

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:	)	Chapter 11
	)	
PHARMACEUTICAL FORMULATIONS, INC.,	)	Case No. 05-11910 (MFW)
	)	
	)	
Debtor.	)	Sale Hearing Date: September 20, 2005 at 12:00 p.m.
	)	Objection Deadline: September 13, 2005 at 4:00 p.m.
	)	Bid Deadline: September 14, 2005 at 4:00 p.m.
	)	Auction Date (if necessary): September 19, 2005 at 10:00 a.m.

**NOTICE OF AUCTION PROCEDURES AND SALE HEARING**

**PLEASE TAKE NOTICE OF THE FOLLOWING:**

On July 14, 2005, Pharmaceutical Formulations, Inc., the above-captioned debtor and debtor in possession (the "Debtor"), filed its Motion for Order (I) Approving Bidding Procedures, Including Expense Reimbursement and Break-up Fee; (II) Scheduling a Sale Hearing Date, Auction and Bidding and Objection Deadlines; (III) Approving Form and Manner of Notice Thereof; and (IV) Granting Related Relief (the "Bidding Procedures Motion")<sup>1</sup> with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). All parties interested in submitting a bid for the Assets or taking part in an Auction (as defined below) must read carefully the Bidding Procedures as outlined in the Bidding Procedures Order (as defined below).

At a hearing held on August 3, 2005, the Bankruptcy Court approved the Bidding Procedures Motion and scheduled a hearing to consider the Motion for Order Authorizing and Approving (A) Asset Purchase Agreement with Leiner Health Products L.L.C. Subject to Higher and Better Offers; (B) Sale of a Substantial Portions of the Debtor's Assets, Including the Right to Sell or Assign the Debtor's Interest in Certain Executory Contracts, Free and Clear of Liens, Claims, Encumbrances and Other Interests; (C) Assumption and Assignment of Certain Executory Contracts; (D) Assumption of Certain Liabilities; and (E) Granting Related Relief (the "Sale Motion"), for **September 20, 2005 at 12:00 p.m. (Eastern Time)** (the "Sale Hearing"). Only those parties that submit Qualified Bids may participate in the Auction (as defined below). If you are interested in determining how to submit a Qualified Bid, you must comply with the terms of the Bidding Procedures as referenced in the Order granting the Bidding Procedures Motion (the "Bidding Procedures Order"). Copies of the Asset Purchase and Sale Agreement by and between Leiner Health Products L.L.C. and Pharmaceutical Formulations, Inc. dated as of July 8, 2005 (the "Agreement"), the Bidding Procedures Motion and the Bidding Procedures Order may be obtained by parties in interest at the Debtor's expense upon written request to Young Conaway Stargatt & Taylor, LLP, The Brandywine Building, 1000 West Street, 17th

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<sup>1</sup> Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Bidding Procedures Motion.

Floor, Wilmington, Delaware 19801 (Attention: Donald J. Bowman, Jr., Esq.) facsimile: (302) 571-1253. In addition, copies of the aforementioned pleadings may be found on the Bankruptcy Court's website, [www.deb.uscourts.gov](http://www.deb.uscourts.gov), and are on file with the Clerk of the Bankruptcy Court, Third Floor, 824 Market Street, Wilmington, Delaware 19801.

Any party that wishes to take part in this process and submit a bid for the Assets must submit their competing bid prior to **September 14, 2005 at 4:00 p.m. (Eastern Time)** (the "Bid Deadline") to (i) counsel to the Debtor, Young Conaway Stargatt & Taylor, LLP, The Brandywine Building, 1000 West Street, 17th Floor, Wilmington, Delaware 19801, Attention: Michael R. Nestor, Esq., Facsimile: (302) 571-1253.

If a Qualified Bid (other than the Buyer's) is received by the Bid Deadline, an auction (the "Auction") with respect to a Sale Transaction shall take place on **September 19, 2005 at 10:00 a.m. (Eastern Time)** at the offices of Young Conaway Stargatt & Taylor, LLP, The Brandywine Building, 17th Floor, 1000 West Street, Wilmington, Delaware 19801. If, however, no such Qualified Bid is received by the Bid Deadline, then the Auction will not be held, the Buyer will be the Successful Bidder, the Agreement will be the Successful Bid, and, at the Sale Hearing, the Seller will seek approval of and authority to consummate the Sale Transaction contemplated by the Agreement.

The Seller shall have the right to reject any and all bids that it believes in its reasonable discretion do not conform with the Bidding Procedures, subject to the provision of the Bidding Procedures regarding consultation with each of the Committee and the Lender and the Committee's and the Lender's opportunity to object. Moreover, the highest or otherwise best Qualified Bid shall be determined by the Seller in its discretion.

At the Sale Hearing, the Debtor shall present both the Successful Bid and the next highest and best Qualified Bid to the Bankruptcy Court for approval. The Debtor shall sell the Assets to the Successful Bidder, or to the Buyer in accordance with the Agreement if a higher or otherwise better Qualified Bid is not received and accepted as the Successful Bid. If the Successful Bidder fails to consummate an approved Sale Transaction because of a breach or a failure to perform on the part of such Successful Bidder, the next highest or otherwise best Qualified Bid, as approved at the Sale Hearing, shall be deemed to be the Successful Bid and the Debtor shall be authorized to effect such Sale without further order of the Bankruptcy Court.

All objections to the entry of an order approving, among other things, the Agreement and the assumption and assignment of the Acquired Contracts (the "Sale Order"), if any, must: (a) be in writing; (b) conform to the requirements of the title 11 of the United States Code, the Federal Rules of Bankruptcy Procedure Rules and the Local Rules of the United States Bankruptcy Court for the District of Delaware; (c) be filed with the clerk of the United States Bankruptcy Court for the District of Delaware; and (d) be served upon (i) counsel to the Debtor, Young Conaway Stargatt & Taylor, LLP, The Brandywine Building, 1000 West Street, 17th Floor, Wilmington, Delaware 19801, Attention: Michael R. Nestor, Esq., Facsimile: (302) 571-1253; (ii) Leiner Health Products L.L.C., 901 E. 233rd St., Carson, CA 90745, Attention: Margaret Howell Benson, Facsimile: (310) 952-7763, with a copy to: Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York 10022, Attention: Jasmine Powers, Esq.,

Facsimile: (212) 909-6836 and Potter Anderson & Corroon LLP, Hercules Plaza, 1313 North Market Street, 6<sup>th</sup> Floor, Wilmington, Delaware 19801, Attention: Laurie Selber Silverstein, Esq., Facsimile: (302) 658-1192; (iii) The CIT Group/Business Credit, Inc., 122 Avenue of the Americas, New York, New York 10036, Attention: Mr. Vincent Belcastro, Facsimile (212) 536-1295, with a copy to Otterbourg, Steindler, Houston & Rosen, P.C., 230 Park Avenue, New York, New York 10169, Attention: Andrew M. Kramer, Esq. Facsimile (212) 682-6104 and Richards, Layton & Finger, One Rodney Square, Wilmington, Delaware 19889, Attention: Mark D. Collins, Esq., Facsimile (302) 651-7701 (iv) counsel to the Official Committee of Unsecured Creditors, Winston & Strawn LLP, 200 Park Avenue, New York, NY 10166-4193, Attention: David Neier, Esq., Facsimile (212) 294-4700 and Ashby & Geddes, P.A., 222 Delaware Avenue, 17th Floor, P.O. Box 1150, Wilmington, Delaware, Attention Christopher S. Sontchi, Esq., Facsimile (302) 654-2067, and (v) the Office of the United States Trustee, 844 King Street, Room 2313, Wilmington, Delaware 19801 **so as to be received not later than 4:00 p.m. (Eastern Time) on September 13, 2005.** Only timely filed and served responses, objections or other pleadings will be considered by the Bankruptcy Court at the Sale Hearing.

Dated: August 10, 2005  
Wilmington, Delaware

YOUNG CONAWAY STARGATT & TAYLOR, LLP

/s/ Matthew B. Lunn

Michael R. Nestor (No. 3526)  
Matthew B. Lunn (No. 4119)  
Donald J. Bowman, Jr. (No. 4383)  
The Brandywine Building  
1000 West Street, 17<sup>th</sup> Floor  
Wilmington, Delaware 19801  
(302) 571-6600

Counsel for the Debtor and Debtor in Possession