTS, TRADEMARKS AND LICENSES	48
D. TREND INFORMATION	49
E. OFF-BALANCE SHEET ARRANGEMENTS	49
F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS	49
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	50
A. DIRECTORS AND SENIOR MANAGEMENT	50
B. COMPENSATION	53
C. BOARD PRACTICES	53
D. EMPLOYEES	60
E. SHARE OWNERSHIP	62
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	63
A. MAJOR SHAREHOLDERS	63
B. RELATED PARTY TRANSACTIONS	64
C. INTERESTS OF EXPERTS AND COUNSEL	64
ITEM 8. FINANCIAL INFORMATION	64
A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION	64
ITEM 9. THE OFFER AND LISTING	66
A. OFFER AND LISTING DETAILS	66
B. PLAN OF DISTRIBUTION	67
C. MARKETS	67
D. SELLING SHAREHOLDERS	67
E. DILUTION	67
F. EXPENSES OF THE ISSUE	67
ITEM 10. ADDITIONAL INFORMATION	67
A. SHARE CAPITAL	67
B. ISRAELI COMPANIES LAW AND OUR DOCUMENTS OF INCORPORATION	67
C. MATERIAL CONTRACTS	74

D. EXCHANGE CONTROLS 74
E. TAXATION 74
F. DIVIDENDS AND PAYING AGENTS 85
G. STATEMENT BY EXPERTS 85
H. DOCUMENTS ON DISPLAY 85
I. SUBSIDIARY INFORMATION 86
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 86
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES 87

Table of Contents

PART II	87
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	87
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	87
ITEM 15. CONTROLS AND PROCEDURES	87
ITEM 16. [RESERVED]	88
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	88
ITEM 16B. CODE OF ETHICS	88
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	88
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	89
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	89
ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT	89
ITEM 16G. CORPORATE GOVERNANCE	89
ITEM 16H. MINE SAFETY DISCLOSURE	92
PART III	92
ITEM 17. FINANCIAL STATEMENTS	92
ITEM 18. FINANCIAL STATEMENTS	92
ITEM 19. EXHIBITS	92

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We have derived the following selected consolidated financial data for the years ended March 31, 2015, 2014 and 2013, and as of March 31, 2015 and March 31, 2014, from our audited consolidated financial statements set forth elsewhere in this 2015 Annual Report that have been prepared in accordance with U.S. GAAP. We have derived the consolidated selected financial data for the three months ended March 31, 2012 and for the years ended December 31, 2011 and 2010, and as of March 31, 2013 and 2012, December 31, 2011 and 2010, from our audited consolidated financial statements not included in this Annual Report. You should read the selected consolidated financial data together with *Item 5 Operating and Financial Review and Prospects* and our consolidated financial statements, related notes and other financial information included elsewhere in this 2015 Annual Report. In 2012, we changed our fiscal year end from December 31 to March 31.

Table of Contents

	Year Ended March 31,			Three months Ended March 31,	Year Ended December 31,	
	2015	2014	2013	2012	2011	2010
	U.S. dollars and shares in thousands (except per share data)					
Consolidated Statements of Operations Data:						
Sales, net	$ 862,944	$ 759,285	$ 670,954	$ 145,141	$ 505,668	$ 392,535
Cost of sales	186,359	179,279	176,128	45,971	176,143	159,158
Gross profit	676,585	580,006	494,826	99,170	329,525	233,377
Operating expenses:						
Research and development	65,510	55,430	46,508	9,847	30,867	36,393
Selling, marketing, general and administrative	87,644	91,733	86,438	23,101	93,918	107,902
Settlements and loss contingencies	(4,200)	2,590	33,300			
Total operating expenses	148,954	149,753	166,246	32,948	124,785	144,295
Operating income	527,631	430,253	328,580	66,222	204,740	89,082
Financial (income) expenses, net	(51,311)	(12,285)	(3,931)	1,000	(3,697)	11,840
Other gain (loss), net	2,738	1,369	3,352	(94)	609	755
Income before income taxes	581,680	443,907	335,863	65,128	209,046	77,997
Tax expense	96,059	82,729	67,799	17,791	24,551	10,477
Income from continuing operations	485,621	361,178	268,064	47,337	184,495	67,520
Net (loss) income from discontinued operations attributable to Taro	(787)	(319)	(1,194)	66	(1,217)	(2,969)
Net income	484,834	360,859	266,870	47,403	183,278	64,551
Net income attributable to non-controlling interest	577	472	664	151	598	473
Net income attributable to Taro	$ 484,257	$ 360,387	$ 266,206	$ 47,252	$ 182,680	$ 64,078
Net income from continuing operations attributable to Taro	$ 485,044	$ 360,706	$ 267,400	$ 47,186	$ 183,897	$ 67,047
Net (loss) income from discontinued operations attributable to Taro	(787)	(319)	(1,194)	66	(1,217)	(2,969)
Net income attributable to Taro	$ 484,257	$ 360,387	$ 266,206	$ 47,252	$ 182,680	$ 64,078

Net income per ordinary share from continuing operations attributable to Taro:						
Basic	$ 11.32	$ 8.15	$ 5.99	$ 1.06	$ 4.14	$ 1.66
Diluted	$ 11.32	$ 8.15	$ 5.98	$ 1.06	$ 4.14	$ 1.60
Net (loss) income per ordinary share from discontinued operations attributable to Taro:						
Basic	$ (0.01)	$ (0.01)	$ (0.03)	*	$ (0.03)	$ (0.07)
Diluted	$ (0.01)	$ (0.01)	$ (0.03)	*	$ (0.03)	$ (0.07)
Net income per ordinary share attributable to Taro:						
Basic	$ 11.31	$ 8.14	$ 5.96	$ 1.06	$ 4.11	$ 1.59
Diluted	$ 11.31	$ 8.14	$ 5.95	$ 1.06	$ 4.11	$ 1.53
Weighted-average number of ordinary shares used to compute net income per share:						
Basic	42,834	44,276	44,678	44,476	44,406	40,272
Diluted	42,834	44,279	44,715	44,589	44,491	41,850

* Amount is less than $0.01

	As of March 31,				As of December 31,	
	2015	**2014**	**2013**	**2012**	**2011**	**2010**
	(In thousands of U.S. dollars)					
Consolidated Balance Sheet Data:						
Working capital	$ 1,203,802	$ 797,967	$ 717,240	$ 454,762	$ 391,048	$ 165,851
Property, plant and equipment, net	153,045	151,416	145,265	150,750	152,532	163,596
Total assets	1,737,745	1,284,376	1,106,636	856,424	795,845	556,442
Short-term debt, including current maturities of long-term debt	912	11,974	11,330	10,957	17,073	28,195
Long-term debt, net of current maturities	4,976	5,888	17,269	27,949	27,614	31,225
Shareholders equity	1,417,383	1,020,593	890,961	622,958	571,063	384,513

Dividends

We have never paid cash dividends and we do not anticipate paying any cash dividends in the foreseeable future. Our dividend policy is set forth below in *Item 8.A Consolidated Statements and Other Financial Information*.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Table of Contents

Our business, operating results and financial condition may be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks facing us, we may experience a material adverse change in our business, results of operations and financial condition and our share price may decline. We cannot assure you that we will successfully address any of these risks.

Risks Relating to Our Industry

The pharmaceutical industry in which we operate is intensely competitive. We are particularly subject to the risks of competition. For example, the competition we encounter may have a negative impact upon the prices we charge for our products, the market share of our products and our revenue and profitability.

The pharmaceutical industry in which we operate is intensely competitive. The competition which we encounter has an effect on our product prices, market share, revenue and profitability. Depending upon how we respond to this competition, it may have a material adverse effect on us. We compete with:

generic manufacturers of our brand-name drugs;

the original manufacturers of the brand-name equivalents of our generic products;

drug manufacturers (including brand-name companies that also manufacture generic drugs);

generic drug manufacturers; and

manufacturers of new drugs that may compete with our generic drugs and proprietary products.

Most of the products that we sell are either generic drugs or drugs for which related patents have expired. Most of these products do not benefit from patent protection and are therefore subject to an increased risk of competition. In addition, because many of our competitors have substantially greater financial, production and research and development resources, substantially larger sales and marketing organizations, and substantially greater name recognition than we have, we are particularly subject to the risks inherent in competing with them. For example, many of our competitors may be able to develop products and processes competitive with, or superior to, our own. Furthermore, we may not be able to differentiate our products from those of our competitors, successfully develop or introduce new products that are less costly or offer better performance than those of our competitors or offer purchasers of our products payment and other commercial terms as favorable as those offered by our competitors.

Other pharmaceutical companies frequently take actions to prevent or discourage the use of generic drug products such as ours.

Other pharmaceutical companies have increasingly taken actions, including the use of state and federal legislative and regulatory mechanisms, to prevent, delay or discourage the use of generic equivalents to their products, including generic products that we manufacture or market. If these efforts to delay or prevent generic competition are successful, our ability to sell our generic versions of products may be limited or prevented. This could have a material adverse effect on our future results of operations. These efforts have included, among others:

filing new patents or extensions of existing patents on products whose original patent protection is about to expire, which could extend patent protection for the product and delay launch of generic equivalents;

developing patented controlled-release products or other product improvements;

developing and marketing branded products as Rx and OTC products;

pursuing pediatric exclusivity for brand-name products;

submitting citizen petitions to request that the Commissioner of the U.S. Food and Drug Administration (FDA) take administrative action with respect to an abbreviated new drug application (ANDA) approval;

attaching special patent extension amendments to unrelated federal legislation;

engaging in state-by-state initiatives to enact legislation that restricts the substitution of some brand-name drugs with generic drugs;

making arrangements with managed care companies and insurers to reduce the economic incentives to purchase generic pharmaceuticals;

introducing authorized generics or their own generic equivalents to the marketplace; and

setting the price of brand-name drugs at or below the price of generic equivalents.

Table of Contents

Generally, no additional regulatory approvals are required for brand-name manufacturers to sell directly or through a third party to the generic market. Brand-name products that are licensed to third parties and are marketed under their generic names at discounted prices are known as authorized generics. Such licensing facilitates the sale of generic equivalents of a company s own brand-name products. Because many brand-name companies are substantially larger than we are and have substantially greater resources than we have, we are particularly subject to the risks of their undertaking to prevent or discourage the use of our products that compete with theirs. Moreover, the introduction of authorized generics may make competition in the generic market more intense. It may also reduce the likelihood that a generic company that obtains the first ANDA approval for a particular product will be the first to market and/or the only generic alternative offered to the market and thus may diminish the economic benefit associated with this position.

We may experience declines in the sales volume and prices of our products as the result of the continuing trend of consolidation of certain customer groups, such as the wholesale drug distribution and retail pharmacy industries, as well as the emergence of large buying groups.

We make a significant portion of our sales to a relatively small number of wholesalers, retail drug chains, food chains and mass merchandisers. If demand decreases significantly, our profitability could be negatively impacted. Also, these customers constitute an essential part of the distribution chain for generic pharmaceutical products and continue to undergo significant consolidation. This consolidation may result in these groups gaining additional purchasing leverage and consequently increasing product pricing pressures facing us. In addition, the emergence of large buying groups representing independent retail pharmacies and the prevalence and influence of managed care organizations and similar institutions, potentially enables those groups to negotiate price discounts on our products.

Our net sales and quarterly growth comparisons may also be affected by fluctuations in the buying patterns of retail chains, major distributors and other trade buyers, whether resulting from seasonality, pricing, wholesaler buying decisions or other factors. In addition, since such a significant portion of our U.S. revenues is derived from relatively few customers, any financial difficulties experienced by a single customer, or any delay in receiving payments from a single customer could have a material adverse effect on our business, financial position and results of operations, and could cause the market value of our ordinary shares to decline.

New developments by others could make our products or technologies non-competitive or obsolete.

The markets in which we compete and intend to compete continue to undergo rapid and significant technological change. Our competitors may succeed in developing products and technologies that are more effective or less costly than any that we are developing, or that would render our products obsolete and non-competitive.

We anticipate that we will face increased competition in the future as new companies enter the market and novel or advanced technologies emerge. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Many of our competitors have significantly greater research and development, financial, sales and marketing, manufacturing and other resources than we have. As a result, they may be able to devote greater resources to the development, manufacture, marketing or sale of their products, initiate or withstand substantial price competition, or more readily take advantage of acquisitions or other opportunities.

Our ability to market products successfully depends, in part, upon the acceptance of our products not only by consumers, but also by independent third parties.

Our ability to market generic or proprietary pharmaceutical products successfully depends, in part, on the acceptance of the products by independent third parties (including physicians, pharmacies, government formularies, managed care providers, insurance companies and retailers), as well as patients. In addition, unanticipated side effects or unfavorable publicity concerning any of our products, or any brand-name product of which our generic product is the equivalent, could have an adverse effect on our ability to achieve acceptance by prescribing physicians, managed care providers, pharmacies and other retailers, customers and patients.

Table of Contents

Our future profitability depends upon our ability to continue monitoring our inventory levels in the distribution channel.

Our future profitability depends, in part, upon our ability to continue monitoring our inventory levels in the distribution channel. We obtain reports of the amount of our products held in inventory by our wholesaler customers. We use these reports as part of our process for monitoring inventory levels in our distribution channel and our exposure to product returns. If we lose access to these reports, we may not be able to adequately monitor our inventory levels in the distribution channel. The loss of our visibility into the distribution channel could cause inventory levels to build, exceeding market demand and resulting in our incurring significant and unanticipated expenditures to reimburse these wholesaler customers for product returns, which could materially affect our profitability and cash flows in an adverse manner.

Our future profitability depends upon our ability to introduce new generic or innovative products on a timely basis.

Our future profitability depends, to a significant extent, upon our ability to introduce, on a timely basis, new generic or innovative products for which we either are the first-to-market (or among the first-to-market) or can otherwise gain significant market share. Our ability to achieve any of these objectives is dependent upon, among other things, the timing of regulatory approval of these products and the number and timing of regulatory approvals of competing products. Inasmuch as this timing is not within our control, we may not be able to develop and introduce new generic and innovative products on a timely basis, if at all.

To the extent that we succeed in being the first-to-market generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity for the U.S. market provided under the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act), our sales, profits and profitability can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of an equivalent product. However, after the end of the 180-day exclusivity period, these sales, along with the profits therefrom, may diminish precipitously.

Our revenue and profits from individual generic pharmaceutical products typically decline as our competitors introduce their own generic equivalents.

Revenue and gross profit derived from generic pharmaceutical products tend to follow a pattern based on regulatory and competitive factors unique to the generic pharmaceutical industry. As the patents for a brand-name product and the related exclusivity periods expire, the first generic manufacturer to receive regulatory approval for a generic equivalent of the product is often able to capture a substantial share of the market. However, as other generic manufacturers receive regulatory approvals for competing products, or brand-name manufacturers introduce authorized generics, that market share and the price of that product typically decline. Our overall profitability depends on, among other things, our ability to continuously, and on a timely basis, introduce new products.

Risks Relating to Regulatory Matters

We are subject to extensive government regulation that increases our costs and could delay or prevent us from marketing or selling our products.

We are subject to extensive regulation by the United States, Canada, Israel and other jurisdictions. These jurisdictions regulate, among other things, the approval, testing, manufacture, labeling, marketing, sale, import and export of pharmaceutical products. For example, approval by the FDA is generally required before any new drug or the generic equivalent to any previously approved drug may be marketed in the United States. In order to receive approval from

the FDA for each new drug product we wish to market, we must demonstrate, through rigorous clinical trials, that the new drug product is safe and effective for its intended use and that our manufacturing process for that product candidate complies with current Good Manufacturing Practices (cGMP). We cannot provide an assurance that the FDA will, in a timely manner, or ever, approve our applications for new drug products. The FDA may require substantial additional clinical testing or find that our drug product does not satisfy the standards for approval. In addition, in order to obtain approval for our product candidates that are generic versions of brand-name drugs, we must demonstrate to the FDA that each generic product candidate is bioequivalent to a drug previously approved by the FDA through the new drug approval process, known as an innovator, or brand-name reference drug. In addition to bioequivalence testing, the generic product must also have the same dosage form, strength, route of administration, and intended use as the innovator drug product. If the FDA determines that an ANDA for a generic drug product is not adequate to support approval, it could deny our application or request additional information, including clinical trials, which could delay approval of the product and impair our ability to compete with other versions of the generic drug product.

Table of Contents

If our product candidates receive FDA approval, the labeling claims and marketing statements that we can make for our products are limited by statutes and regulations and, with respect to our generic drugs, by the claims approved by the FDA for the brand-name product. In addition, if the FDA and/or a foreign regulatory authority approves any of our products, the labeling, packaging, adverse event reporting, storage conditions, advertising and promotion for the product will be subject to extensive and ongoing regulatory requirements. Further, as a manufacturer of pharmaceutical products distributed in the United States, we must also continue to comply with cGMPs regulations, which include requirements related to production processes, quality control and quality assurance and recordkeeping. Products that we manufacture and distribute in foreign jurisdictions may be regulated under comparable laws and regulations in those jurisdictions. The facilities of Taro Pharmaceuticals U.S.A., Inc. (Taro U.S.A.), our U.S. subsidiary, our manufacturing facilities and procedures and those of our suppliers are subject to periodic inspection by the FDA and foreign regulatory agencies. Any material deviations from cGMPs or other applicable standards identified during such inspections may result in enforcement actions, including delaying or preventing new product approvals, a delay or suspension in manufacturing operations, warning or untitled letters, consent decrees or civil or criminal penalties. Further, discovery of previously unknown problems with a product or manufacturer may result in restrictions or sanctions with respect to the product, including withdrawal of the product from the market.

In addition, because we market a controlled substance in the United States and other controlled substances in Israel and Canada, we must meet the requirements of the Controlled Substances Act in the United States and its equivalents in Israel and Canada, as well as the regulations promulgated thereunder in each country. These regulations include stringent requirements for registration, manufacturing controls, importation, distribution, exportation, receipt and handling procedures and security to prevent diversion of, or unauthorized access to, the controlled substances in each stage of the production and distribution process. The United States Drug Enforcement Administration (DEA) and comparable regulatory authorities in Israel and Canada may periodically inspect our facilities for compliance with the Controlled Substances Act and its equivalents in Israel and Canada. Any failure to comply with these laws and regulations could lead to a variety of sanctions, including the revocation, or a denial of renewal, of our DEA registration (or Israeli or Canadian equivalent), injunctions, or civil or criminal penalties.

Furthermore, all of the products that we manufacture and most of the products we distribute are manufactured outside the United States and must be shipped into the United States. The FDA and the DEA, in conjunction with the United States Customs Service, can exercise greater legal authority over goods that we seek to import into the United States than they can over products that are manufactured in the United States.

Although we devote significant time, effort and expense to addressing the extensive government regulations applicable to our business and obtaining regulatory approvals, we remain subject to the risk of being unable to obtain necessary approvals on a timely basis, if at all. Delays in receiving regulatory approvals could adversely affect our ability to market our products.

Product approvals by the FDA and by comparable foreign regulatory authorities may be withdrawn if compliance with regulatory standards is not maintained or if problems relating to the products are experienced after initial approval. In addition, if we fail to comply with governmental regulations we may be subject to warning or untitled letters, fines, unanticipated compliance expenditures, interruptions of our production and/or sales, prohibition of importation, seizures and recalls of our products, criminal prosecution and debarment of us and our employees from the generic drug approval process.

Changes in regulatory environment may prevent us from utilizing the exclusivity periods that are important for the success of some of our generic products.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) provides that the 180-day market exclusivity period provided under the Hatch-Waxman Act is only triggered by commercial marketing of the product. However, the Medicare Act also contains forfeiture provisions which would deprive the first Paragraph IV filer (as defined below) of eligibility for such exclusivity if certain conditions are met. Accordingly, in situations where we are the first Paragraph IV filer, we may face the risk of forfeiture and therefore may not be able to exploit a given exclusivity period for specific products.

Table of Contents

Under the terms of the Hatch-Waxman Act, a generic applicant must make certain certifications with respect to the patent status of the listed drug that it references in its ANDA. In the event that such applicant plans to challenge the validity or enforceability of an existing listed patent or asserts that the proposed product does not infringe an existing listed patent, it files a so-called Paragraph IV certification. The Hatch-Waxman Act provides for a potential 180-day period of generic exclusivity for the first company that submits an ANDA with a Paragraph IV certification and that also lawfully maintains such certification. Such exclusivity prevents the approval for 180 days of a subsequently submitted ANDA containing a Paragraph IV certification. The Medicare Act modified certain provisions of the Hatch-Waxman Act. Under the Medicare Act, final ANDA approval for a product subject to Paragraph IV patent litigation may be obtained upon the earlier of a favorable district court decision or 30 months from notification to the patent holder of the Paragraph IV filing, provided there are no other issues preventing the FDA from granting final approval. Exclusivity rights for the first Paragraph IV filer may be forfeited pursuant to the Medicare Act under specified circumstances including, for example, if tentative approval is not timely obtained. Some of the changes made by the Medicare Act apply to ANDAs where the first certification was filed after the enactment of the Medicare Act; other earlier submitted ANDAs are generally governed by the previous version of the law.

Pharmaceutical companies are required by international law to comply with adverse event reporting requirements.

We are required by international law to comply with adverse event reporting requirements. Our failure to meet these reporting requirements in any jurisdiction could result in actions by regulatory authorities in that and/or other jurisdictions, including any of the following: warning letters, public announcements, restriction or suspension of marketing authorizations, revocation of marketing authorizations, fines or a combination of any of these actions.

Health care reform may have an impact on all segments of the health care industry.

On March 23, 2010, the U.S. government enacted the Patient Protection and Affordable Care Act (PPACA). A companion bill, the Health Care Education Affordability Reconciliation Act of 2010, which was enacted by the U.S. government on March 30, 2010, contains amendments to the PPACA. Together, these bills (the Acts) represent the most comprehensive overhaul ever enacted of both the public and private health care systems in the United States.

The Acts impose on manufacturers a variety of additional rebates, discounts, fees, taxes and reporting and regulatory requirements. Changes to the healthcare system enacted as part of healthcare reform in the United States, as well as the increased purchasing power of entities that negotiate on behalf of Medicare, Medicaid, and private sector beneficiaries, may result in increased pricing pressure by influencing, for instance, the reimbursement policies of third-party payors. We cannot predict which additional measures may be adopted or the impact of current and additional measures on the marketing, pricing and demand for our products.

Reimbursement policies of third-parties, cost containment measures and healthcare reform could adversely affect the demand for our products and limit our ability to sell our products.

Our ability to market our products depends, in part, on reimbursement levels for them and related treatment established by federal and state government healthcare programs, private health insurers and other third party payor organizations, including health maintenance organizations and managed care organizations. Reimbursement may not be available for some of our products and, even if granted, may not be maintained. Limits placed on reimbursement could make it more difficult for people to buy our products and reduce, or possibly eliminate, the demand for our products. In the event that governmental authorities enact additional legislation or adopt regulations which affect third-party coverage and reimbursement, demand for our products may be reduced with a consequent adverse effect, which may be material, on our sales and profitability.

In addition, the purchase of our products could be significantly influenced by the following factors, among others:

- trends in managed healthcare in the United States;
- developments in health maintenance organizations, managed care organizations and similar enterprises;
- legislative proposals to reform healthcare and government insurance programs; and
- price controls and reimbursement policies.

Table of Contents

The Acts are a sweeping measure intended to expand healthcare coverage in the U.S., primarily through the establishment of exchange to facilitate the purchase of health insurance; premium and cost-sharing subsidies for certain low-income individuals; imposition of health insurance mandates on employers and individuals and expansion of the Medicaid program. Among other things, the Acts contain provisions that will change payment levels for pharmaceuticals under Medicaid and increase pharmaceutical rebates under the Medicaid Drug Rebate Program. Effective October 1, 2010, the law changed the formula for calculating federal upper limits (FULs), which are a type of cap on the amount a state Medicaid program can reimburse pharmacies for multiple source drugs (drugs for which there are at least three therapeutically equivalent versions on the market). When these provisions are implemented, the FUL will be calculated based on the weighted-average of the average manufacturer prices (AMPs) of the equivalent drugs on the market. In addition, the law changed the preexisting definition of AMP so that it is based only on direct sales to retail community pharmacies and sales to wholesalers who sell to retail community pharmacies. The Centers for Medicare & Medicaid Services (CMS) has not yet begun to implement the new FUL provisions and has not issued final regulations to implement the new statutory definition of AMP. We do not know how the new methodology for calculating FULs will affect our pharmacy customers.

In addition, the Acts require CMS to publish and provide states with the weighted-average monthly AMPs for multiple source drugs. CMS has encouraged state Medicaid programs to utilize these AMPs as a benchmark for prescription drug reimbursement in place of the current, widely used benchmark of average wholesale price (AWP). CMS has not yet begun to make weighted-average AMPs available to the states or the public. When implemented, the disclosure may have the effect of reducing Medicaid reimbursement rates. We cannot predict how the public disclosure of this information may affect competition in the market place. In addition, a proposed regulation published by CMS would require state Medicaid programs to base their reimbursement rates for brand drugs on pharmacies actual acquisition costs, rather than using the current methodologies based on published benchmarks such as AWP or wholesaler acquisition cost. The proposed regulation does not establish a deadline for this transition. If this regulation is finalized as proposed, we do not know how the new Medicaid reimbursement rates will affect our pharmacy customers.

Effective January 1, 2010, the Acts also increased the minimum Medicaid rebate rate from 15.1% to 23.1% of AMP for most drugs approved under a NDA, and increased the Medicaid rebate from 11% to 13% of AMP for most drugs approved under an ANDA. Also, the volume of rebated drugs has been expanded to include drugs dispensed to beneficiaries in Medicaid managed care organizations. In addition, when CMS issues final implementing regulations, which are expected in 2015, an alternative higher rebate may be imposed on drugs that are line extensions of previously approved drugs. These measures have increased our cost of selling to the Medicaid market.

The full effects of the Acts on Medicaid payment and on our Medicaid rebates cannot be known until all of these provisions are implemented and CMS issues applicable final regulations or guidance, but may have an adverse impact on our results of operations.

Any failure to comply with the complex reporting and payment obligations under the Medicare and Medicaid programs may result in further litigation or sanctions, in addition to the lawsuits.

The U.S. laws and regulations regarding Medicare and/or Medicaid reimbursement and rebates and other governmental programs are complex. Some of the applicable laws may impose liability even in the absence of specific intent to defraud. The subjective decisions and complex methodologies used in calculating prices that are reportable under these programs are subject to review and challenge, and it is possible that such reviews could result in material changes. A number of state attorneys general and others have filed lawsuits alleging that we and other pharmaceutical companies reported inflated AWP, leading to excessive payments by Medicare and/or Medicaid for prescription drugs. Additional actions are possible. These actions, if successful, could adversely affect us and may have a material

adverse effect on our business, results of operations, financial condition and cash flows. For additional information about our AWP related matters, please see Item 8. Financial Information Legal Proceedings.

Table of Contents

We are susceptible to product liability claims that may not be covered by insurance and could require us to pay substantial sums.

We face the risk of loss resulting from, and adverse publicity associated with, product liability lawsuits, whether or not such claims are valid. We may not be able to avoid such claims. In addition, our product liability insurance may not be adequate to cover such claims or we may not be able to obtain adequate insurance coverage in the future at acceptable costs. A successful product liability claim that exceeds our policy limits could require us to pay substantial sums. In addition, in the future, we may not be able to obtain the type and amount of coverage we desire or to maintain our current coverage.

Product recalls could harm our business.

Product recalls or product field alerts may be issued at our discretion or at the discretion of the FDA, other governmental agencies or other companies having regulatory authority for pharmaceutical product sales. From time to time, we may recall products for various reasons, including failure of our products to maintain their stability through their expiration dates. Any recall or product field alert has the potential of damaging the reputation of the product or our reputation. Any significant recalls could materially affect our sales. In these cases, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Our reputation among consumers and our customers in the pharmacy trade may be negatively impacted by incidents of counterfeiting of our products.

The counterfeiting of pharmaceutical products is a widely reported problem for pharmaceutical manufacturers, distributors, retailers and consumers in the United States, which is our largest market. Such counterfeiting may take the form of illicit producers manufacturing cheaper and less effective counterfeit versions of our products, or producing imitation products containing no active ingredients, and then packaging such counterfeit products in a manner which makes them look like our products. If incidents occurred in which such products prove to be ineffective, or even harmful, to the individuals who used them, consumers and our customers might not buy our products out of fear that they might be ineffective or dangerous counterfeits. In addition, sales of counterfeit products could reduce sales of our legitimate products, which could have a material negative impact on our sales and net income.

The manufacture and storage of pharmaceutical and chemical products are subject to environmental regulation and inherent risk.

Because chemical ingredients are used in the manufacture of pharmaceutical products and due to the nature of the manufacturing process itself, there is a risk of property damage or personal injury caused by or during the storage or manufacture of both the chemical ingredients and the finished pharmaceutical products. Although we have never incurred any material liability for damage of this nature, we may be subject to liability in the future. In addition, while we believe our insurance coverage is adequate, it is possible that a successful claim would exceed our coverage, requiring us to pay a substantial sum.

The pharmaceutical industry is furthermore subject to extensive environmental regulation. We therefore face the risk of incurring liability for damages or the costs of remedying environmental issues because of the chemical ingredients contained in pharmaceutical products and the nature of their manufacturing process. Although we have never incurred any such liability in any material amount, we may be subject to liability in the future. We may also be required to increase expenditures to remedy environmental issues and comply with applicable regulations. If we fail to comply with environmental regulations to use, discharge or dispose of hazardous materials appropriately or otherwise to

comply with the conditions attached in our operating licenses, the licenses could be revoked and we could be subject to criminal sanctions and substantial liability. We could also be required to suspend or modify our manufacturing operations.

Testing required for the regulatory approval of our products is sometimes conducted by independent third-parties. Any failure by any of these third-parties to perform this testing properly may have an adverse effect upon our ability to obtain regulatory approvals.

Our applications for the regulatory approval of our products incorporate the results of testing and other information that are sometimes provided by independent third-parties (including, for example, manufacturers of raw materials, testing laboratories, contract research organizations or independent research facilities). The likelihood that the products being tested will receive regulatory approval is, to some extent, dependent upon the quality of the work performed by these third-parties, the quality of the third-parties facilities and the accuracy of the information provided by these third-parties. We have little or no control over any of these factors.

Table of Contents

Some of our products are manufactured by independent third-parties. Any failure by any of these third-parties to perform this manufacturing properly or follow cGMPs, may have an adverse effect upon our ability to maintain regulatory approvals or continue marketing our products.

Certain products are manufactured by independent third-parties. Their compliance with cGMPs and other regulatory requirements is essential to our obtaining and maintaining regulatory approvals and marketing authorization for these products in the countries in which they are sold. Any failure by any of these third-parties to perform this manufacturing properly or follow cGMPs, may have an adverse effect upon our ability to maintain regulatory approvals or continue marketing our products.

Risks Relating to Our Company and Our Operations

Sun Pharmaceutical Industries Ltd., and its affiliates, currently controls 79.2% of the voting power in our Company.

Our Chairman, Dilip Shanghvi and members of his immediate family (one of whom is a member of our board of directors) currently control, through their beneficial ownership of 68.9% of our outstanding ordinary shares and 100% of our founders shares through Sun Pharmaceutical Industries Ltd. (Reuters: SUN.BO, Bloomberg: SUNP IN, NSE: SUNPHARMA, BSE: 524715) (Sun Pharma and its affiliates, Sun), 79.2% of the voting power in our Company. Dilip Shanghvi, along with entities controlled by him and members of his family, control 54.7% of Sun Pharma. Sun would be able to control the outcome of shareholder votes requiring a majority of the votes.

50% of the voting power in our subsidiary Taro U.S.A. is held by a corporation which is controlled by Sun.

The share capital of Taro U.S.A. is divided into two classes. Taro Israel owns 96.9% of the shares that have economic rights and 50% of the shares that have voting rights in Taro U.S.A. Taro Development Corporation (TDC) owns 3.1% of the shares that have economic rights and 50% of the shares that have voting rights in Taro U.S.A. Sun owns all of the outstanding voting shares of TDC and thereby controls TDC. Although TDC has agreed to vote all of its shares in Taro U.S.A. for the election to its board of directors of such persons as Taro Israel may designate, TDC may terminate the agreement upon one year written notice. In the event that TDC were to cease voting its shares in Taro U.S.A. for our designees, or otherwise, in accordance with Taro Israel s preference, TDC could prevent Taro Israel from electing a majority of the board of directors of Taro U.S.A., effectively block actions that require approval of a majority of the voting power in Taro U.S.A. and potentially preclude the Company from consolidating Taro U.S.A. into the Company s financial statements. Taro U.S.A. accounted for 89%, 87% and 88% of the Company s consolidated revenue for the years ended March 31, 2015, 2014 and 2013, respectively.

Wholesaler customers account for a substantial portion of our consolidated sales.

We have no long-term agreements with the wholesalers that require them to purchase our products and they may therefore reduce or cease their purchases from us at any time. Any cessation or significant reduction of their purchases from us would likely have a material adverse effect on our results of operations and financial condition. Furthermore, changes in their buying patterns or in their policies and practices in relation to their working capital and inventory management may result in a reduction of, or a change in the timing of, their purchases of our products. While we receive periodic inventory reports from the wholesalers, we have no ability to obtain advance knowledge of such changes. We base our manufacturing schedules, inventories and internal sales projections principally on historical data. To the extent that actual orders from these wholesalers differ substantially from our internal projections, we may either find ourselves with excess inventory or in an out-of-stock position, which could have a material adverse effect upon our operating results.

The nature of our business requires us to estimate future charges against wholesaler accounts receivable. If these estimates are not accurate, our results of operations and financial condition could be adversely affected.

Sales to third-parties, including government institutions, hospitals, hospital buying groups, pharmacy buying groups, pharmacy chains and others generally are made through wholesalers. We sell our products to wholesalers, and the wholesalers resell the products to third-parties at times and in quantities ordered by the third-parties. Typically, we have a contract price with a third-party to which a wholesaler resells our products that may be equal to or less than the price at which we sold the products to the wholesaler. In such a case, following the purchase of the product by a third-party purchaser from the wholesaler, the wholesaler charges us back for any shortfall. At the time of any individual sale by us to a wholesaler, we do not know under which contracts the wholesaler will resell

Table of Contents

products to third-parties. Therefore, we estimate the amount of chargebacks and other credits that may be associated with these sales and we reduce our revenue accordingly. One factor in calculating these estimates is information on customer inventory levels provided to us by our customers. We obtain official reports of the amount of our products held in inventory by our wholesaler customers. If this information is inaccurate or not forthcoming, this may result in erroneously estimated reserves for chargebacks, returns or other deductions. In addition, from time to time, the amount of such chargebacks and other credits reported by a wholesaler may be different from our estimates. Discrepancies of this nature may result in a reduction in the value of our accounts receivable and a related charge to net income. The reconciliation of our accounts with wholesalers may, from time to time, delay, or otherwise impact, the collection of our accounts receivable or result in a decrease in their value and in a related charge to our net income.

Our inventories of finished goods have expiration dates after which they cannot be sold.

Industry standards require that pharmaceutical products be made available to customers from existing stock levels rather than on a made-to-order basis. Therefore, in order to accommodate market demand adequately, we strive to maintain sufficiently high levels of inventories. However, inventories prepared for sales that are not realized as or when anticipated may approach their expiration dates and may have to be written off. These write-offs, if any, could have an adverse effect on our results of operations and financial condition.

Our future success depends on our ability to develop, manufacture and sell new products.

Our future success is largely dependent upon our ability to develop, manufacture and market new commercially viable pharmaceutical products and generic equivalents of proprietary pharmaceutical products whose patents and other exclusivity periods have expired. Delays in the development, manufacture and marketing of new products could negatively impact our results of operations. Each of the steps in the development, manufacture and marketing of our products involves significant time and expense. We are, therefore, subject to the risks, among others, that:

- any products under development, if and when fully developed and tested, will not perform in accordance with our expectations;
- any generic product under development will, when tested, not be bioequivalent to its brand-name counterpart;
- necessary regulatory approvals will not be obtained in a timely manner, if at all;
- any new product cannot be successfully and profitably produced and marketed;
- quality control problems may adversely impact our reputation for high quality production;
- other companies may launch their version of generic products, either prior to or following the launch of our newly approved generic version of the same product;

brand-name companies may launch their products, either themselves or through third-parties, in the form of authorized generic products which can reduce sales, prices and profitability of our newly approved generic products;

generic companies may launch generic versions of our brand-name drugs; or

our products may not be priced at levels acceptable to our customers.

If we are unable to obtain raw materials, our operations could be seriously impaired.

While the majority of our products are either synthesized by us or are derived from multiple source materials, some raw materials and certain products are currently obtained from single domestic or foreign suppliers. Although we have not experienced significant difficulty in obtaining raw materials to date, material supply interruptions may occur in the future and we may have to obtain substitute raw materials or products. For most raw materials we do not have any long-term supply agreements and therefore we are subject to the risk that our suppliers of raw materials may not continue to supply to us on satisfactory terms or at all.

Furthermore, obtaining the regulatory approvals required for adding alternative suppliers of raw materials for finished products we manufacture may be a lengthy process. We strive to maintain adequate inventories of single source raw materials in order to ensure that any delays in receiving regulatory approvals will not have a material adverse effect upon our business. However, we may not be successful in doing so, and consequently, we may be unable to sell some products pending approval of one or more alternate sources of raw materials. Any significant interruption in our supply stream could have a material adverse effect on our operations.

Table of Contents

Research and development efforts invested in our innovative pipeline may not achieve expected results.

We invest increasingly greater resources to develop our innovative pipeline, both through our own efforts and through collaborations with third-parties, which results in higher risks.

The time from discovery to a possible commercial launch of an innovative product is substantial and involves multiple stages during which the product may be abandoned as a result of serious developmental problems, the inability to achieve our clinical goals, the inability to obtain necessary regulatory approvals in a timely manner, if at all, or the inability to produce and market such innovative products successfully and profitably. In addition, we face the risk that some of the third-parties we collaborate with may fail to perform their obligations. Accordingly, our investment in research and development of innovative products can involve significant costs with no assurances of future revenues or profit.

We are continuing our efforts to develop new proprietary pharmaceutical products, but these efforts are subject to risk and may not be successful.

Our principal business has traditionally been the development, manufacture and marketing of generic equivalents of pharmaceutical products first introduced by other companies. However, we have increased our efforts to develop new proprietary products.

Expanding our focus beyond generic products and broadening our product pipeline to include new proprietary products may require additional internal expertise or external collaboration in areas in which we currently do not have substantial resources and personnel. We may have to enter into collaborative arrangements with others that may require us to relinquish rights to some of our technologies or products that we would otherwise pursue independently. We may not be able to acquire the necessary expertise or enter into collaborative agreements on acceptable terms, if at all, to develop and market new proprietary products.

In addition, although a newly developed product may be successfully manufactured in a laboratory setting, difficulties may be encountered in scaling up for manufacture in commercially-sized batches. For this reason and others, in the pharmaceutical industry only a small minority of all new proprietary research and development programs ultimately result in commercially successful drugs.

In order to obtain regulatory approvals for the commercial sale of new proprietary products, we are required to complete extensive clinical trials in humans to demonstrate the safety and efficacy of the products to the satisfaction of FDA and regulatory authorities abroad. Conducting clinical trials is a lengthy, time-consuming and expensive process, and the results of such trials are inherently uncertain. We may have limited experience in conducting clinical trials in these new product areas.

A clinical trial may fail for a number of reasons, including:

- failure to enroll a sufficient number of patients meeting eligibility criteria;
- failure of the new product to demonstrate safety and/or efficacy;

the development of serious (including life threatening) adverse events (including, for example, side effects caused by or connected with exposure to the new product); or

the failure of clinical investigators, trial monitors and other consultants or trial subjects to comply with the trial plan or protocol.

The results from early clinical trials may not be predictive of results obtained in later clinical trials. Clinical trials may not demonstrate the safety and efficacy of a product sufficient to obtain the necessary regulatory approvals, or to support a commercially viable product. Any failure of a clinical trial for a product in which we have invested significant time or other resources could have a material adverse effect on our results of operations and financial condition.

Table of Contents

Even if launched commercially, our proprietary products may face competition from existing or new products of other companies. These other companies may have greater resources, market access, and consumer recognition than we have. Thus, there can be no assurance that our proprietary products will be successful or profitable. In addition, advertising and marketing expenses associated with the launch of a proprietary product may, if not successful, adversely affect our results of operations and financial condition.

We may not be able to successfully identify, consummate and integrate future acquisitions.

We have in the past, and may in the future, pursue acquisitions of product lines and/or companies and seek to integrate them into our operations. Acquisitions of additional product lines and companies involve risks that could adversely affect our future results of operations. Any one or more of the following examples may apply:

- we may not be able to identify suitable acquisition targets or acquire companies on favorable terms;
- we compete with other companies that may have stronger financial positions and are therefore better able to acquire product lines and companies. We believe that this competition will increase and may result in decreased availability or increased prices for suitable acquisition targets;
- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;
- we may not be able to obtain the necessary regulatory approvals, including the approval of antitrust regulatory bodies, in any of the countries in which we may seek to consummate potential acquisitions;
- we may ultimately fail to complete an acquisition after we announce that we plan to acquire a product line or a company;
- we may fail to integrate our acquisitions successfully in accordance with our business strategy;
- we may choose to acquire a business that is not profitable, either at the time of acquisition or thereafter;
- acquisitions may require significant management resources and divert attention away from our daily operations, result in the loss of key customers and personnel, and expose us to unanticipated liabilities;
- we may not be able to retain the skilled employees and experienced management that may be necessary to operate businesses we acquire, and if we cannot retain such personnel, we may not be able to locate and hire new skilled employees and experienced management to replace them; and

we may purchase a company that has contingent liabilities that include, among others, known or unknown intellectual property or product liability claims.

Our tax liabilities could be larger than anticipated.

We are subject to tax in many jurisdictions, and significant judgment is required in determining our provision for income taxes. Likewise, we are subject to audit by tax authorities in many jurisdictions. In such audits, our interpretation of tax legislation might be challenged and tax authorities in various jurisdictions may disagree with, and subsequently challenge, the amount of profits taxed in such jurisdictions under our inter-company agreements. Although we believe our estimates are reasonable, the ultimate outcome of such audits and related litigation could be different from our provision for taxes and might have a material adverse effect on our consolidated financial statements.

Risks Relating to Our Intellectual Property

We depend on our ability to protect our intellectual property and proprietary rights, but we may not be able to maintain the confidentiality, or assure the protection, of these assets.

Our success depends, in large part, on our ability to protect our current and future technologies and products and to defend our intellectual property rights. If we fail to protect our intellectual property adequately, competitors may manufacture and market products similar to ours. Numerous patents covering our technologies have been issued to us, and we have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the United States. Some patent applications in the United States are maintained in secrecy until the patent is issued. Because the publication of discoveries tends to follow their actual discovery by many months, we may not be the first to invent, or file patent applications on any of our discoveries. Patents may not be issued with respect to any of our patent applications and existing or future patents issued to or licensed by us may not provide competitive advantages for our products. Many provisions of

Table of Contents

the America Invents Act went into effect March 16, 2013 and may change or otherwise affect our ability to protect our intellectual property. Patents that are issued may be challenged, invalidated or circumvented by our competitors. Furthermore, our patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products. Where trade secrets are our sole protection, we may not be able to prevent third-parties from marketing generic equivalents to our products, reducing prices in the marketplace and reducing our profitability.

We also rely on trade secrets, non-patented proprietary expertise and continuing technological innovation that we seek to protect, in part, by entering into confidentiality agreements with licensees, suppliers, employees, consultants and others. These agreements may be breached and we may not have adequate remedies in the event of a breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Moreover, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors. If patents are not issued with respect to products arising from our research, we may not be able to maintain the confidentiality of information relating to these products.

Third-parties may claim that we infringe on their proprietary rights and may prevent us from manufacturing and selling such products.

There has been substantial litigation in the pharmaceutical industry with respect to the manufacture, use and sale of new products. These lawsuits relate to the validity and infringement of patents or proprietary rights of third-parties. We may be required to commence or defend against charges relating to the infringement of patent or proprietary rights. Any such litigation could:

- require us to incur substantial expenses, even if we are insured or successful in the litigation;
- require us to divert significant time and effort of our technical and management personnel;
- result in the loss of our rights to develop or make certain products;
- require us to pay substantial monetary damages or royalties in order to license proprietary rights from third-parties; and
- prevent us from launching a developed, tested and approved product.

Although patent and intellectual property disputes within the pharmaceutical industry have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. These arrangements may be investigated by United States regulatory agencies and, if improper, may be invalidated. Furthermore, the required licenses may not be made available to us on acceptable terms. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent us from manufacturing and selling some of our products or increase our costs to market these products.

From time to time, we seek to market patented products before the related patents expire. In order to do so in the United States, we must challenge the patent under the procedures set forth in the Hatch-Waxman Act. In the United States, in order to obtain a final approval for a generic product prior to expiration of certain of the innovator s patents, we must, under the terms of the Hatch-Waxman Act, as amended by the Medicare Act, notify the patent holder as well as the owner of an NDA, that we believe that the patents listed in the Approved Drug Products with Therapeutic Equivalence Evaluations contained on the FDA website (the Orange Book) for the new drug are either invalid or not infringed by our product. To the extent that we engage in patent challenge procedures, we are involved and expect to be involved in patent litigation regarding the validity or infringement of the originator s patent. In addition, when seeking regulatory approval for some of our products, we are required to certify to the FDA and its equivalents in foreign countries, that such products do not infringe upon third-party patent rights. Filing a certification against a patent gives the patent holder the right to bring a patent infringement lawsuit against us. Any lawsuit would delay regulatory approval by the FDA until the earlier of the resolution of such claim or 30 months from the patent holder s receipt of notice of certification.

In addition, it is not required that pharmaceutical patents be listed with the FDA or other regulatory authorities. For example, patents relating to antibiotics might not be listed in the Orange Book. Any launch of a pharmaceutical product by us that may infringe a patent, whether listed or not, may involve us in litigation.

Patent challenges are complex, costly and can take a significant amount of time to complete. A claim of infringement and the resulting delay could result in substantial expenses and even prevent us from manufacturing and selling products and, in certain circumstances, such litigation may result in significant damages which could have a material adverse effect on our results of operations and financial condition.

Table of Contents

Our launch of a product prior to a final court decision, settlement with the patent owner or the expiration of a patent held by a third-party may result in substantial damages to us. Depending upon the circumstances, a court may award the patent holder damages equal to three times the patent holder s loss of income. If we are found to infringe a patent held by a third-party and become subject to significant damages, these damages could have a material adverse effect on our results of operations and financial condition.

We are in the process of enhancing and further developing our global enterprise resource planning systems and associated business applications, which could result in business interruptions if we encounter difficulties.

We are enhancing and further developing our global enterprise resource planning (ERP) and other business critical information technology (IT) infrastructure systems and associated applications to provide more operating efficiencies and effective management of our business and financial operations. Such changes to ERP systems and related software, and other IT infrastructure carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business interruption as a result of our ERP enhancements, it could have a material adverse effect on our business, financial position, and results of operations and/or cash flow.

Security breaches could compromise sensitive information belonging to us and could harm our business (including our intellectual property) and reputation.

The safeguarding of our information technology infrastructure is important to our business. A cyber-attack that bypasses our IT security systems causing an IT security breach may lead to a material disruption of our IT business systems and/or the loss of business information, resulting in an adverse business impact. Adverse effects could include:

- the theft, destruction, loss, misappropriation or release of our confidential data or our intellectual property;
- operational or business delays resulting from the disruption of IT systems and subsequent clean-up and mitigation activities; and
- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

Risks Relating to Our Compliance with Sarbanes-Oxley

We have, in the past, and could in the future, fail to maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley.

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Sarbanes-Oxley, and in particular with Section 404 thereof, have resulted in diversion of our management s time and attention, and we expect these efforts to require the continued commitment of resources.

We have in the past, and may, in the future, identify material weaknesses in our internal controls that evidence that we fail to maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley. We have eliminated all material weaknesses in internal controls that had been identified in prior years annual reports. As of March 31, 2015, we did not identify any material weaknesses in internal controls. Failure to maintain adequate internal controls could

negatively affect shareholder and customer confidence.

Material weaknesses in our disclosure controls and procedures could negatively affect shareholder and customer confidence.

Under Sarbanes-Oxley, we are required to assess the effectiveness of our disclosure controls and procedures (as defined in Sarbanes-Oxley) on an annual basis. If we were to conclude that our disclosure controls and procedures were ineffective, shareholder and customer confidence could be negatively affected, which could have a material adverse impact on the market price of our ordinary shares.

Table of Contents

Risks Relating to Investment in Our Ordinary Shares

Volatility of the market price of our ordinary shares could adversely affect us and our shareholders.

The market price of our ordinary shares may be volatile, and may, in the future, be subject to wide fluctuations, for the following reasons, among others:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of new or enhanced products;
- market conditions or trends in the pharmaceutical industry;
- developments or disputes concerning proprietary rights;
- introduction of technologies or product enhancements by others that reduce the need for our products;
- general economic and political conditions;
- departures of key personnel;
- changes in the market valuations of our competitors;
- regulatory considerations; and
- the other risk factors listed in this section.

No citizen or resident of the United States who acquired or acquires any of our ordinary shares at any time after October 21, 1999, is permitted to exercise more than 9.9% of the voting power in our Company, with respect to such ordinary shares, regardless of how many shares the shareholder owns.

In order to reduce our risk of being classified as a Controlled Foreign Corporation under the United States Internal Revenue Code of 1986, as amended (the Code), we amended our Articles of Association in 1999 to provide that no owner of any of our ordinary shares is entitled to any voting right of any nature whatsoever with respect to such ordinary shares if (a) the ownership or voting power of such ordinary shares was acquired, either directly or indirectly, by the owner after October 21, 1999, and (b) the ownership would result in our being classified as a Controlled Foreign Corporation. This provision has the practical effect of prohibiting each citizen or resident of the United States who acquired or acquires our ordinary shares after October 21, 1999, from exercising more than 9.9% of the voting

power in our Company, with respect to such ordinary shares, regardless of how many shares the shareholder owns. The provision may therefore discourage United States persons from seeking to acquire, or from accumulating, 15% or more of our ordinary shares (which, due to the voting power of the founders shares, would represent 10% or more of the voting power of our Company). As of March 31, 2015, no citizen or resident held an amount of ordinary shares that would represent 10% or more of the voting power of our Company.

Risks Relating to Our International Operations

We face risks related to foreign currency exchange rates.

Because some of our revenue, operating expenses, assets and liabilities are denominated in foreign currencies, we are subject to foreign exchange risks that could adversely affect our operations and reported results. To the extent that we incur expenses in one currency but earn revenue in another, any change in the values of those foreign currencies relative to the U.S. dollar could cause our profits to decrease or our products to be less competitive against those of our competitors. To the extent that our foreign currency holdings and other assets denominated in a foreign currency are greater or less than our liabilities denominated in a foreign currency, we have foreign exchange exposure.

Current and changing economic conditions may adversely affect our industry, business, partners and suppliers, financial position, results of operations and/or cash flow.

The global economy continues to experience significant volatility, and the economic environment may continue to be, or become, less favorable than that of past years. Among other matters, the continued risk of a debt default by one or more European countries, related financial restructuring efforts in Europe, and/or evolving deficit and spending reduction programs instituted by the U.S. and other governments could negatively impact the global economy and/or the pharmaceutical industry. This has led, and/or could lead, to reduced consumer and customer spending and/or reduced or eliminated governmental or third party payor coverage or reimbursement in the

Table of Contents

foreseeable future, and this may include spending on health care, including but not limited to pharmaceutical products. While generic drugs present an alternative to higher-priced branded products, our sales could be negatively impacted if patients forego obtaining health care, patients and customers reduce spending or purchases, and/or if governments and/or third-party payors reduce or eliminate coverage or reimbursement amounts for pharmaceuticals and/or impose price or other controls adversely impacting the price or availability of pharmaceuticals. In addition, reduced consumer and customer spending, and/or reduced government and/or third party payor coverage or reimbursement, and/or new government controls, may drive us and our competitors to decrease prices and/or may reduce the ability of customers to pay and/or may result in reduced demand for our products. The occurrence of any of these risks could have a material adverse effect on our industry, business, financial position, results of operations and/or cash flow.

Our business requires us to move goods across international borders. Any events that interfere with, or increase the costs of, the transfer of products across international borders could have a material adverse effect on our business.

We transport most of our products across international borders, primarily those of the United States, Canada and Israel. Since September 11, 2001, there has been more intense scrutiny of products that are transported across international borders. As a result, we may face delays, and increases in costs due to such delays, in delivering products to our customers. Any events that interfere with, or increase the costs of the transfer of products across international borders could have a material adverse effect on our business.

Risks Relating to Key Employees

Our future success is highly dependent on our continued ability to attract and retain key personnel. Any failure to do so could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our ordinary shares to decline.

The pharmaceutical industry, and our company in particular, is science based. It is therefore imperative that we attract and retain qualified personnel in order to develop new products and compete effectively. If we fail to attract and retain key scientific, technical or management personnel, our business could be affected adversely. If we are unsuccessful in retaining or replacing key employees, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our ordinary shares to decline.

Risks Relating to Our Location in Israel

Conditions in Israel affect our operations and may limit our ability to produce and sell our products.

We are incorporated under Israeli law and a significant component of our manufacturing and research and development facilities are located in Israel. Political, economic and military conditions in Israel may directly affect our operations, and we could be adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, Israel frequently has been subject to civil unrest and terrorist activity, with varying levels of severity. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our operations. Furthermore, certain parties with whom we do business periodically have declined to travel to Israel, forcing us to make alternative arrangements where necessary, and the United States Department of State has issued an advisory regarding travel to Israel. As a result, the FDA has at various times curtailed or prohibited its inspectors from traveling to Israel to inspect the facilities of Israeli companies, which, should it occur with respect to our Company, could result in the FDA withholding approval for new products we intend to produce at those facilities.

If terrorist acts were to result in substantial damage to our facilities, our business activities would be disrupted since, with respect to some of our products, we would need to obtain prior FDA approval for a change in manufacturing site. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages sustained by us could have a material adverse effect on our business.

Many male Israeli citizens, including our employees, are subject to compulsory annual reserve military service until they reach the age of 45 (or older, for citizens who hold certain positions in the Israeli armed forces reserves), and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists, and some of our Israeli employees have been

Table of Contents

called up in connection with armed conflicts. It is possible that there will be similar large-scale military reserve duty call-ups in the future. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of our other employees due to obligatory military service requirement. Any disruption in our operations could harm our business.

We may be affected by fluctuations in the NIS relative to the U.S. Dollar.

A substantial portion of our expenses, primarily labor and occupancy expenses in Israel, are incurred in NIS. As a result, the cost of our operations in Israel, as measured in U.S. dollars, is subject to the risk of exchange rate fluctuations among the U.S. dollar and the NIS. During the year-ended March 31, 2015, the value of the NIS decreased 14.1% with respect to the U.S. dollar. While that change had a positive impact on our results of operations, if the NIS were to once again appreciate relative to the U.S. Dollar (as was the case in the previous years), that would adversely affect our U.S. dollar-measured results of operations.

Our operations may be affected by negative labor conditions in Israel.

Strikes and work-stoppages occur relatively frequently in Israel. If Israeli trade unions threaten additional strikes or work-stoppages and such strikes or work-stoppages occur, those may, if prolonged, have a material adverse effect on the Israeli economy and on our business, including our ability to deliver products to our customers and to receive raw materials from our suppliers in a timely manner.

Government price control policies can materially impede our ability to set prices for our products.

All pharmaceutical products sold in Israel are subject to government price controls. Permitted price increases and decreases are enacted by the Israeli government as part of a formal review process. The inability to control the prices of our products may adversely affect our operations.

We may benefit from government programs and tax benefits, both or either of which may be discontinued or reduced.

We have, in the past, received grants and substantial tax benefits under government of Israel programs, including the Approved Enterprise program and programs of the Office of the Chief Scientist of the Ministry of Economy of the State of Israel (OCS). In order to be eligible for these programs and benefits, we must meet specified conditions including making specified investments in fixed assets from our equity and paying royalties with respect to grants received. In addition, some of these programs could restrict our ability to manufacture particular products and transfer particular technology outside of Israel. If we fail to comply with these conditions in the future, the benefits received could be canceled and we could be required to refund payments previously received under these programs or pay increased payments and/or taxes. In the future, the government of Israel may discontinue or curtail these and the tax benefits available under these programs. If the government of Israel ends these programs and tax benefits while we are recipients, our business, financial condition and results of operations could be materially adversely affected.

Provisions of Israeli law may delay, prevent or make more difficult a merger or acquisition. This could prevent a change of control and depress the market price of our ordinary shares.

Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger or acquisition. The Israeli Companies Law, 5759- 1999 (the Israeli Companies Law) and the regulations promulgated thereunder, generally require that a merger be approved by a company s board of directors and by a shareholder vote at a shareholders meeting that has been called on at least 35 days advance notice by each of the

merger parties. Under our Articles of Association, the required shareholder vote is a supermajority of at least 75% of the shares voting in person or by proxy on the matter. Any creditor of a merger party may seek a court order blocking a merger if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of any party to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that a merger proposal has been delivered to the Israeli Registrar of Companies and at least 30 days have passed from the time each merging company received shareholder approval. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, a tender offer for all of a company s issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of

Table of Contents

at least 95% of the issued share capital. Completion of the tender offer also requires approval of a majority of shareholders who do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company s outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, may, at any time within six months following the completion of the tender offer, petition an Israeli court to alter the consideration for the acquisition, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights.

Other potential means of acquiring a public Israeli company such as ours might involve additional obstacles. In addition, a body of case law has not yet developed with respect to the Israeli Companies Law. Until this happens, uncertainties will exist regarding its interpretation.

Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than do United States tax laws. The provisions of Israeli corporate and tax law and the uncertainties surrounding such laws may have the effect of delaying, preventing or making more difficult a merger or acquisition. This could prevent a change of control of the Company and depress the market price of our ordinary shares which otherwise might rise as a result of such a change of control. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions. With respect to other share swap transactions, the tax deferral is limited in time, and when this time expires, the tax becomes payable even if no disposition of the shares has occurred.

It may be difficult to effect service of process and enforce judgments against our directors and officers.

We are incorporated in Israel. The majority of our executive officers and directors are non-residents of the United States and a substantial portion of our assets and the assets of such persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of those persons or to effect service of process upon those persons. It may also be difficult to enforce civil liabilities under United States federal securities laws in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum in which such a claim should be brought. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the applicable U.S. law must be proved as a factual matter, which can be a time-consuming and costly process. Also, certain matters of procedure will be governed by Israeli law.

We are subject to government regulation that increases our costs and could prevent us from marketing or selling our products.

We are subject to extensive pharmaceutical industry regulations in countries where we operate. We cannot predict the extent to which we may be affected by legislative and other regulatory developments concerning our products.

In Israel, the manufacture and sale of pharmaceutical products is regulated in a manner substantially similar to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications, as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective or manufactured and marketed other than in accordance with registration conditions.

We are subject to legislation in Israel, primarily relating to patents and data exclusivity provisions. Modifications of this legislation or court decision regarding this legislation may adversely affect us and may prevent us from exporting Israeli-manufactured products in a timely fashion. Additionally, the existence of third-party patents in Israel, with the attendant risk of litigation, may cause us to move production outside of Israel or otherwise adversely affect our ability to export certain products from Israel.

Table of Contents

Risks Relating to Our Location in Canada

Government price control policies can materially impede our ability to set prices for our products.

The Canadian Government Patented Medicine Prices Review Board (PMPRB) monitors and controls prices of patented drug products marketed in Canada by persons holding, or licensed under, one or more patents. The PMPRB will approve an introductory price (based on a comparative analysis) and will require that the price not be increased each year thereafter by more than the annual increase of the Canadian Consumer Price Index. Consequently, the existence of one or more patents relating to a drug product, while providing some level of proprietary protection for the product, also triggers a governmental price control regime that significantly affects the Canadian pharmaceutical industry s ability to set pricing. The inability to control the prices of our products may adversely affect our operations.

Noninterest-earning assets (2)
115,965 92,221

Total average assets
$853,024 $985,033

Interest-bearing liabilities:

Deposits
612,881 2,945 1.92% 685,870 4,473 2.61%
FHLB advances and other
124,617 997 3.20% 169,723 1,569 3.70%

Total interest-bearing liabilities
737,498 3,942 2.14% 855,593 6,042 2.82%

Noninterest-bearing deposits
40,192 38,064
Noninterest-bearing liabilities
14,670 19,447

Total average liabilities
792,360 913,104
Total average shareholders equity
60,664 71,929

Total liabilities and shareholders equity			
$853,024	**$985,033**		
Net interest income/Interest rate spread			
$6,256	3.16%	$5,845	2.51%
Net interest margin [3]			
3.25%		2.62%	
Average interest-earning assets to average interest-bearing liabilities			
104.27%		107.88%	

(1) Includes loans held for sale. Loan fees are immaterial.

(2) Includes nonaccrual loans, mortgage servicing rights and allowance for loan losses

(3) Net interest income as a percent of average interest-earning assets

Interest income on loans totaled $9.3 million for the three months ended March 31, 2010, a decrease of $1.3 million, or 12.2%, from the comparable 2009 period. The decrease resulted primarily from a decrease in the average balance outstanding of $47.1 million, or 6.7% decrease in 2010 compared to the first quarter of 2009. A 3 basis point decrease in the average yield in the 2010 period also negatively impacted interest income on loans.

Table of Contents

Camco Financial Corporation
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

For the three-month periods ended March 31, 2010 and 2009

Interest income on securities totaled $578,000 for the three months ended March 31, 2010, a decrease of $397,000, or 40.7%, from the first quarter of 2009. The decrease was due primarily to a $38.9 million decrease in the average balance offset partially by a 4 basis point increase in the average yield, to 4.18% for the 2010 period.

Dividend income on FHLB stock increased by $1,000, or .3%, due primarily to a 2 basis point increase in the average yield, to 4.54% in 2010. Interest income on other interest bearing accounts continues to be low due to higher balances needed to compensate for charges at correspondent banks leaving less balance for interest calculation coupled with decreased rates. We have decreased our cash on hand balances deploying cash when available to by paying down advances, borrowings and higher cost brokered deposits in order to generate additional income. *See* Liquidity and Capital Resources for more information.

Interest expense on deposits totaled $2.9 million for the three months ended March 31, 2010, a decrease of $1.5 million, or 34.2%, compared to the same quarter in 2009 due primarily to a 69 basis point decrease in the average cost of deposits to 1.92% in the current quarter, coupled with a $73.0 million, or 10.6%, decrease in average interest bearing deposits outstanding. While the cost of deposits was lower in the first quarter of 2010 compared to the first quarter of 2009, the cost in 2010 is expected to stabilize as rates have been at low levels for quite some time. However, the interest-bearing deposit portfolio continues to re-price certificates of deposit in 2010, which should decrease costs slightly if rates continue to be at the current low levels. Although, competitive pressures may limit our ability to reduce interest rates paid on deposits.

Interest expense on borrowings totaled $1.0 million for the three months ended March 31, 2010 a decrease of $572,000, or 36.5%, from the same 2009 three-month period. The decrease resulted primarily from a $45.1 million, or 26.6%, decrease in the average borrowings outstanding coupled with a 50 basis point decrease in the average cost of borrowings to 3.20%.

Provision for Losses on Loans

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Bank s market areas, and other factors related to the collectability of the Bank s loan portfolio.

Camco s loan quality has been negatively impacted by worsening conditions within our market areas which has caused declines in real estate values and deterioration in the financial condition of some of our borrowers. These conditions have led Camco to downgrade the loan quality ratings on various loans through our loan review process. In addition, some of our loans became under-collateralized due to reductions in the estimated net realizable fair value of the underlying collateral. As a result, Camco s provision for loan losses, net charge-offs and nonperforming loans in 2008, 2009 and the first quarter of 2010 were significantly higher than historical levels.

Camco s net loan charge-offs and provision for loan losses in recent quarters has been impacted by ongoing workout efforts on existing impaired loans. The efforts have included negotiating reduced payoffs and the sale of underlying collateral or short sales coupled with charging down values to net realizable or fair value of the underlying collateral. Management believes these actions are prudent during the current economic environment.

Based upon an analysis of these factors, the continued economic outlook and new production we increased the provision for losses on loans by $905,000 for the three months ended March 31, 2010, compared to $648,000 for the same period in 2009. We believe our loans are adequately reserved for probable losses inherent in our loan portfolio at March 31, 2010. However, there can be no assurance that the loan loss allowance will be adequate to absorb losses.

Table of Contents

Camco Financial Corporation
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
For the three-month periods ended March 31, 2010 and 2009

We have included the following information with respect to impairment measurements relating to collateral-dependent loans for better understanding of our process and procedures relating to fair value of financial instruments:

The percentage of impaired loans on which we relied on a current third party appraisal for valuation exceeded 90% as of December 31, 2009.

Based on policy, a loan is typically deemed impaired (nonperforming) once it has gone over 90 days delinquent. Our management of the troubled credit will vary as will the timing of valuations, loan loss provision and charge offs based on a multitude of factors such as, cash flow of the business/borrower, responsiveness of the borrower, communication with the commercial banker, property inspections, property deterioration, and delinquency.

Typically, a nonperforming, non-homogeneous collateral dependent loan will be valued and adjusted (if needed) within a 90 day period after determination of impairment. If impaired, the collateral is then evaluated and an updated appraisal is most typically ordered. Upon receipt of an appraisal or other valuation, we complete an analysis to determine if the impaired loan requires a specific reserve. The time frame may be as short as 30 days or as much as 180 days when an appraisal is ordered.

Camco s credit risk management process consistently monitors key performance metrics across both the performing and non performing assets to identify any further degradation of credit quality. Additionally, impaired credits are monitored in weekly loan committee asset quality discussions, monthly Asset Classification Committee meetings and quarterly loan loss reserve reviews. Strategy documents and exposure projections are completed on a monthly basis to ensure that the current status of the troubled asset is clearly understood and reported.

The Asset Classification Committee oversees the management of all impaired loans and any subsequent loss provision or chargeoff that is considered. When a loan is deemed impaired, the valuation is obtained to determine any existing loss that may be present as of the valuation date. Policy dictates that any differences from fair market value, less costs to sell, are to be recognized as loss during the current period (loan loss provision or chargeoff). Any deviations from this policy will be identified by amount and contributing reasons for the policy departure during our quarterly reporting process.

Camco s policies dictate that an impaired loan subject to partial chargeoff will remain in a nonperforming status until it is brought current. Typically, this occurs when a loan is paid current and completes a period on on-time payments that demonstrate that the loan can perform. Camco monitors through various system reports any loan whose terms have been modified. These reports identify troubled debt restructures, modification, and renewals.

When circumstances do not allow for updated collateral or Camco determines that an appraisal is not needed, the underlying collateral s fair market value is estimated in the following ways:

Camco personnel property inspections combined with original appraisal review

Auditor values

Broker price opinions

Various on-line fair market value estimations programs (i.e. Freddie Mac, Fannie Mae, Zillow, etc).

Other Income

Other income totaled $1.7 million for the three months ended March 31, 2010 a decrease of $245,000, or 12.5%, from the comparable 2009 period. The decrease in other income was primarily attributable to a $140,000 decrease gain on sale, a $30,000 decrease in mortgages servicing rights and a $52,000 decrease in late charges rent and other.

The decreases in gain on sale and the valuation of mortgage servicing rights were primarily due to decreased sales of $13.8 million from the comparable period in 2009. The decrease in late charges, rent and other was due to decreased revenue earned at our title agency.

Table of Contents

Camco Financial Corporation
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
For the three-month periods ended March 31, 2010 and 2009

General, Administrative and Other Expense

General, administrative and other expense totaled $6.9 million for the three months ended March 31, 2010 a decrease of $61,000 or .9%, from the comparable period in 2009. The decrease in general, administrative and other expense was due to decreases in employee compensation and benefits and advertising of $91,000 each, a $67,000 decrease in postage supplies and office expenses, an $81,000 decrease in transaction processing. The decreases were partially offset by increases of $145,000 in real estate owned and other expense and $131,000 in professional services.

The decrease in general, administrative and other expense was due to reduction in work force that took place in April of 2009, which has decreased employee compensation, employee benefits, payroll taxes and 401k match which was offset partially by deferred compensation decreasing quarter to quarter.

The decrease in advertising, postage supplies and office expenses was primarily due to 2009 the need to incur additional expenses because of the termination of the merger. The termination required additional re-advertising of our branches and brand, re-ordering pre-printed materials and supplies to regular inventory levels. The decrease in transaction processing is related to decreased volume of ATM and transactions related to customer accounts.

The increase in real estate owned and other expenses and professional services is reflective of the increased real estate owned portfolio and expenses related to ownership such as real estate taxes, and upkeep of properties. These expenses were coupled with the falling real estate values that negatively impact our portfolio value and caused a write down to fair market value.

The increase in professional services is reflective of additional expenses related to classified assets and the legal aspects related to collection efforts or litigation.

Federal Income Taxes

The provision for federal income taxes totaled ($2,000) for the three months ended March 31, 2010. Tax credits related to our investment in affordable housing partnerships totaled $99,000 in 2010, additional the tax-exempt character of earnings on bank-owned life insurance supplements the difference between the effective rate of tax benefits and the statutory corporate tax rate for the period.

Liquidity and Capital Resources

Liquidity is the Corporation s ability to generate adequate cash flows to meet the demands of its customers and provide adequate flexibility for the Corporation to take advantage of market opportunities. Cash is used to fund loans, purchase investments, fund the maturity of liabilities, and at times to fund deposit outflows and operating activities. The Corporation s principal sources of funds are deposits; amortization, prepayments and sales of loans; maturities, sales and principal receipts from securities; borrowings; and operations. Managing liquidity entails balancing the need for cash or the ability to borrow against the objectives of maximizing profitability and minimizing interest rate risk. The most liquid types of assets typically carry the lowest yields.

Camco is a single bank holding company and its primary ongoing source of liquidity is from dividends received from the Bank. Such dividends arise from the cash flow and earnings of the Bank. Ohio statutes impose certain limitations on the payment of dividends and other capital distributions by banks. Generally, absent approval of the Ohio Division, such statutes limit dividend and capital distributions to earnings of the current and two preceding years. Currently, the Consent Order prohibits the Bank from paying a dividend to Camco without prior approval of the FDIC and Ohio Division. Camco currently has $5.0 million outstanding trust preferred securities with a maturity date of 2037. If needed, Camco s agreement regarding these securities provides for a deferment of interest payment for up to 20 consecutive quarters without default. Based on notification received from the FRB on April 30, 2009, Camco was required to exercise this provision to defer interest payments and has deferred a total of four quarters as of March 31, 2010. If the Corporation desires to raise funds in the future, it may consider engaging in further offerings of preferred securities, debentures or other borrowings as well as issuance of capital stock, but any such strategic decisions would require regulatory approval. Further, as a result of entering into a Memorandum of Understanding with the FRB on March 4, 2009 (*see below*), we are prohibited from paying dividends to our stockholders without first obtaining the

approval of the FRB. Our ability to pay dividends to stockholders is dependent on our net earnings. A continued decline in earnings increases in loan losses, or higher regulatory capital reserve requirements may jeopardize our ability to pay dividends at historical levels.

Table of Contents

Camco Financial Corporation
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
For the three-month periods ended March 31, 2010 and 2009

The objective of the Bank s liquidity management is to maintain ample cash flows to meet obligations for depositor withdrawals, fund the borrowing needs of loan customers, and to fund ongoing operations. Core relationship deposits are the primary source of the Bank s liquidity. As such, the Bank focuses on deposit relationships with local business and consumer clients with a strategy to increase the number of services/products per client. The Corporation views such deposits as the foundation of its long-term liquidity because it believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors compared to large time deposits or wholesale purchased funds.

We monitor and assess liquidity needs daily in order to meet deposit withdrawals, loan commitments and expenses. Camco s liquidity contingency funding plan identifies liquidity thresholds and red flags that may evidence liquidity concerns or future crises. The contingency plan details specific actions to be taken by management and the Board of Directors. It also identifies sources of emergency liquidity, both asset and liability-based, should we encounter a liquidity crisis. In conjunction with the Corporation s asset/liability and interest rate risk management activities, we actively monitor liquidity risk and analyze various scenarios that could impact or impair Camco s ability to access emergency funding during a liquidity crisis.

Liquid assets consist of cash and interest-bearing deposits in other financial institutions, investments and mortgage-backed securities. Approximately $9.5 million, or 19.9%, of our investment portfolio is expected to mature or prepay during 2010. While these maturities could provide a significant source of liquidity in the short term, public unit deposits and repurchase agreements limit our ability to use these funds freely due to the collateral requirements of such. State and local political subdivision deposits equaled $16.3 million at March 31, 2010, and $22.2 million at December 31, 2009. We may implement additional product strategies to lessen this restriction on our investment portfolio to increase our liquidity options.

Additional sources of liquidity include deposits, borrowings and principal and interest repayments on loans. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan and security prepayments are more influenced by interest rates, general economic conditions, and competition and are difficult to predict.

Diversified and reliable sources of wholesale funds are utilized to augment core deposit funding. Borrowings may be used on a long or short-term basis to compensate for reduction in other sources of funds or on a long term basis to support lending activities. The Bank utilizes its investment securities, certain loans and FHLB stock to provide collateral to support its borrowing needs. Management believes that its focus on core relationship deposits coupled with access to borrowing through reliable counterparties provides reasonable and prudent assurance that ample liquidity is available. However, depositor or counterparty behavior could change in response to competition, economic or market situations or other unforeseen circumstances, which could have liquidity implications that may require different strategic or operational actions. One source of wholesale funding (pending regulatory approval) is brokered deposits. Consistent with its risk management policy and in response to the general tightening of credit and liquidity conditions in the financial markets at large, the Bank has utilized brokered deposits. At March 31, 2010, such deposits totaled approximately $21.2 million, exclusive of CDARS deposits.

Approximately $221.7 million of the Corporation s certificate of deposit portfolio is scheduled to mature during 2010. Depositors continue a preference toward short-term certificates or other issuances less than 18 months. This places additional liquidity pressure on the Corporation as competition for deposits is very strong in Ohio, Kentucky and West Virginia. A material loss of these short-term deposits could force us to seek funding through contingency sources, which may negatively impact earnings.

FHLB advances are another funding source. In the past, Camco has depended heavily on borrowings to fund balance sheet growth. While significant strategic and tactical focus is currently being placed on deposit growth, borrowings and additional borrowing capacity at the FHLB are still vital sources of liquidity and growth funding. However, our total borrowing capacity at the FHLB is dependent on the level of eligible collateral assets held by the Bank and the

Bank s credit rating with the FHLB. Our total borrowing capacity with the FHLB decreased to $148.9 million at March 31, 2010, from $167.0 million at December 31, 2009. This capacity has continued to decrease as our one to four- family loan portfolio, the primary collateral for FHLB borrowings, has shrunk and the increase in nonperforming loans has reduced our credit rating (and thereby increased its collateral requirements). The inability of the Bank to access contingency funding from the FHLB may significantly limit our growth and negatively affect earnings. We have improved on-balance-sheet liquidity and in response to higher collateral maintenance requirements and decreases in our overall borrowing capacity.

Table of Contents

Camco Financial Corporation
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
For the three-month periods ended March 31, 2010 and 2009

We plan to continue to monitor our funding sources through brokered deposits and FHLB borrowings, but recognize that our current credit risk profile may restrict these sources. Our Funds Management Group will monitor the deposit rates in our markets to allow for competitive pricing in order to raise funds through deposits. Funds in excess of loan demand and available borrowing repayments will be held in short-term investments or federal funds sold. We are taking these actions to proactively prepare for the possibility of continued deterioration in the credit markets and increases in our nonperforming loans, which may reduce our borrowing capacity at the FHLB further.

The following table sets forth information regarding the Bank s obligations and commitments to make future payments under contract as of March 31, 2010.

	Payments due by period				
	Less than 1 year	**1 3 Years**	**3 5 years**	**More than 5 years**	**Total**
	(In thousands)				
Contractual obligations:					
Operating lease obligations	$ 291	$ 510	$ 353	$ 119	$ 1,273
Advances from the FHLB	26,000	48,000	15,483	26,709	116,192
Repurchase agreements	9,051				9,051
Certificates of deposit	247,465	130,197	34,671		412,333
Subordinated debentures [1]				5,000	5,000
Ohio equity funds for housing	781	205	289	137	1,412
Amount of commitments expiring per period:					
Commitments to originate loans:					
Revolving open-end lines secured by 1-4	$ 51,399	$	$	$	$ 51,399
Not secured by real estate	7,293				7,293
One- to four-family construction loan	5,937				5,937
Commercial real estate, other construction loan and land development	10,893				10,893
Commercial and industrial and other unused commitments	11,033				11,033
Letters of credit	397				397
Total contractual obligations	**$ 370,540**	**$ 178,912**	**$ 50,796**	**$ 31,965**	**$ 632,213**

(1) The subordinated debentures are redeemable, at Camco s option.

The debentures mature on September 15, 2037.

We anticipate that we will have sufficient funds available to meet our current loan commitments. Based upon historical deposit flow data, the Bank s competitive pricing in its market and management s experience, we believe that a significant portion of our maturing certificates of deposit in 2010 will remain with the Bank, but recognize the significance of the risks discussed above.

Liquidity management is both a daily and long-term management process. In the event that we should require funds beyond our ability to generate them internally, additional funds are available through the use of FHLB advances, internet deposits, and through the sales of loans or securities.

Table of Contents

Camco Financial Corporation
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
For the three-month periods ended March 31, 2010 and 2009

Camco and Advantage are required to maintain minimum regulatory capital pursuant to federal regulations. At March 31, 2010, both companies exceeded all minimum regulatory capital requirements to be considered well-capitalized. The following tables present certain information regarding compliance by Camco and Advantage with applicable regulatory capital requirements at March 31, 2010:

	Actual		For capital Adequacy purposes		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital to risk-weighted assets:						
Camco Financial Corporation	$ 72,575	11.09%	≥$52,368	≥ 8.0%	≥$65,460	10.0%
Advantage Bank	$ 67,915	10.40%	≥$52,252	≥ 8.0%	≥$65,314	10.0%
Tier I capital to risk-weighted assets:						
Camco Financial Corporation	$ 64,317	9.83%	≥$26,184	≥ 4.0%	≥$39,276	6.0%
Advantage Bank	$ 59,657	9.13%	≥$26,126	≥ 4.0%	≥$39,188	6.0%
Tier I leverage to average assets:						
Camco Financial Corporation	$ 64,317	7.46%	≥$34,488	≥ 4.0%	≥$43,110	5.0%
Advantage Bank	$ 59,657	6.95%	≥$34,320	≥ 4.0%	≥$42,900	5.0%

Federal law prohibits a financial institution from making a capital distribution to anyone or paying management fees to any person having control of the institution if, after such distribution or payment, the institution would be undercapitalized. Additionally, the payment of dividends by Advantage Bank to its parent and by Camco Financial Corporation to shareholders is subject to restriction by regulatory agencies. These restrictions normally limit dividends from the Bank to the sum of the Bank s current and prior two years earnings, as defined by the agencies.

On March 4, 2009, Camco entered into a Memorandum of Understanding (the MOU) with the FRB The MOU prohibits Camco from engaging in certain activities while the MOU is in effect, including, without the prior written approval of the FRB, (1) the declaration or payment of dividends to stockholders or (2) the repurchase of Camco s stock.

On April 30, 2009, Camco was notified by The FRB that it had conducted a surveillance review as of December 31, 2008. Based on that review, the FRB notified Camco that it must (i) eliminate shareholder dividends and (ii) defer interest payments on its 30-year junior subordinated deferrable interest notes that were issued to its wholly-owned subsidiary, Camco Statutory Trust I, in its trust preferred financing that was completed in July 2007. These prohibitions were memorialized in a written agreement with the FRB on August 5, 2009. Camco and Camco Statutory Trust I, are permitted to defer interest and dividend payments, respectively, for up to five consecutive years without resulting in a default. Camco may not resume these dividend or interest payments until it receives approval from the FRB.

As a result of the surveillance review, Camco entered into a Written Agreement (the Camco Agreement) with the FRB on August 5, 2009. The Camco Agreement memorializes the requirements imposed on April 30, 2009 and requires Camco to obtain FRB approval prior to: (i) declaring or paying any dividends; (ii) receiving dividends or any other

form of payment representing a reduction in capital from Advantage; (iii) making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities; (iv) incurring, increasing or guaranteeing any debt; or (v) repurchasing any Camco stock.

Advantage entered into the Consent Agreement with the FDIC and the State of Ohio, Division of Financial Institutions (Ohio Division) that provided for the issuance of an order by the FDIC and the Ohio Division, which order was executed by the FDIC and Ohio Division on July 31, 2009 (the Bank Agreement). The Consent Agreement requires Advantage to, among other things, (i) increase its Tier 1 risk based capital to 8%; and (ii)seek regulatory approval prior to declaring or paying any cash dividend. As a result of the Consent Agreement, Advantage is disqualified as a public depository under Ohio law and will incur higher premiums for FDIC insurance of its accounts.

A material failure to comply with the provisions of either agreement could result in additional enforcement actions by the FDIC, the Ohio Division or the FRB.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The objective of our interest rate risk management function is to maintain consistent growth in net interest income within the Board s policy limits through management of balance sheet composition, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates and customer preferences.

The goal of liquidity management is to provide adequate funds to meet changes in loan demand or unexpected deposit withdrawals. This is accomplished by maintaining liquid assets in the form of investment securities, maintaining sufficient unused borrowing capacity and achieving consistent growth in core deposits. See Liquidity and Capital Resources for additional discussion on liquidity.

We consider interest rate risk to be Camco s most significant market risk. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of Camco s net interest income is largely dependent upon the effective management of interest rate risk.

To identify and manage interest rate risk, we employ an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on estimated cash flows and re-pricing characteristics and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes projections for activity levels in each of the product lines offered. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. Assumptions are inherently uncertain and the measurement of net interest income or the impact of rate fluctuations on net interest income cannot be precisely predicted. Actual results may differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Bank s Asset/Liability Management Committee (ALCO), which includes senior management representatives and reports to the Bank s Board of Directors, monitors and manages interest rate risk within Board-approved policy limits. The interest rate risk position of Camco presented below is determined by measuring the anticipated change in net interest income over a twelve month horizon assuming an instantaneous and parallel shift (linear) increase or decrease in all interest rates. The ALCO also monitors the sensitivity of the Bank s economic value of equity (EVE) due to sudden and sustained changes in market rates. The ALCO monitors the change in EVE on a percentage change basis.

Item 4: Controls and Procedures

Camco s Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Camco s disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of March 31, 2010. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Camco s disclosure controls and procedures are effective.

In the 1st quarter of 2010, Camco took the following remedial actions to correct the deficiency in internal control that was considered to be a material weakness at December 31, 2009:

The Company included the following process during review and calculation of the loan loss allowance:

Established an interdepartmental committee, which is a subgroup of the Asset Classification Committee, amongst credit administration, enterprise risk management and finance department to review the overall loan loss provision process by assessing the historical risk factors, the recent trends, and economic forecasts, as appropriate. This enhanced collaborative process will help identify trends that should be recognized in the overall loan loss provision process while permitting the use of professional judgment necessary to interpret the complex data. The jointly compiled loan loss provision will be reported to and approved by the executive management including the CEO and the Board of Directors on a quarterly basis.

Performed more frequent loan loss provision analysis than current quarterly analysis until otherwise decided in the future. Complete analysis as of the month-end prior to the quarter-end will be performed and reviewed by the aforementioned committee.

Table of Contents

Management believes that the improvements in our internal control processes as designed will be adequate to remediate the material weakness. However, we will not consider the material weakness to be remediated until the new processes operate for a sufficient period of time, and we are confident that they are operating effectively.

PART II

ITEM 1. Legal Proceedings

Not applicable.

ITEM 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Corporation s form 10-K for the year ended December 31, 2009. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Corporation. Additional risks and uncertainties not currently known to the Corporation or that management currently deems to be immaterial also may materially adversely affect the Corporation s business, financial condition and / or operating results. Moreover, the Corporation undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made ay any time by the Corporation or any of its directors, officers, employees or other representatives, unless and until any such revisions or updates are expressly required to be disclosed by securities laws or regulations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) Not applicable

ITEM 3. Defaults Upon Senior Securities

Not applicable

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

Not applicable

Table of Contents

ITEM 6. Exhibits

Exhibit 31(i) Section 302 certification by Chief Executive Officer

Exhibit 31(ii) Section 302 Certification by Chief Financial Officer

Exhibit 32(i) Section 1350 certification by Chief Executive Officer

Exhibit 32(ii) Section 1350 certification by Chief Financial Officer

Table of Contents

SIGNATURES

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

Date: May 17, 2010

By: /s/ James E. Huston
James E. Huston
Chief Executive Officer

Date: May 17, 2010

By: /s/ James E. Brooks
James E. Brooks
Chief Financial Officer