HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
D/B/A AVET PHARMACEUTICALS HOLDINGS, INC. AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Financial Statements

March 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
D/B/A AVET PHARMACEUTICALS HOLDINGS, INC.
AND SUBSIDIARIES
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KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Directors
Heritage Pharma Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Heritage Pharma Holdings, Inc. and subsidiaries (doing business as Avet Pharmaceuticals Holdings, Inc. and subsidiaries), which comprise the consolidated balance sheets as of March 31, 2021 and 2020, and the related consolidated statements of operations, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 audit 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 auditors' 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 entity'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 entity'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 financial position of Heritage Pharma Holdings, Inc. and subsidiaries (doing business as Avet Pharmaceuticals Holdings, Inc. and subsidiaries) as of March 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Short Hills, New Jersey
May 28, 2021

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
D/B/A AVET PHARMACEUTICALS HOLDINGS INC.
AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Balance Sheets

March 31, 2021 and 2020

(In thousands, except share data)

Assets		**2021**	**2020**
Current assets:			
Cash	$	4,583	4,844
Accounts receivable, net		37,621	32,519
Inventory, net		59,165	68,985
Prepaid expenses and other current assets		22,295	15,000
Total current assets		123,664	121,348
Property and equipment, net		19,314	22,135
Intangible assets, net		26,090	35,874
Goodwill		24,064	24,064
Other noncurrent assets		943	10,326
Total assets	$	194,075	213,747
Liabilities and Stockholder's Equity			
Current liabilities:			
Current portion of long-term debt and revolver, net	$	95,917	91,012
Accounts payable and accrued expenses		64,160	75,346
Other current liabilities		1,248	3,401
Total current liabilities		161,325	169,759
Long-term debt, net		—	—
Other long-term liabilities		222	344
Total liabilities		161,547	170,103
Commitments and contingencies			
Stockholder's equity:			
Common stock, no par value; 5,000 shares authorized and 3,119 and 2,135 shares issued and outstanding as of March 31, 2021 and 2020, respectively.		49,979	30,000
Additional paid-in capital		—	—
(Accumulated deficit) retained earnings		(17,451)	13,644
Total stockholder's equity		32,528	43,644
Total liabilities and stockholder's equity	$	194,075	213,747

See accompanying notes to consolidated financial statements.

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
D/B/A AVET PHARMACEUTICALS HOLDINGS INC.
AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Statements of Operations

Years ended March 31, 2021 and 2020

(In thousands)

	2021	2020
Net product sales	$ 142,523	149,676
Service and other revenue	2,477	2,750
Total revenue	145,000	152,426
Cost of goods sold	127,857	130,349
Gross margin	17,143	22,077
Selling, general and administrative	29,312	38,317
Research and development	3,132	3,085
Depreciation and amortization	4,804	3,732
Impairment of intangible assets	5,888	175
Total operating expenses	43,136	45,309
Loss from operations	(25,993)	(23,232)
Other expense (income):		
Interest expense, net	5,858	8,407
Other income	—	(1,233)
Total other expense, net	5,858	7,174
Loss before benefit for income taxes	(31,851)	(30,406)
Benefit for income taxes	(756)	(11,566)
Net loss	$ (31,095)	(18,840)

See accompanying notes to consolidated financial statements.

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
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AND SUBSIDIARIES

(A Wholly Owned Subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Statements of Changes in Stockholder's Equity

Years ended March 31, 2021 and 2020

(In thousands, except share data)

	Common stock		(Accumulated deficit) retained earnings	Total stockholder's equity
	Number of shares	Amount		
Balance at March 31, 2019	2,085	$ 25,000	32,484	57,484
Issuance of common stock	50	5,000	—	5,000
Net loss	—	—	(18,840)	(18,840)
Balance at March 31, 2020	2,135	30,000	13,644	43,644
Issuance of common stock	984	19,989	—	19,989
Excess share capital refund	—	(10)	—	(10)
Net loss	—	—	(31,095)	(31,095)
Balance at March 31, 2021	3,119	$ 49,979	(17,451)	32,528

See accompanying notes to consolidated financial statements.

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
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Consolidated Statements of Cash Flows

Years ended March 31, 2021 and 2020

(In thousands)

	2021	2020
Cash flows from operating activities:		
Net loss	$ (31,095)	(18,840)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,684	7,643
Amortization of debt issuance costs	1,117	2,727
Impairment of intangible assets	5,888	175
Share-based compensation expense	—	1,127
Loss on disposal of property and equipment	—	9
Deferred income taxes	7,409	2,719
Changes in:		
Accounts receivable	(5,102)	6,791
Inventory	9,820	(8,349)
Prepaid expenses and other current assets	(7,295)	(12,664)
Other noncurrent assets	1,974	3,440
Accounts payable and accrued expenses	(11,186)	10,215
Other current liabilities	(2,153)	(130)
Other long-term liabilities	(122)	(109)
Net cash used in operating activities	(22,061)	(5,246)
Cash flows from investing activities:		
Purchases of intangible assets	(300)	(3,276)
Purchases of property and equipment	(1,667)	(1,348)
Net cash used in investing activities	(1,967)	(4,624)
Cash flows from financing activities:		
Borrowings from revolving debt	71,153	33,032
Repayments on revolving debt	(84,612)	(22,500)
Proceeds from issuance of long-term debt	34,000	7,000
Repayments on long-term debt	(15,437)	(7,751)
Payments for debt issuance costs	(1,316)	(1,661)
Issuance of common stock	19,989	5,000
Excess share capital refund	(10)	—
Net cash provided by financing activities	23,767	13,120
Net (decrease) increase in cash	(261)	3,250
Cash at beginning of year	4,844	1,594
Cash at end of year	$ 4,583	4,844
Supplementary disclosures of cash flow information:		
Interest paid	$ 2,560	4,993
Income taxes paid	—	66
Income taxes refunded	—	—
Net operating losses refunded	2,656	—

See accompanying notes to consolidated financial statements.

(1) Description of Business

Effective October 1, 2019, Heritage Pharma Holdings, Inc. and Subsidiaries began doing business as Avet Pharmaceuticals Holdings, Inc. and Subsidiaries, through its wholly owned subsidiaries Avet Pharmaceuticals Inc. (hereafter Avet Pharmaceuticals, a Delaware, U.S. corporation), Avet Pharmaceuticals Labs Inc. (hereafter Avet Pharmaceuticals Labs, a New Jersey, U.S. corporation) and Hacco Pharma Inc. (hereafter Hacco Pharma, a Delaware, U.S. corporation) (collectively and hereafter the Company), which engages in the acquisition, licensing, development, marketing, sale and distribution of generic and legacy branded pharmaceutical products for the global prescription drug markets and provides formulation and development services to third parties seeking regulatory approval.

The Company's products and business activities are highly regulated, principally by the Federal Drug Administration (FDA). Federal and state regulations and statutes impose certain requirements on the testing, manufacturing, labeling, storage, recordkeeping, approval, advertising and promotion of the Company's products. Failure to comply with applicable requirements can result in judicially and administratively imposed sanctions, including seizure of adulterated or misbranded products, injunctive actions, fines and criminal prosecutions. Administrative enforcement measures can also involve product recalls and the refusal by the government to approve Abbreviated New Drug Applications (ANDAs). In order to conduct clinical tests and market products for human therapeutic use, the Company must comply with mandatory procedures and safety standards established by the FDA and comparable state regulatory agencies. Typically, standards require that products be approved by the FDA as safe and effective for their intended indications prior to being marketed for human use.

The Company must obtain FDA approval before it sells a generic equivalent of an existing reference listed drug. The Company obtains such approvals on its generic pharmaceutical products by submitting ANDAs. The process for obtaining an ANDA approval is set by the provisions of the Hatch-Waxman Act of 1984, which established a statutory procedure for the submission, FDA review and approval of ANDAs. Each of the Company's proposed generic drug products must be therapeutically equivalent to the corresponding reference listed drug. Generic drug products are considered therapeutically equivalent if they are pharmaceutical equivalents, meet the requirements for bioequivalence, when required, and exhibit stability throughout the proposed shelf life.

(2) Liquidity

The Company has incurred a net loss and negative cash flows from operations for the years ended March 31, 2021 and 2020. As of March 31, 2021, the Company's current liabilities exceed current assets by approximately $37,661, which include related party assets of $165 and related party liabilities of $31,758, and $61,917 in revolver borrowings and $34,000 in related party debt, which are payable on demand. However, the consolidated financial statements have been prepared on a going concern basis as Emcure Pharmaceuticals, Ltd., an India-based developer and manufacturer of pharmaceutical products (hereafter the Parent Company or Emcure) has pledged its continuing financial support for a minimum of 12 months and a day from the date of issuing these financial statements.

(3) Significant Accounting Policies

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the consolidated financial statements.

(a) Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and are denominated in U.S. currency. The consolidated financial statements include the accounts of Avet Pharmaceuticals Holdings, Inc. and its wholly-owned subsidiaries Avet Pharmaceuticals, Avet Pharmaceuticals Labs and Hacco Pharma. All intercompany balances and transactions have been eliminated in this consolidation.

The consolidated financial statements have been prepared to include all transactions with the Parent Company and have not been eliminated but are presented as third-party accounts and transactions. The Parent Company owns 100% of the equity of the Company. Refer to Note 14 for additional information regarding related party transactions between the Company and the Parent Company.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates and judgments made by management in preparation of these consolidated financial statements include the inputs in determining gross to net revenue reserves and liabilities and fair value of the Company's reporting unit for the quantitative goodwill impairment test.

(c) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The inputs used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the assets or liabilities.

Level 3 – Unobservable inputs for the asset or liability.

The carrying amounts of cash, accounts receivable, and accounts payable and accrued liabilities approximate fair value because of their generally short maturities. The carrying value of the revolver and term loans approximate fair value because of the variable rates on such debt.

(d) Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level of classification for each reporting period. There were no financial assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2021 and 2020.

(e) Concentrations

The Company maintains its cash with one major financial institution. At various times during the year, cash balances may exceed amounts that are insured by the Federal Deposit Insurance Corporation.

During the year ended March 31, 2021, the Company had four customers that met the definition of significant, comprising 23%, 17%, 15% and 14% of total net sales, respectively. During the year ended March 31, 2020, these same customers comprised 25%, 14%, 17% and 9% of total net sales, respectively. As of March 31, 2021, these customers represented 39%, 18%, 27% and 6% of the Company's accounts receivable, respectively. As of March 31, 2020, these customers represented 38%, 19%, 25% and 4% of the Company's accounts receivable, respectively.

(f) Accounts Receivable

The Company extends credit to its customers in the normal course of business, primarily with 30-90 day terms. Accounts receivable are recorded at the invoiced amount, net of estimated sales reserves and allowances (SR&A). See Note 3(l) and Note 4 for further details.

(g) Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. Purchased products are recorded at acquisition cost, while manufactured products are recorded at manufacturing cost, including a share of production overhead.

Inventory consists primarily of finished goods, raw materials, including active pharmaceutical ingredients (API), packaging materials, and work in process. Finished goods inventory is primarily located at the Company's contracted third-party logistics provider warehouse in Tennessee. Raw materials and packaged goods are stored at the Company's manufacturing facility located in New Jersey.

Inventories are adjusted for excess and obsolete inventory. Evaluation of excess and obsolete inventory includes such factors as expiry date, inventory turnover, and management's assessment of product demand. The Company has recorded an inventory reserve of $5,534 and $3,904 as of March 31, 2021 and 2020, respectively.

(h) Property and Equipment

The Company's property and equipment consist of leasehold improvements, machinery and equipment used in manufacturing, computer equipment and software, furniture and fixtures, and office equipment, all of which are stated at cost less accumulated depreciation.

Depreciation is provided over the estimated useful life of such assets (ranging from three to twenty years) using the straight-line method. Leasehold improvements are depreciated over the shorter of the useful life or the remaining lease term. Construction in progress consists of multiple projects, primarily related to the expansion of the Company's manufacturing facility in New Jersey and is not depreciated until placed into service.

(i) Goodwill and Intangible Assets

Goodwill represents the excess of the total purchase consideration over the fair value of acquired assets and assumed liabilities, using the purchase method of accounting. Goodwill is not amortized, but is subject to impairment testing. The Company tests goodwill for impairment at least annually or after a triggering event has occurred. The Company defines its reporting unit as Avet Pharmaceuticals Holdings, Inc. (reporting unit). A qualitative assessment can be utilized to determine if a more detailed quantitative calculation is required. If the qualitative assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, including goodwill, then no further evaluation is necessary. If, after performing the qualitative assessment, the Company determines that it is more likely than not that the fair value of a reporting unit is less than the carrying amount, including goodwill, then the quantitative test would be necessary. The Company may also decide to bypass the qualitative test and go straight to the quantitative test.

Detailed quantitative impairment testing involves comparing the fair value of the Company's reporting unit to its carrying value, including goodwill. Fair value reflects the price a market participant would be willing to pay in a potential sale of the Company. If the fair value exceeds carrying value, then it is concluded that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, an impairment charge is recorded equal to the excess. The Company performed a quantitative assessment as of March 31, 2021 and March 31, 2020 and determined that there was no indication of goodwill impairment.

Intangible assets consist of ownership rights to approved ANDAs purchased from or developed by third parties for the Company that can be commercialized and licensing rights to ANDAs for supply and marketing of certain generic pharmaceutical products. In addition, as a result of the merger with the Parent Company, the Company recognized an intangible asset related to customer relationships. The Company amortizes its intangible assets using the straight-line method over their estimated useful lives, which the Company has determined to be from five to ten years.

(j) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and definite-life intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset or asset group. During the years ended March 31, 2021 and 2020, the Company recorded impairment charges related to definite-life intangible assets of $5,888 and $175, respectively.

(k) Debt Issuance Costs

Debt issuance costs are amortized ratably over the term of the related debt instrument and presented as a reduction of the debt's carrying amount in the accompanying consolidated balance sheets.

(l) Revenue Recognition

The Company adopted Financial Accounting Standard Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Accounting Standard Codification (ASC) Topic 606) (ASC 606) using the modified retrospective method for all contracts on April 1, 2019.

There was no cumulative initial effect of applying ASC 606, including any changes which would impact the timing and measurement of revenue. A contract with a customer exists only when: the parties to the contract have approved it and are committed to perform their respective obligations, the Company can identify each party's rights regarding the distinct goods or services to be transferred ("performance obligations"), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Revenue from sales of goods, including sales to wholesalers and other distributors, is recognized when the customer obtains control of the product. This generally occurs at a point in time when products are shipped or delivered once the Company has a present right to payment and legal title, and risk and rewards of ownership are obtained by the customer.

The Company accounts for licensing rights and services separately if they are distinct. Service revenue is recorded over time as the service is being performed and the Company has a present right to payment. Other revenue, which primarily relates to revenue for distinct IP rights is recognized at a point in time based on the nature of the promise to grant the license (functional IP).

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer. The amount of consideration the Company expects to be entitled to varies as a result of rebates, chargebacks, returns and other SR&A that the Company offers to its customers and their customers.

Estimates of variable consideration are based on historical experience and the specific terms in the individual agreements, which approximate expected value. Rebates and chargebacks are the largest components of SR&A. The Company recognizes these provisions at the time of sale and adjusts them if the actual amounts differ from the estimated provisions. The following describes the nature of each deduction and how provisions are estimated:

Chargebacks – The Company has arrangements with various third parties establishing prices for products whereby the customers independently select a wholesaler from which they purchase the products at the established pricing. In addition, wholesalers may enter into agreements with the customers, based on agreements with the Company, which establish the pricing for certain products which the wholesalers provide. Under either arrangement, the Company issues a chargeback in the form of a credit to the wholesaler for the difference between the invoice price to the wholesaler and the customer's established price. Provisions for chargebacks involve estimates of contract prices and vary in relation to changes in product mix, pricing, and the level of inventory at the wholesalers. Provisions for estimating chargebacks are calculated using historical chargeback experience and current pricing. The Company regularly monitors the provision for chargebacks and makes adjustments when the Company believes that actual chargebacks may differ from estimated provisions.

Rebates – The Company has arrangements with customers that are contractually agreed upon. Rebate reserves are estimated based on the specific terms in each agreement based on historical trends.

Medicaid and Other Governmental Rebates - The Company estimates these rebates based on historical trends of rebates paid, as well as on changes in wholesaler inventory levels and increases or decreases in sales.

Prompt Pay Discounts – Prompt pay discounts are offered to most customers to encourage timely payment. Discounts are estimated at the time of invoice based specific customer terms. Prompt pay discounts are almost always utilized by customers. As a result, the actual discounts do not vary significantly from the estimated amount.

Returns – Returns primarily relate to customer returns of expired products. Per Company policy, the customer has the right to return product prior to and following the expiration date. Such returned products are destroyed, and credits are issued to the customer for the value of the returns. The returns provision is estimated by applying a historical return rate to the amounts of revenue estimated to be subject to returns.

(m) Shipping and Handling Costs

Shipping and handling costs are accounted for as a fulfillment cost and are recorded under selling, general and administrative expenses in the accompanying consolidated statements of operations. For the years ended March 31, 2021 and 2020, outbound shipping and handling costs amounted to $2,123 and $2,211, respectively.

(n) Research and Development Expenses

Research and development expenses are charged to expense as incurred. These expenses consist primarily of costs related to initiation and development of products, as well as costs to obtain FDA approval.

(o) Share-Based Compensation

The Company applies the intrinsic value method provided for under ASC Topic 718-10, *Compensation – Stock Compensation,* to account for the Company's Stock Appreciation Rights (SAR). These awards provide the holder with the ability to profit from the appreciation in value of a SAR over a set period of time. The SAR operates similar to a stock option in that the employee benefits from any increase in stock price above the price set in the award. However, unlike an option, the employee is not required to pay an exercise price to exercise them. Compensation expense as it relates to a SAR is re-measured and recorded at the end of each reporting period. During the year ended March 31, 2020, the SAR Plan was terminated, and no future SAR Awards will be granted. See Note 13, *Shared – Based Compensation*. The Company is allocated share-based compensation expense by the Parent Company related to the vesting of shares of the parent granted to certain members of management. See Note 14, *Related Party Transactions.*

(p) Income Taxes

Income taxes are accounted for in accordance with ASC Topic 740, *Income Taxes (ASC 740).* The provision for income taxes includes deferred income tax resulting from items reported in different periods for income tax and financial statement purposes. Deferred tax assets and liabilities represent the expected future tax consequences of the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect at the balance sheet date. The resulting asset or liability is adjusted to reflect enacted changes in tax law. A valuation allowance is established for deferred tax assets unless their realization is considered more likely than not. The Company's provision for income taxes is the sum of the change in the balance of deferred taxes between the beginning and the end of the period and income taxes currently payable or receivable.

The Company follows accounting guidance which sets forth a threshold for financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken on a tax return. Such guidance requires the Company to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on technical merits of the position. The Company's policy, if it is to recognize income tax-related interest and penalties is to record as a component of income tax expense.

(q) Foreign Currency Transactions

From time to time the Company will enter into transactions that are settled in a foreign currency. The transactions are recorded in U.S. dollars based on the exchange rate in effect at the time a transaction is initiated. When a transaction is settled, the foreign currency received to settle the transaction is

converted to U.S. dollars based on the exchange rate in effect at the time of settlement. A realized foreign currency exchange gain or loss is recorded based on the difference in the exchange rate in effect when a transaction is initiated, and the exchange rate in effect when a transaction is settled. For the years ended March 31, 2021 and 2020, the Company did not enter into any material foreign currency transactions.

(r) Reclassifications

Certain amounts in the accompanying prior year financial statements have been reclassified to conform to the current period presentation.

(s) New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. ASU 2016-02 will require both types of leases to be recognized on the balance sheet. This guidance will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Subsequent to the issuance of ASU 2016-02, the FASB issued additional amendments related to ASU 2016-02: (1) ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*; (2) ASU 2018-10: *Codification Improvements to Topic 842, Leases*; (3) ASU 2018-11: *Leases (Topic 842: Targeted Improvements;* and (4) ASU 2019-01: *Leases (Topic 842): Codification Improvements.* ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. Additionally, in April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; in May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*; in November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326),* and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; and in March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*, to provide further clarifications on certain aspects of ASU 2016-13 and to extend the nonpublic entity effective date of ASU 2016-13. The changes (as amended) are effective for the Company on April 1, 2023. The Company is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

(4) Sales Reserves and Allowances

Variable consideration mainly includes SR&A comprised of prompt pay discounts, rebates, chargebacks, returns and other discounts and allowances (including Medicaid and other governmental program discounts). As of March 31, 2021 and 2020, provisions for SR&A that are netted against trade receivables amounted to $63,118 and $54,628, respectively, and included in accounts payable and accrued expenses amounted to $1,105 and $1,197, respectively. The Company recognizes these provisions at the time of sale and adjusts them if the actual amounts differ from the estimated provisions. For description of the nature of each deduction and how provisions are estimated see Note 3.

As of March 31, 2021 and 2020, SR&A is as follows:

		2021	2020
Chargeback allowance	$	(44,756)	(34,126)
Rebates		(9,519)	(14,519)
Returns		(4,477)	(3,350)
Sales discounts		(4,366)	(2,133)
Other discounts and allowances		(1,105)	(1,697)
Sales reserves and allowances	$	(64,223)	(55,825)

(5) Inventory

Inventory consists of the following as of March 31, 2021 and 2020:

		2021	2020
Finished goods	$	43,526	56,317
Raw materials		17,102	13,826
Work in process		3,030	1,877
Packaging materials		1,041	869
Inventory, gross		64,699	72,889
Inventory reserves		(5,534)	(3,904)
Inventory, net	$	59,165	68,985

(Continued)

(6) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following as of March 31, 2021 and 2020:

		2021	2020
Income tax receivable	$	18,803	13,263
Prepaid expenses		2,296	1,603
Other current assets		1,196	134
Prepaid expenses and other current assets	$	22,295	15,000

(7) Property and Equipment

Property and equipment are comprised of the following as of March 31, 2021 and 2020:

		2021	2020
Leasehold improvements	$	23,478	23,451
Machinery and equipment		18,403	18,327
Computer equipment and software		1,763	1,566
Construction in process		1,346	202
Furniture and fixtures		738	732
Office equipment		100	97
Total property and equipment, gross		45,828	44,375
Less accumulated depreciation expense		(26,514)	(22,240)
Total property and equipment, net	$	19,314	22,135

For the year ended March 31, 2021, depreciation expense was $4,488, of which $3,880 was recorded as a component of cost of goods sold and $608 was recorded as a component of operating expenses in the accompanying consolidated statements of operations. For the year ended March 31, 2020, depreciation expense was $4,530, of which $3,911 was recorded as a component of cost of goods sold and $619 was recorded as a component of operating expenses in the accompanying consolidated statements of operations.

(8) Intangible Assets

During the year ended March 31, 2021, the Company impaired certain ANDAs as their future discounted cash flows did not support the net book value as of March 31, 2021. As a result, the Company impaired ANDAs with a cost of $5,697 and accumulated amortization of $234. The impairment charge of $5,463 is recorded as a component of operating expenses in the accompanying consolidated statement of operations. No impairment of ANDAs was recorded during the year ended March 31, 2020. During the year

(Continued)

ended March 31, 2021, the Company did not acquire any ANDAs. During the year ended March 31, 2020, the Company acquired ANDA's for a purchase price of $3,076.

During the years ended March 31, 2021 and 2020, the Company acquired new licensing rights totaling $300 and $200, respectively. During the years ended March 31, 2021 and 2020, the Company recorded impairment charges of $425 and $97, respectively, related to the termination of certain product rights and discontinuation of certain products. These impairment charges were recorded as a component of operating expenses in the accompanying consolidated statements of operations.

Intangible assets are comprised of the following at March 31, 2021 and 2020:

		2021	2020
ANDAs	$	39,826	45,523
Less accumulated amortization		(14,309)	(11,187)
Total acquired ANDAs		25,517	34,336
License rights		1,775	1,900
Less accumulated amortization		(1,237)	(825)
Total license rights		538	1,075
Customer relationships		4,279	4,279
Less accumulated amortization		(4,244)	(3,816)
Total customer relationships		35	463
Intangible assets, net	$	26,090	35,874

For the year ended March 31, 2021 and 2020, amortization expense was $4,196 and 3,113, respectively, which was recorded as a component of operating expenses in the accompanying consolidated statements of operations. The Company estimates that $3,194, $2,951, $2,789, $2,687 and $2,222 of amortization expense will be incurred for each of the years ended March 31, 2022 through March 31, 2026. These estimates do not include the impact of products that have not launched that will be amortized in the future.

(Continued)

(9) Other Assets

Other assets consist of the following as of March 31, 2021 and 2020:

		2021	2020
Deferred tax assets, net	$	—	7,409
Other assets		643	1,844
Debt service reserve fund		300	1,073
Total other assets	$	943	10,326

Refer to Note 11 for information regarding deferred tax assets and income taxes of the Company.

(10) Debt

At March 31, 2021 and 2020, debt, net of any unamortized debt issuance costs, is as follows:

		2021	2020
Term loan agreements	$	—	15,437
Revolving credit agreement		62,264	75,723
Related party debt		34,000	—
Less unamortized debt issuance costs		(347)	(148)
Total debt, net		95,917	91,012
Less short-term borrowings and current portion of long-term debt		(95,917)	(91,012)
Total long-term debt, net	$	—	—

In December 2016, the Company entered into a Facility Agreement with the Bank of Baroda (the Baroda Facility Agreement), which was comprised of a Term Loan Agreement and a Revolving Credit Agreement. The Baroda Facility Agreement is secured by a corporate guarantee provided by the Parent Company. The Baroda Facility Agreement is also secured by a pledge of all shares of the Company, as well as all current assets, property and equipment, and intangible assets of the Company.

In January 2017, the Company borrowed $60,000 under the Term Loan Agreement. For the year ended March 31, 2020, the Company made principal payments totaling $4,000 and as of March 31, 2020, the $60,000 under the Term Loan Agreement was fully repaid. Interest was charged at a rate of 400 basis points above the three-month LIBOR rate. The rate at September 30, 2019 (the date on which the $60,000 Term Loan Agreement was fully repaid) was 6.1%. For the year ended March 31, 2020, total interest incurred under the $60,000 Term Loan Agreement amounted to $71.

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In April 2017, the Company borrowed $15,000 under the Term Loan Agreement to be used for capital expenditures, which had a term of five years, including a one-year moratorium. After the one-year moratorium, equal principal installments in the amount of $938 were due quarterly. For the years ended March 31, 2021 and 2020, the Company made principal payments of $8,437 and $3,751, respectively. As of March 31, 2021 and 2020, the unpaid principal amount under the Term Loan Agreement amounted to $0 and $8,437, respectively. Interest is charged at a rate of 400 basis points above the three-month LIBOR rate to be paid on a quarterly basis. The rate at November 18, 2020 (the date in which the $15,000 Term Loan Agreement was fully repaid) and March 31, 2020 was 4.2% and 5.6%, respectively. For the years ended March 31, 2021 and 2020, total interest incurred under the $15,000 Term Loan Agreement amounted to $262 and $646, respectively, which was recorded as a component of cost of goods sold in the accompanying consolidated statements of operations.

In April 2017, the Company borrowed $25,000 under the Revolving Credit Agreement to be used for general corporate purposes, including but not limited to working capital. The limit under the Revolving Credit Agreement was increased to $85,000 in September 2018 and then reduced to $75,000 in March 2021. The Revolving Credit Agreement is payable on demand, which renews annually. For the year ended March 31, 2021, the Company borrowed $71,153 and made repayments of $84,612. For the year ended March 31, 2020, the Company borrowed $33,032 and made repayments of $22,500. As of March 31, 2021 and 2020, the outstanding balance under the Amended Revolving Credit Agreement amounted to $62,264 and $75,723, respectively. Interest is charged at a rate of 350 basis points above the three-month LIBOR rate to be paid on a monthly basis. The rate at March 31, 2021 and 2020 was 3.7% and 4.8%, respectively. For the year ended March 31, 2021 and 2020, respectively, total interest incurred under the Revolving Credit Agreement amounted to $3,079 and $4,457.

In May 2019, the Company borrowed $7,000 under the Term Loan Agreement that was used to fund ANDA acquisitions, which had a term of five years, including a one-year moratorium. After the one-year moratorium, equal principal installments in the amount of $438 are due quarterly, which commenced on July 31, 2020. For the year ended March 31, 2021, the Company made principal payments of $7,000. As of March 31, 2021 and 2020, the unpaid principal amount under the $7,000 Term Loan Agreement amounted to $0 and $7,000, respectively. Interest is charged at a rate of 400 basis points above the three-month LIBOR rate to be paid on a quarterly basis. The rate at December 3, 2020 (the date in which the $7,000 Term Loan Agreement was fully repaid) and March 31, 2020 was 4.2% and 4.8%, respectively. For the years ended March 31, 2021 and 2020, total interest incurred under the $7,000 Term Loan Agreement amounted to $230 and $365, respectively.

In connection with the Baroda Facility Agreement, the Company incurred fees during the years ended March 31, 2021 and 2020 of $1,316 and $1,661 consisting of standby letters of credit, upfront fees and legal fees. These fees have been recorded as debt issuance costs and are being recognized as interest expense over the term of the debt using the effective interest method. The Company amortized $1,117 and $2,727 of such fees to interest expense during the years ended March 31, 2021 and 2020, respectively. As of March 31, 2021 and 2020, $347 and $148 of fees have been presented as a direct deduction from the carrying amount of the debt liability in accordance with ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-3)* and ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs*

Associated with Line-of-Credit Arrangements. Such fees will be fully amortized by June 30, 2021. In addition, the Company was required to fund a debt service reserve account equivalent to one quarter of interest. With the principal repayments under the Term Loan Agreement, $826 of the debt service reserve amount was credited, and the Company recorded interest income of $53 for the year ended March 31, 2021, which is recorded as a component of interest expense in the accompanying consolidated statement of operations. As of March 31, 2021 and 2020, the debt service reserve amount was $300 and $1,073 and was recorded as a component of other noncurrent assets in the accompanying consolidated balance sheets.

Refer to Note 14 for information regarding related party debt.

(11) Income taxes

For the years ended March 31, 2021 and 2020, the income tax (benefit) provision is comprised of the following:

	2021	2020
Current tax provision (benefit):		
Federal	$ (8,174)	(14,298)
State	9	13
Total current benefit	(8,165)	(14,285)
Deferred tax provision (benefit):		
Federal	6,124	3,770
State	1,285	(1,051)
Total deferred provision	7,409	2,719
Benefit for income taxes	$ (756)	(11,566)

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% and the reported income tax (benefit) expense primarily relate to state and local taxes, carryback benefit of net operating losses and change in valuation allowance.

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The components of the Company's deferred tax assets and liabilities at March 31, 2021 and 2020 are as follows:

	2021	2020
Deferred tax asset:		
Interest limitation	$ 4,917	3,439
State net operating loss carryforwards	3,101	2,680
Inventory reserve	2,994	5,188
Tax credits	2,074	1,564
Insurance receivable	909	1,454
Accrued expenses	326	1,188
Uniform capitalization	—	793
Share-based compensation expense	—	450
Stock appreciation rights	285	318
Federal net operating loss carryforwards	218	218
Other	233	14
Total deferred tax asset	15,057	17,306
Less valuation allowance	(14,348)	(7,471)
Net deferred tax asset	709	9,835
Deferred tax liability:		
Depreciation and amortization	(233)	(2,426)
Uniform capitalization	(101)	—
Prepaid expenses	(375)	—
Total deferred tax liability	(709)	(2,426)
Net deferred tax asset	$ —	7,409

As of March 31, 2021 and 2020, the Company had available approximately $1,041, respectively, of federal unused net operating loss carryforwards. During the years ended March 31, 2021 and 2020, respectively, the Company generated $22,043 and $11,993 of federal net operating losses, which will be carried back due to the changes under the Coronavirus Aid, Relief and Economic Security (CARES) Act, which was passed as of March 27, 2020 to claim a carryback refund. The $1,041 of Separate Return Loss Year (SRLY) net operating losses will be carried forward and will expire in 2034. The Company also had $43,489 and $37,506, respectively, of net operating losses for state tax purposes that may be applied against future taxable income, which will begin to expire in 2031.

(Continued)

The Company evaluates its deferred tax assets for realizability based on all available positive and negative evidence. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended March 31, 2021. Such objective evidence limits the ability to consider other subjective evidence such as the Company's projection for future growth. As such, the Company believes that it is not more likely than not that all of its deferred tax assets will be realized and accordingly, has provided for a full valuation allowance against its deferred tax assets that cannot be carried back pursuant to the CARES Act. The change in the valuation allowance for the year ended March 31, 2021 was $6,877.

On March 27, 2020, President Trump signed into law the CARES Act. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The Company is estimating to carryback the net operating losses which is expected to result in a refund claim of approximately $7.7 million. The Company will continue to examine the impacts this CARES Act may have on its business.

The Company recognizes accrued interest related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits, noted above, the Company has no new uncertain tax position as of March 31, 2021.

The Company files federal and various state income tax returns. The Company is subject to tax examinations for tax year 2014 and forward in the federal jurisdiction and 2017 and forward in all applicable state taxing jurisdictions.

(12) Commitments and Contingencies

(a) Operating Leases

The Company has several noncancelable operating leases for office, laboratory and warehouse space and office equipment set to expire at various dates through 2026. Total rental expense for operating leases was $1,174 and $1,331 for the years ended March 31, 2021 and 2020, respectively.

On August 12, 2019, Avet Pharmaceuticals entered into a sublease agreement for warehouse space commencing on October 1, 2019. Such sublease was assigned to another tenant commencing on March 1, 2021. For the years ended March 31, 2021 and 2020, the Company recognized sublease income in the amount of $477 and $370, respectively, which is recorded as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations. For the year ended March 31, 2022, sub lease income is expected to be $491.

As of March 31, 2021, future minimum rental commitments under all noncancelable operating leases are as follows:

Years ending March 31:		
2022	$	1,842
2023		1,848
2024		1,388
2025		1,310
2026		627
Thereafter		—
	$	7,015

(b) Legal Matters

(i) General

From time to time, the Company is subject to various disputes, governmental and/or regulatory inquiries or investigations, and litigations, some of which result in losses, damages, fines and charges against the Company. While the Company intends to vigorously defend its position in the claims asserted against it, the ultimate resolution of a matter is often complex, time consuming, and difficult to predict. Therefore, except as described below, the Company does not currently have a reasonable basis to estimate the loss, or range of loss, that is reasonably possible with respect to matters disclosed in this note.

The Company records a provision in its financial statements to the extent that it concludes that a contingent liability is probable and the amount is estimable and has noted those contingencies below. The Company's assessments involve complex judgments about future events and often rely heavily on estimates and assumptions. The Company also incurs significant legal fees and related expenses in the course of defending its positions even if the facts and circumstances of a particular litigation do not give rise to a provision in the financial statements.

(ii) Intellectual Property Matters

Celgene Corporation v. Emcure Pharmaceuticals Ltd. and Heritage Pharmaceuticals Inc. (Apremilast)

In June 2018, November 2018 and April 2019, Celgene Corporation ("Celgene") filed suit against Emcure Pharmaceuticals Ltd. ("Emcure") and Heritage Pharmaceuticals Inc. ("Heritage") alleging infringement of four U.S. patents: 7,427,638, 7,893,101, 9,872,854, and 10,092,541. Celgene based its infringement allegations on Emcure's filing of an ANDA seeking approval by the FDA to sell a generic version of an apremilast product sold under the trade name OTEZLA® prior to the expiration of each of these four asserted patents. In August 2019, Amgen Inc. ("Amgen") announced the purchase of OTEZLA® from Celgene and Amgen continued litigating this case against Emcure and Heritage as a substituted plaintiff.

In May 2020, the case was settled, and the litigation was dismissed in its entirely with no liability established against the Company. Under the confidential terms of the settlement, the Company received a license from Amgen to begin selling its generic apremilast product on a date prior to the expiration of the asserted patents.

Eli Lilly Co. v. Emcure Pharmaceuticals USA, Inc., et al. (Pemetrexed Injection)

In August 2015, Eli Lilly Company filed suit against Heritage Pharma Labs ("Heritage Labs") and Emcure alleging infringement of United States Patent No. 7,772,209 (the "209 patent") in connection with its pemetrexed for injection, 500 mg/vial, product sold under the trade name ALIMTA®. In July 2016, the litigation was dismissed in favor of a consolidated *inter partes* review ("IPR") filed by Sandoz with multiple generics as co-defendants before the United States Patent and Trademark Office ("US PTO"). In October 2017, the US PTO issued a ruling on the 209 patent that was unfavorable to the generics. Sandoz filed an appeal of the US PTO's ruling in the IPR to the Federal Circuit.

Because Emcure declined to participate in Sandoz's appeal of the US PTO's ruling, in February 2018, the parties agreed to enter into an administrative closure of the litigation against Emcure in exchange for Emcure's agreement to be bound by a Stipulated Preliminary Injunction entered against Sandoz pending the appeal to the Federal Circuit that will prevent the launch of a generic pemetrexed for injection product prior to the expiration of the 209 patent.

On June 4, 2019, the Federal Circuit issued a ruling on the IPR appeals that was unfavorable to the generics. The Company now expects the branded product to be protected from competition from ANDA filers until May 2022, the day after the pediatric exclusivity associated with the 209 patent expires.

Novartis Pharmaceuticals Corporation v. Accord Healthcare Inc., et al. (Fingolimod)

In July 2018, Novartis Pharmaceuticals Corporation ("Novartis") filed two separate suits against a number of defendants including Emcure and Heritage (together "Emcure") alleging infringement of two U.S. patents: 9,187,405 and 10,543,179. Novartis based its infringement allegations on Emcure's filing of an ANDA seeking approval by the FDA to sell a generic version of a tableted fingolimod product and sold under the trade name GILENYA® prior to the expiration of these two asserted patents.

In May 2020, the case was settled, and the litigation was dismissed in its entirely with no liability established against the Company. Under the confidential terms of the settlement, the Company received a license from Novartis to begin selling its generic fingolimod product on a date prior to the expiration of the asserted patents.

(iii) Drug Pricing Matters

Department of Justice

On December 2, 2015, the Company learned that the United States Department of Justice, Antitrust Division ("DOJ") initiated an investigation into the Company and its employees regarding alleged violations of U.S. antitrust laws, which prohibit contracting or conspiring to restrain trade or commerce. In support of that investigation, the DOJ executed relevant search warrants at the Company's premises and at the home of one of the Company's national accounts managers. In addition, the DOJ served grand jury subpoenas on the Company, and several current and former employees, which sought a variety of materials and data relevant to the Company's generic drug business. The Company has fully cooperated with the DOJ and responded to its subpoenas.

On May 7, 2018, the Company received a civil investigative demand from the United States Department of Justice, Civil Division (DOJ Civil) seeking documents and information in connection with a simultaneous investigation under the False Claims Act.

On May 31, 2019, the Company announced that it entered into a deferred prosecution agreement ("DPA") with the DOJ relating to a one-count Information for a conspiracy involving glyburide. In conjunction with the DPA, the Company agreed to pay a $225 fine. In addition, the Company also announced that it separately agreed to a settlement with DOJ Civil to resolve potential civil liability under the False Claims Act in connection with the same antitrust conduct. Under the terms of the settlement with DOJ Civil, the Company agreed to pay $7,198, which was recorded during the year ended March 31, 2019. These resolutions fully resolved the Company's potential exposure in connection with the DOJ's ongoing investigation into the generics pharmaceutical industry.

Attorneys General Litigation

On December 21, 2015, the Company received a subpoena and interrogatories from the Connecticut Office of the Attorney General seeking information relating to the marketing, pricing and sale of certain of the Company's generic products (including generic doxycycline) and communications with competitors about such products. On December 14, 2016, attorneys general of twenty states filed a complaint in the United States District Court for the District of Connecticut against several generic pharmaceutical drug manufacturers, including the Company, alleging anticompetitive conduct with respect to, among other things, doxycycline hyclate DR. On June 18, 2018, attorneys general of forty-five states, the District of Columbia and the Commonwealth of Puerto Rico filed an amended consolidated complaint against various drug manufacturers, including the Company, based on the same alleged conduct. The consolidated complaint (the "State AG Complaint") was subsequently amended to add certain attorneys general alleging violations of federal and state antitrust laws, as well as violations of various states' consumer protection laws.

The consolidated State AG Complaint alleges that the Company engaged in anticompetitive conduct with respect to fifteen different drugs: acetazolamide; doxycycline monohydrate, doxycycline hyclate DR, fosinopril-HCTZ, glipizide-metformin, glyburide, glyburide-metformin,

leflunomide, meprobamate, nimodipine, nystatin, paromomycin, theophylline, verapamil, and zoledronic acid. The consolidated State AG Complaint also includes claims asserted by attorneys general of thirty-seven states and the Commonwealth of Puerto Rico against the Company, Emcure, and certain individuals, including Emcure's Chief Executive Officer, Satish Mehta, with respect to doxycycline hyclate DR. The allegations in the State AG Complaint are similar to those in the previously filed civil complaints (discussed below).

The consolidated State AG Complaint was transferred and consolidated into the ongoing multidistrict litigation captioned In re Generic Pharmaceuticals Pricing Antitrust Litigation, Case No. 16-MD-2724, which is currently pending in the United States District Court, Eastern District of Pennsylvania (the "Antitrust MDL").

The parties are engaged in initial factual discovery in the Antitrust MDL, and therefore, at this stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

Civil Litigation

Beginning in 2016, the Company, along with other manufacturers, has been named as a defendant in lawsuits generally alleging anticompetitive conduct with respect to generic drugs. The lawsuits have been filed by putative classes of direct and indirect purchasers, indirect resellers, as well as individual direct and indirect purchasers. They allege harm under federal and state antitrust laws, state consumer protection laws and unjust enrichment claims. Some of the lawsuits also name Emcure and Emcure's Chief Executive Officer, Satish Mehta, as defendants and include allegations against them with respect to doxycycline hyclate DR. The lawsuits have been consolidated in the Antitrust MDL (referenced above).

A number of other lawsuits have been separately filed against the Company, and various other manufacturers, by individual plaintiffs who have elected to opt-out of the putative classes. These complaints also generally allege anticompetitive conduct with respect to generic drugs which allegedly caused harm under federal and state antitrust laws, state consumer protection laws and unjust enrichment claims. These lawsuits have also been consolidated in the pending Antitrust MDL.

The parties are engaged in initial factual discovery in the Antitrust MDL, and therefore, at this stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

(iv) Litigation by Heritage against Former Company Executives

On November 10, 2016, the Company filed a complaint against former executives Jeffrey Glazer and Jason Malek in the U.S. District Court for the District of New Jersey, alleging that Glazer and Malek engaged in fraud and racketeering conduct. The complaint asserts claims under the federal RICO statute, the New Jersey RICO statute, for breach of the fiduciary duty of loyalty, for fraudulent inducement of employment contracts, for unjust enrichment, for breach of contract, and

for theft of trade secrets. The case, which is captioned *Heritage Pharmaceuticals Inc. v. Glazer, et al.*, Case No. 16-cv-8483, has been assigned to the Honorable Peter G. Sheridan.

In July 2019, the case was settled under confidential terms and the litigation was dismissed in its entirety with no liability established against the Company.

(v) Other Litigation Matters Filed against Heritage

Metformin Litigation

In March 2020, the Company received notice that three purported class actions were filed against a number of defendants, including the Company, alleging personal injuries in connection with alleged elevated levels of N-Nitrosodimethylamine ("NDMA") contained in a Metformin IR product manufactured by a third-party manufacturer and sold by the Company. Each of the three cases are pending in the United States District Court, District of New Jersey, and captioned *Harris v. Aurobindo Pharma Ltd., et al.,* Civil Action No.: 20-3350*; Hann v. Heritage Pharmaceuticals Inc. d/b/a Avet Pharmaceuticals Inc.,* Civil Action No.: 20-3415; and *MSP Recovery Claims, Series LLC v. Aurobindo Pharma Ltd, et al.*, Civil Action No.: 20-6609. On June 23, 2020, a fourth purported class action – *Sandoval v. Heritage Pharmaceuticals Inc.* – was filed in California Superior Court, Los Angeles County, similarly alleging personal injuries in connection with alleged elevated NDMA levels contained in a Metformin IR product manufactured by a third-party manufacturer and sold by the Company.

The Company denies any liability and fully intends to defend these claims. In addition, the Company asserted a claim for indemnification, and tendered its defense, in each of the lawsuits to the third-party manufacturer, and the indemnity and defense claim was accepted by third party manufacturer, and the third-party manufacturer assigned legal counsel to defend the Company against these claims.

At this stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

Ranitidine Litigation

In June 2020, the Company received notice that three Master Consolidated Complaints – the Master Personal Injury Complaint ("MPIC"), the Consolidated Consumer Class Action Complaint ("CCCAC"), and the Consolidated Third Party Payor Class Complaint ("CTPPCC") – and five individually-filed purported class actions have been filed against a number of defendants, including Heritage, Heritage Labs, and Emcure, alleging personal injuries in connection with alleged elevated levels of NDMA contained in a ranitidine product that may have been manufactured by a third-party manufacturer and allegedly sold by the Company. Each case has been consolidated into the ongoing multidistrict litigation captioned *In re: Zantac (Ranitidine) Products Liability Litigation*, MDL No. 2924, Case No. 20-MD-294, in the United States District Court, Southern District of Florida. Heritage Labs and Emcure have been dismissed by the Court from this litigation without prejudice, leaving Heritage as the single remaining defendant.

In late 2020, the generic manufacturer defendants (including Heritage) filed several motions to dismiss each Master Consolidated Complaint on a number of legal theories, including federal preemption and on the basis that the Complaints were improperly pled as shotgun pleadings. In January 2021, the District Court issued a number of decisions that were favorable to the generic manufacturer defendants (including Heritage), including a dismissal with prejudice of all claims against the generic manufacturer defendants under each of the three Master Consolidated Complaints as preempted under federal law. In February 2021, Plaintiffs appealed the District Court's decision to the Circuit Court and that appeal remains pending.

In addition, the District Court further found that the MPIC, CCCAC, and CTPPCC were each improperly pled as shotgun pleadings, and each Master Consolidated Complaint was dismissed without prejudice. In February 2021, Plaintiffs appealed the decision to dismiss the MPIC as an improperly pled shotgun pleading and that appeal remains pending before the Circuit Court. Also in February 2021, Plaintiffs filed an amended CCCAC, and an amended CTPPCC, however, Heritage is no longer a named defendant in either of those complaints.

The Company denies any liability and fully intends to defend these claims. In addition, the Company asserted a claim for indemnification, and tendered its defense, in each of the ranitidine lawsuits to the third-party manufacturer. The third-party manufacturer accepted the indemnity and defense tender under a reservation of rights, and in March 2021, the third-party manufacturer assigned legal counsel to defend the Company against these claims. At this stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

Losartan Litigation

In March 2021, the Company received notice that three individually filed, Short Form Personal Injury Complaints have been filed against a number of defendants, including Heritage, alleging personal injuries in connection with alleged elevated levels of NDMA contained in a losartan product that may have been manufactured by a third-party manufacturer and allegedly sold by Heritage. Each case has been consolidated into the ongoing multidistrict litigation captioned *In re Valsartan, Losartan and Irbesartan Products Liability Litigation, MDL 2875*, in the United States District Court, District of New Jersey.

The Company denies any liability and fully intends to defend these claims. In addition, the Company asserted a claim for indemnification, and tendered its defense, in each of the losartan lawsuits to the third-party manufacturer, and the response to the tender remains outstanding. At this stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

Canadian Drug Pricing Litigation

In June 2020, the Company received notice that a purported class action was filed on behalf of a class of direct purchasers against a number of defendants, including the Company and the Company's Canadian affiliate, Marcan Pharmaceuticals Inc. ("Marcan") generally alleging anticompetitive conduct under Canadian law with respect to the sale of generic drugs. The claims and allegations in this complaint are nearly identical to the claims and allegations asserted by the Civil Plaintiffs, and the State Attorneys General, in the drug pricing complaints filed in the United States (discussed above), except that these plaintiffs allege that the same conduct occurred in Canada in violation of Canadian law. The case is pending in Canadian Federal Court, Toronto, Ontario and captioned *Eaton v. Teva Canada Ltd., et al.,* Court File No.: T-607-20.

The Company denies any liability and fully intends to defend these claims. The parties are engaged in initial factual discovery in this case, and therefore, at this stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

(13) Share-Based Compensation

Cash Settled Stock Appreciation Rights Awards

The Company granted cash-settled stock appreciation right awards (SAR Awards) that vest in increments over a three or five-year period for designated employees under a Stock Appreciation Rights Plan (known hereafter as the SAR Plan). During the year ended March 31, 2020, the SAR Plan was terminated, and no future SAR Awards will be granted. The SAR Awards are classified as liabilities as they are settled in cash and are reported as other current liabilities in the accompanying consolidated balance sheets.

As a nonpublic company as defined by U.S. GAAP, the Company recorded the SAR Awards using the intrinsic value method. The intrinsic value method calculates the value of the SAR Awards as the difference between the fair market value of the Company, defined in the agreement as either (1) earnings from operations before interest, taxes, depreciation and amortization expense multiplied by a factor of seven, less a Base Amount determined at the time the SARs are issued, or (2) a fair market value as evidenced by a transaction of the Company's stockholders' equity, known as a liquidity event.

A SAR Award entitles participants to receive cash based on the intrinsic value of the Company's common stock on the vesting date, at which point the liability is fixed and not subject to further changes. The awards expire ten years from the date of grant, are subject to forfeiture if employment terminates prior to vesting, and are automatically 100% vested and exercisable upon a change in control, defined in the SAR Plan as a change in more than 50% of voting rights in the Company. Share- based compensation expense for the SAR Awards are recognized ratably over the vesting period. Based on the SAR Plan, the Company was authorized to issue SAR Awards that in aggregate may not exceed 13% of outstanding shares.

As of March 31, 2021 and 2020, SAR awards in the amount of $1,248 and $1,408, respectively were outstanding and vested. During the year ended March 31, 2020, the SAR Plan was terminated and awards for active participants were settled in cash in the amount of $130. As of March 31, 2021, the remaining SAR liability is $1,248 related to inactive participants.

(14) Related Party Transactions

During the year ended March 31, 2021, the Company entered into three Unsecured Loan Agreements with the Parent Company (the Related Party Debt) in the amounts of $20,000, $7,000, and $7,000 (total borrowings of $34,000) with effective dates of October 29, 2020, January 7, 2021, and March 5, 2021, respectively. The Related Party Debt is to be used for working capital and other business-related purposes and have a maturity date of three years from the effective date. The Related Party Debt is payable on demand. Interest is charged at a rate of 4.63%, 4.37% and 5.03%, respectively, which is due and payable on a quarterly basis. For the year ended March 31, 2021, total interest incurred under the Related Party Debt amounted to $494. As of March 31, 2021, accrued unpaid interest due under the Related Party Debt was $420.

Purchases from the Parent Company including finished goods and API amounted to $19,684 and $34,922 for the years ended March 31, 2021 and 2020, respectively. Such purchases from the Parent Company represent a significant portion of the Company's overall inventory purchases. In addition, the Company reimbursed the Parent Company for certain expenses paid on its behalf, which amounted to $5,833 and $5,596, respectively, for the years ended March 31, 2021 and 2020. During the year ended March 31, 2021 and 2020, the Company charged certain expenses to the Parent Company totaling $6,246 and $2,025, respectively. As of March 31, 2021 and 2020, amounts included in accounts payable and accrued expenses owed to the Parent Company were $31,599 and $44,087, respectively. As of March 31, 2021 and 2020, amounts included in accounts receivable due from the Parent Company were $25 and $1,350, respectively.

During the years ended March 31, 2021 and 2020, the Company was allocated $0 and $1,127 of share-based compensation expense by the Parent Company related to the vesting of shares of the Parent granted to certain members of management. Such expense was recorded as a component of selling, general and administrative expenses in the accompanying consolidated statement of operations. During the year ended March 31, 2021, the Company settled these Parent Company shares in cash totaling $2,511. As of March 31, 2021 and 2020, a liability was recorded in the amount of $0 and $1,993, respectively, as a component of other current liabilities in the accompanying consolidated balance sheets.

During the year ended March 31, 2021, the Company charged certain expenses to Marcan totaling $439 and received charges from Marcan totaling $21. During the years ended March 31, 2021 and 2020, the Company sold products to Marcan in the amount of $459 and $895, respectively. During the years ended March 31, 2021 and 2020, the Company provided services to Marcan in the amount of $18 and $24, respectively. As of March 31, 2021 and 2020, amounts due from Marcan included in accounts receivable were $161 and $17, respectively, and included in prepaid expenses and other current assets were $57 and $0, respectively.

During the year ended March 31, 2021, the Company charged certain expenses to Tillomed Laboratories, Ltd. (Tillomed) a subsidiary of the Parent Company totaling $542. During the year ended March 31, 2021 and 2020, the Company provided services to Tillomed in the amount of $4 and $1, respectively. During the year ended March 31, 2020, the Company received an advance from Tillomed in the amount of $530, which was subsequently repaid. As of March 31, 2021 and 2020, amounts due from Tillomed included in accounts receivable were $0 and $1, respectively, and included in prepaid expenses and other current assets were $84 and $0, respectively.

(15) Subsequent Events

The Company has evaluated subsequent events through May 28, 2021, the date the financial statements were available to be issued.