

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

**INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder of
Alembic Pharmaceuticals, Inc.
Bridgewater, New Jersey

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Alembic Pharmaceuticals Inc. and Subsidiaries** (collectively, the "Company"), which comprise the consolidated balance sheets as of March 31, 2019 and 2018, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alembic Pharmaceuticals Inc. and Subsidiaries as of March 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Acquavella, Chiarelli, Hunter, LLP

Iselin, New Jersey
April 17, 2019

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of March 31,	
	2019	2018
ASSETS		
Current assets:		
Cash	\$ 2,699,316	\$ 5,388,337
Restricted cash	351,915	600,398
Accounts receivable, net	94,201,723	89,008,994
Inventory, net	21,310,192	17,497,353
Prepaid expenses	639,136	532,405
Prepaid taxes	-	225,711
	119,202,282	113,253,198
Property and equipment, net	1,874,965	1,322,398
Intangible assets, net	8,161,688	9,401,438
Goodwill, net	521,499	582,257
Deferred tax asset, net	3,797,033	1,347,257
Other assets	19,513	19,244
	\$ 133,576,980	\$ 125,925,792
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Line of credit	\$ 8,000,000	\$ 8,000,000
Accounts payable and accrued expenses	11,837,047	10,479,201
Taxes payable	1,499,291	-
Accrued chargebacks and other sales deductions	68,866,358	50,486,047
Escrows payable	351,915	600,398
Due to related parties	32,435,636	49,158,465
	122,990,247	118,724,111
Deferred lease liability	8,197	13,662
Employee related obligations	4,053,923	2,166,664
	127,052,367	120,904,437
Stockholder's equity:		
Preferred stock, \$1.00 par value, 200,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock, \$1.00 par value, 1,000,000 shares authorized, 120,000 shares issued and outstanding	120,000	120,000
Additional paid-in capital	4,000,000	4,000,000
Retained earnings	2,404,613	901,355
	6,524,613	5,021,355
	\$ 133,576,980	\$ 125,925,792

The notes to consolidated financial statements are an intergral part of this statement.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended March 31,	
	2019	2018
Net revenues	\$ 159,370,495	\$ 105,957,642
Cost of sales	139,663,611	92,897,334
Gross profit	19,706,884	13,060,308
Operating expenses		
Selling, general and administrative expenses	17,528,404	11,643,084
Income from operations	2,178,480	1,417,224
Other income (expense)		
Interest income	27,784	1,803
Interest expense	(303,117)	(94,604)
Total other (expenses), net	(275,333)	(92,801)
Income before provision for income taxes	1,903,147	1,324,423
Provision for income taxes	399,889	1,091,821
Net income	\$ 1,503,258	\$ 232,602
Basic and diluted earnings per share	\$ 12.53	\$ 1.94
Weighted average shares outstanding	120,000	120,000

The notes to consolidated financial statements are an intergral part of this statement.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended March 31,

	Common Stock		Additional Paid- in Capital	Retained Earnings	Total Stockholder's Equity
	Shares	Amount			
Balance, April 1, 2017	120,000	\$ 120,000	\$ -	\$ 668,753	\$ 788,753
Shareholder contribution	-	-	4,000,000	-	4,000,000
Net income	-	-	-	232,602	232,602
Balance, March 31, 2018	120,000	120,000	4,000,000	901,355	5,021,355
Net income	-	-	-	1,503,258	1,503,258
Balance, March 31, 2019	120,000	\$ 120,000	\$ 4,000,000	\$ 2,404,613	\$ 6,524,613

The notes to consolidated financial statements are an intergral part of this statement.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 1,503,258	\$ 232,602
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred lease payments	(5,465)	(5,465)
Deferred tax benefit	(2,449,776)	(290,776)
Reserve for bad debts	475,104	523,247
Depreciation	78,332	24,556
Amortization	1,300,508	541,877
(Increase) Decrease in operating assets:		
Restricted cash	248,483	(600,398)
Accounts receivable	(5,667,833)	(57,239,575)
Inventory	(3,812,839)	(1,171,423)
Prepaid expenses	(106,731)	(203,321)
Prepaid taxes	225,711	65,349
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,357,846	7,895,051
Accrued chargebacks and other sales deductions	18,380,311	20,825,923
Employee related obligations	1,887,259	1,406,664
Escrow payable	(248,483)	600,398
Taxes payable	1,499,291	-
Due to related parties	(16,722,829)	28,641,269
Net cash provided by (used in) operating activities	(2,057,853)	1,245,978
Cash flows from investing activities:		
Employee advances	(269)	2,999
Purchase of equipment	(630,899)	(4,215)
Acquisition of subsidiaries	-	(4,500,000)
Cash acquired with acquisitions	-	500,000
Net cash used in investing activities	(631,168)	(4,001,216)
Cash provided by financing activities:		
Shareholder contribution	-	4,000,000
Net increase (decrease) in cash	(2,689,021)	1,244,762
Cash, beginning of year	5,388,337	4,143,575
Cash, end of year	\$ 2,699,316	\$ 5,388,337
Supplement disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	\$ 1,124,663	\$ 1,316,794
Interest	\$ 270,002	\$ 57,712

The notes to consolidated financial statements are an intergral part of this statement.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

1. Nature of Operations

Nature of Operations

Alembic Pharmaceuticals, Inc. and Subsidiaries (the “Company”), a Delaware corporation, is a wholly owned subsidiary of Alembic Global Holding S.A. and is engaged in the marketing and distribution of generic pharmaceutical products for resale by others. While the Company was incorporated in 2012, operations began in 2015. The Company sells its products directly to wholesalers, retail drug store chains, drug distributors, mail order pharmacies and other direct purchasers as well as customers that purchase its products indirectly through the wholesalers, including independent pharmacies, non-warehousing retail drug store chains, managed health care providers and other indirect purchasers.

The Company has three separate lines of business – **Alembic Pharmaceuticals, Inc.** (“API”) [Distribution], **Orit Laboratories, LLC** (“Orit”) [Research & Development] and **Okner Realty, LLC**, (“Okner”) [Real Estate management]. Net revenues from API, Orit and Okner were 99.9%, 0.1% and 0%, respectively, for the year ended March 31, 2019.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as detailed in the Financial Accounting Standards Board’s Accounting Standards Codification. The consolidated financial statements have been prepared on the accrual basis.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (Orit and Okner). Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates because of the uncertainty inherent in such estimates. The Company makes significant estimates in many areas of its accounting, including but not limited to the following: sales returns, chargebacks, allowances and discounts, inventory obsolescence, the useful lives of property and equipment and its impairment and accruals.

Reclassification

The presentation of certain prior year balances has been reclassified to conform to the current year presentation.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents are highly liquid debt instruments with original maturities of three months or less. As of March 31, 2019 and 2018, the Company did not have any cash equivalents.

Restricted Cash

Restricted cash consists of a holdback related to the acquisitions in 2017. These amounts are to be paid to the seller at a later date. The corresponding liability is reflected as 'Escrows Payable' on the consolidated balance sheet. The interest earned by the escrow accounts will be paid to the seller. The escrow payable balance as of March 31, 2019 was \$351,915.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, (Topic 606) Revenue from Contracts with Customers, which provides guidance for revenue recognition. The pronouncement requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The two permitted transition methods under the guidance are the full retrospective approach or a cumulative effect adjustment to the opening retained earnings in the year of adoption. The Company is currently assessing the impact Topic 606 will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, (Topic 842) Leases, which establishes a right of use model ("ROU") that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor does not convey risks and rewards or control, then the lease would be classified as an operating lease. The new standard requires a modified retrospective approach to adoption. The Company is currently evaluating the impact Topic 842 will have on its consolidated financial statements.

Inventory Valuation

Inventories consist of finished goods including goods in transit that are stated at the lower of cost or net realizable value, with cost being determined by the weighted average cost method. The Company considers obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed and recorded on a straight-line basis over the assets' estimated service lives which range from three to thirty-nine years.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Deferred Lease

Rent of its office in Bridgewater, NJ is being recognized on a straight-line basis over the life of the lease as required by generally accepted accounting principles. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred liability (See Note 10). The deferred lease liability at March 31, 2019 and 2018 was \$8,197 and \$13,662, respectively.

Impairment of Long-Lived Assets

The Company evaluates and records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired using the undiscounted cash flows estimated to be generated by those assets. Long-lived assets to be disposed of are reported at the lower of their carrying amounts or fair values less disposal costs. There was no impairment of long-lived assets during the years ended March 31, 2019 and 2018.

Intangible Assets other than Goodwill

The Company amortizes intangible assets that were acquired with acquisition of Orit (See Note 15) using the straight-line method over their estimated period of benefit. If the associated research and development effort is abandoned, the related assets will be written-off and the Company will record a noncash impairment loss on its consolidated statements of income.

The Company measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. There were no impairment losses during the years ended March 31, 2019 and 2018.

Goodwill

The Company has adopted ASU 2014-02, Accounting for Goodwill, which allows the option of amortizing goodwill over ten years, or a shorter period if that period is more appropriate. Entities making the election will test goodwill for impairment only when a triggering event occurs, instead of annually. In that situation, entities will elect to perform the test either at an entity-wide level or the reporting unit level. The amount of impairment, if any, would be determined by comparing the fair value of the entity (or reporting unit) to its carrying amount. A hypothetical purchase-price allocation (also commonly referred to as "Step 2") does not apply. There were no impairment losses during the years ended March 31, 2019 and 2018.

Research and Development

Costs incurred for research and product development are expensed as incurred. The Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenue is recognized for product sales at the time of shipment of the product to the customer. Provisions are recorded for discounts, rebates, promotional adjustments, price adjustments, returns, chargebacks and other potential adjustments when they are reasonably determinable.

Consistent with industry practice, the company maintains a return policy that allows customers to return product within a specified period of time prior and subsequent to the expiration date. The Company's estimate of the provision for returns is based on industry experience and current evaluation.

Accounts Receivable and Credit Policy

Accounts receivable are due under the normal terms which generally range from sixty to ninety days from the invoice date. Accounts receivable are stated at amounts billed less chargebacks submitted by the customer. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice.

Chargebacks

The Company enters into contractual agreements with certain third parties such as pharmacies and group-purchasing organizations to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers that buy products from the Company and subsequently sell them to these third parties. When a wholesaler sells products to one of these third parties that are subject to a contractual price agreement, the difference between the price paid to the Company by the wholesaler and the price under the specific contract is charged back to the Company by the wholesaler. The Company tracks sales and submitted chargebacks by product number and contract for each wholesaler. Utilizing this information, the Company estimates a chargeback percentage for each product. The Company reduces gross sales and increases the chargeback allowance by the estimated chargeback amount for each product sold to a wholesaler. When an actual chargeback request is received from a wholesaler, the Company reduces the chargeback allowance when it processes the chargeback. Actual chargebacks processed by the Company can vary materially from period to period based upon actual sales volume through the wholesalers. However, the Company's expense provision for chargebacks is recorded at the time when sales revenues are recognized. (See Note 12)

Management obtains periodic wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. The Company evaluates the reasonableness of its chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand based on each wholesaler's inventory reports and an estimate of inventory in transit to the wholesaler at the end of the period. In accordance with its accounting policy, the Company's estimate of the percentage amount of wholesaler inventory that will ultimately be sold to a third party that is subject to a contractual price agreement is based on the trend of such sales through wholesalers. The Company uses the established percentage estimate based on industry experience and evaluation of current trends.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the consolidated statement of income. Advertising expense for the years ended March 31, 2019 and 2018 were \$397,050 and \$337,055, respectively.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses are comprised primarily of salaries, benefits and other staff-related costs associated with sales and marketing, finance, and other administrative personnel; facilities and overhead costs; outside marketing, distribution costs, advertising and legal expenses and other general and administrative costs, as well as customer shipping costs.

Freight

Freight billed on purchases of inventory is included in the cost of sales.

Income Taxes

The Company files federal and state tax returns as a Corporation.

Deferred income taxes arise as a result of timing differences between income per books and income reported for tax purposes. The Company is liable for federal, state and local taxes as applicable. The amount of current and deferred taxes payable or receivable is recognized as of the date of the consolidated financial statements, utilizing currently enacted tax laws and rates. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more than likely not be realized. The net deferred tax assets for the years ended March 31, 2019 and 2018 were \$3,797,033 and \$1,347,257 respectively (See note 6).

3. Inventory

The components of inventory consist of the following at March 31st:

	<u>2019</u>	<u>2018</u>
Finished goods	\$ 18,789,770	\$ 17,497,353
Finished goods - In transit	2,520,422	-
	<u>\$ 21,310,192</u>	<u>\$ 17,497,353</u>

4. Prepaid Expenses

Prepaid expenses consist of the following at March 31st:

	<u>2019</u>	<u>2018</u>
Prepaid insurance	\$ 143,818	\$ 187,169
Prepaid conference expense	57,765	49,745
Membership dues and other	437,553	295,491
	<u>\$ 639,136</u>	<u>\$ 532,405</u>

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

5. Property and Equipment

Property and equipment consist of the following at March 31st:

	Estimated Useful Life (Years)	2019	2018
Land	Indefinite	\$ 200,000	\$ 200,000
Building	39	800,000	800,000
Office furnishing	10	25,291	25,291
Office equipment	5	20,639	9,462
Computer equipment	3-6	16,208	16,208
Leasehold improvements	15-39	308,128	308,128
Plant and machinery	10-11	619,722	-
		<u>1,989,988</u>	<u>1,359,089</u>
Less: Accumulated depreciation		<u>115,023</u>	<u>36,691</u>
		<u>\$ 1,874,965</u>	<u>\$ 1,322,398</u>

Depreciation expense charged to operations amounted to \$78,332 and \$24,556 for the years ended March 31, 2019 and 2018, respectively.

6. Income Taxes

The Company is required to file consolidated income tax returns for the federal and various state jurisdictions. Orit and Okner are disregarded entities for tax purposes and are included in Company's consolidated tax returns.

Total income tax provision for the years ended March 31st consisted of the following:

	2019	2018
Current - federal	\$ 2,387,262	\$ 1,139,396
Current - state	462,404	243,201
Deferred - federal	(2,022,904)	(132,012)
Deferred - state	(426,873)	(158,764)
Total income tax provision	<u>\$ 399,889</u>	<u>\$ 1,091,821</u>

The effective tax rates for the years ended March 31, 2019 and 2018 were 24.39% and 35.82%, respectively.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

6. Income Taxes (Continued)

The components of the Company's deferred tax assets consist of the following as at March 31st:

	<u>2019</u>	<u>2018</u>
Current deferred tax assets:		
Accounts receivable	\$ 293,622	\$ 185,831
Prepaid expenses	1,608	1,713
Total current deferred tax assets:	<u>\$ 295,230</u>	<u>\$ 187,544</u>
Non current deferred tax assets (liabilities):		
Goodwill / intangibles	<u>\$ 63,019</u>	\$ 64,813
Accrued liabilities	2,493,697	528,517
Deferred compensation	988,715	562,834
Deferred lease payments	1,999	3,549
Deferred acquisition cost	(45,627)	-
Total non-current deferred tax assets	<u>\$ 3,501,803</u>	<u>\$ 1,159,713</u>
	<u>\$ 3,797,033</u>	<u>\$ 1,347,257</u>

7. Line of Credit

The Company has a line of credit agreement with a financial institution for \$8,000,000 in connection with the acquisition. The line bears interest at 3-month LIBOR (2.6057%) plus 1%. The line of credit is reviewed annually, due on demand and secured by the corporate guarantee provided by the ultimate parent company based in India. As of March 31, 2019 and 2018, the outstanding balance on this line was \$8,000,000.

8. Related Party Transactions

The Company entered into the following transactions with its parent during the years ended March 31st:

	<u>2019</u>	<u>2018</u>
Inventory purchases from related parties	\$ 123,245,095	\$ 79,626,169
Total due to related parties	\$ 32,435,636	\$ 49,158,465

The outstanding balance due to the parent is interest free and has a term of 180 days.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

9. Leased Employees

As of March 31, 2019, the Company leased of its employees from Extensis, Inc. ("Extensis"), under a renewable leasing arrangement, that charges the Company for the cost of compensating leased employees plus the costs of the related taxes, benefits, vacation pay, and an administrative fee.

10. Commitments and Contingencies

Lease Commitments

The Company leases office space at 750 Highway 202, Bridgewater, New Jersey. The lease requires minimum annual rentals plus operating expenses through September 30, 2020. The Company has an option to renew the lease for an additional five-year term. Rent expenses incurred for the years ended March 31, 2019 and 2018 were \$102,742 and \$102,742, respectively.

Minimum future rental commitments at March 31, 2019, for the years ending through the expiration of the initial lease term are:

For the years ending March 31,	Amount
2020	\$ 108,207
2021	54,104
Total	\$ 162,311

11. Accounts Receivable

Accounts receivable is comprised of the following at March 31st:

	2019	2018
Accounts receivable	\$ 95,405,628	\$ 89,737,795
Less: Reserve for bad debts	1,203,905	728,801
Accounts receivable, net	94,201,723	89,008,994
Less: Sales related deductions (see Note 12)	54,304,269	44,046,999
Net receivables	\$ 39,897,454	\$ 44,961,995

During the year ended March 31, 2019, reserve of \$487,864 was created and \$12,760 of reserve was utilized.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

12. Accrued Chargebacks and Other Sales Deductions

Accrued chargebacks and other sales deductions are comprised of the following at March 31st:

	<u>2019</u>	<u>2018</u>
Accrued chargebacks	\$ 39,676,126	\$ 26,788,620
Other sales deductions	14,628,143	17,258,379
Sales related deductions (see Note 11)	<u>54,304,269</u>	<u>44,046,999</u>
Rebates and administration fees	8,450,664	4,926,546
Sales returns	<u>6,111,425</u>	<u>1,512,502</u>
Total accrued chargebacks and other sales deductions	<u>\$ 68,866,358</u>	<u>\$ 50,486,047</u>

13. Significant Concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable.

Concentration of credit risk

The Company maintains its cash in bank deposit accounts that, at times, may exceed the federally insured limit up to \$250,000 per depositor per bank. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Customers

For the year ended March 31, 2019, sales to three major pharmaceutical wholesale customers were approximately 39%, 29% and 11% of sales, respectively. These customers represented approximately 82% of the accounts receivable at March 31, 2019.

For the year ended March 31, 2018, sales to three major pharmaceutical wholesale customers were approximately 42%, 32% and 10% of sales, respectively. These customers represented approximately 91% of the accounts receivable at March 31, 2018.

Vendors

The Company has contracted with Life Science Logistics ("LSL") for warehousing and distribution services since October 2015. If these services were interrupted, the Company would need to engage another service provider to replace LSL. While there are a number of options available to the Company, such an interruption of services could cause a delay in processing customer orders.

The Company utilizes services of iContracts, Inc. who provides software to facilitate the gross-to-net revenue recognition. Discontinuity or disruption could affect the Company's ability to process chargebacks and recognize revenue in a timely and accurate manner.

API purchases 100% of its inventory from its ultimate parent company, Alembic Pharmaceuticals Limited.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2019 and 2018

14. Employee Related Obligations

The Company has a deferred compensation plan for its highly compensated associate. Under the plan, a certain amount is accrued each year based on the performance of the Company. The amount deferred for each fiscal year will be paid after four years.

For other key employees, the company has adopted an employee retention plan.

These accrued amounts have been included in the consolidated balance sheet under Employee Related Obligations and the related expenses have been included in Selling, General and Administrative Expenses. The total employee related obligation balances for the years ended March 31, 2019 and 2018 were \$4,053,923 and \$2,166,664, respectively.

15. Intangible Assets Other Than Goodwill

Intangible assets other than goodwill consist of the following as of March 31st:

	<u>2019</u>	<u>2018</u>
Intellectual property	\$ 9,918,000	\$ 9,918,000
Less : Accumulated amortization	<u>1,756,312</u>	<u>516,562</u>
	<u>\$ 8,161,688</u>	<u>\$ 9,401,438</u>

The estimated life of intellectual property is eight years and being amortized using the straight-line method. Amortization expenses were \$1,239,750 and 516,652 for the years ended March 31, 2019 and 2018, respectively.

At March 31, 2019, future amortization expense of amortizable intangible assets is as follows:

<u>For the Years Ending</u> <u>March 31,</u>	<u>Amount</u>
2020	\$ 1,239,750
2021	1,239,750
2022	1,239,750
2023	1,239,750
2024	1,239,750
Thereafter	<u>1,962,938</u>
	<u>\$ 8,161,688</u>

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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16. Goodwill

Goodwill consists of the following as of March 31st:

	<u>2019</u>	<u>2018</u>
Goodwill	\$ 607,572	\$ 607,572
Less: Accumulated amortization	<u>86,073</u>	<u>25,315</u>
	<u>\$ 521,499</u>	<u>\$ 582,257</u>

Goodwill is being amortized over ten years using the straight-line method. Amortization expense were \$60,758 and \$25,315 for the years ended March 31, 2019 and 2018, respectively.

At March 31, 2019, future amortization expense of goodwill is as follows:

<u>For the Years Ending March 31,</u>	<u>Amount</u>
2020	\$ 60,757
2021	60,757
2022	60,757
2023	60,757
2024	60,757
Thereafter	<u>217,714</u>
	<u>\$ 521,499</u>

17. Subsequent Events

For the year ended March 31, 2019, the Company has evaluated subsequent events for potential recognition and disclosure through April 17, 2019, the date the financial statements were available to be issued. The Company has determined that there were no subsequent events that would require disclosure in the consolidated financial statements.