Consolidated Financial Statements and
Report of Independent Certified Public Accountants

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES

(A wholly owned subsidiary of Emcure Pharmaceuticals, Ltd)

March 31, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Heritage Pharma Holdings, Inc.

We have audited the accompanying consolidated financial statements of Heritage Pharma Holdings, Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheets as of March 31, 2019 and 2018, 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 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 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 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 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 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 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.

Grant Thornton LLP

Iselin, New Jersey
July 31, 2019

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES

(A wholly owned subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Balance Sheets

As of March 31, 2019 and 2018

(in thousands, except share data)

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 1,594	$ 24,966
Accounts receivable, net	39,310	50,194
Inventory, net	60,636	35,686
Prepaid expenses and other current assets	2,336	5,549
Total current assets	103,876	116,395
Property and equipment, net	25,326	27,207
Intangible assets, net	35,886	21,315
Goodwill	24,064	24,064
Other noncurrent assets	16,485	13,643
Total assets	$ 205,637	$ 202,624
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt and revolver, net	$ 71,727	$ 48,372
Accounts payable and accrued expenses	65,131	38,263
Share-based compensation payable	2,404	19,343
Total current liabilities	139,262	105,978
Long-term debt, net	8,438	24,732
Other long-term liabilities	453	507
Total liabilities	148,153	131,217
Commitments and contingencies		
STOCKHOLDER'S EQUITY		
Common stock, no par value; 5,000 shares authorized and 2,085 shares issued and outstanding	25,000	25,000
Additional paid-in capital	-	-
Retained earnings	32,484	46,407
Total stockholder's equity	57,484	71,407
Total liabilities and stockholder's equity	$ 205,637	$ 202,624

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

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES

(A wholly owned subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Statements of Operations

For the years ended March 31, 2019 and 2018
(in thousands)

	2019	2018
Net sales	$ 176,626	$ 210,646
Cost of goods sold	160,452	165,772
Gross margin	16,174	44,874
OPERATING EXPENSES		
Selling, general and administrative	20,163	31,705
Research and development	4,287	3,883
Depreciation and amortization	3,798	3,402
Total operating expenses	28,248	38,990
(Loss) income from operations	(12,074)	5,884
OTHER EXPENSE (INCOME)		
Interest expense, net	5,929	6,363
Gain on sale of intangible assets	(475)	-
Foreign currency loss	-	15
Total other expense, net	5,454	6,378
Loss before (benefit) provision for income taxes	(17,528)	(494)
(Benefit) provision for income taxes	(3,605)	4,959
Net loss	$ (13,923)	$ (5,453)

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

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES

(A wholly owned subsidiary of Emcure Pharmaceuticals, Ltd)

Consolidated Statements of Changes in Stockholder's Equity

For the years ended March 31, 2019 and 2018

(in thousands, except share data)

	Common Stock			Total
	Number of Shares	Amount	Retained Earnings	Stockholder's Equity
Balance at March 31, 2017	2,085	$ 25,000	$ 51,860	$ 76,860
Net loss	-	-	(5,453)	(5,453)
Balance at March 31, 2018	2,085	25,000	46,407	71,407
Net loss	-	-	(13,923)	(13,923)
Balance at March 31, 2019	2,085	$ 25,000	$ 32,484	$ 57,484

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

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
(A wholly owned subsidiary of Emcure Pharmaceuticals, Ltd)
Consolidated Statements of Cash Flows
For the years ended March 31, 2019 and 2018
(in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (13,923)	$ (5,453)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	7,486	4,422
Amortization of deferred issuance costs	1,251	2,415
Share-based compensation expense	(16,939)	-
Loss on disposal of property and equipment	1	53
Deferred income taxes	(3,190)	3,416
Changes in		
Accounts receivable	10,884	(17,025)
Inventory	(24,950)	4,147
Prepaid expenses and other current assets	3,213	754
Other noncurrent assets	348	(611)
Accounts payable and accrued expenses	26,868	(3,209)
Other long-term liabilities	(54)	98
Net cash used in operating activities	(9,005)	(10,993)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of intangible assets	(17,757)	(586)
Purchases of property and equipment	(2,420)	(7,951)
Net cash used in investing activities	(20,177)	(8,537)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from revolving debt	106,766	25,000
Repayments on revolving debt	(66,055)	(520)
Proceeds from issuance of long-term debt	2,008	12,992
Repayments on long-term debt	(35,812)	(20,000)
Payments for debt issuance costs	(1,097)	(1,291)
Net cash provided by financing activities	5,810	16,181
Net decrease in cash	(23,372)	(3,349)
Cash at beginning of year	24,966	28,315
Cash at end of year	$ 1,594	$ 24,966
Supplementary disclosures of cash flow information:		
Interest paid	$ 4,587	$ 4,327
Income taxes paid	31	4
Income taxes refunded	4,100	551
Noncash investing and financing activities:		
Landlord-financed leasehold improvements	$ -	$ 466

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

1. DESCRIPTION OF BUSINESS

Heritage Pharma Holdings, Inc., through its wholly owned subsidiaries Heritage Pharmaceuticals Inc. (hereafter "Heritage Pharmaceuticals," a Delaware, U.S. corporation) and Heritage Pharma Labs Inc. (hereafter "Heritage Pharma Labs," a New Jersey, U.S. corporation) (hereafter the "Company"), 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 year ended March 31, 2019. As of March 31, 2019, the Company has negative working capital of approximately $35,386, which includes related party liabilities of $16,618, and approximately $7,750 million in term debt coming due in the next 12 months. 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 support for a minimum of 12 months from the date of issuing these financial statements.

On May 29, 2019, the Company received an additional term loan from the Bank of Baroda that was used to fund the ANDA acquisitions. See Note 16 for more details.

In addition, the Company anticipates that its cash flows from operations will be sufficient to fund its current operations, projected working capital requirements and capital spending for a period that includes the next 12 months.

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.

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 Heritage Pharma Holdings, Inc. and its wholly owned subsidiaries Heritage Pharmaceuticals and Heritage Pharma Labs. 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.

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 the fair value of stock appreciation rights ("SAR"), allowances, rebates, returns, discounts and wholesaler customer chargebacks.

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 approximates 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.

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, 2019 and 2018.

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, 2019, the Company had three customers that met the definition of significant, comprising 26%, 20% and 22% of total net sales, respectively. During the year ended March 31, 2018, the Company had three customers that met the definition of significant, comprising 24%, 22% and 16% of total net sales, respectively. As of March 31, 2019, these customers represented 23%, 49% and 13% of the Company's accounts receivable, respectively.

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 chargebacks, rebates, and cash discounts. The Company maintains an allowance for doubtful accounts based on factors surrounding the credit risk of customers, historical collection experience and a review of the current status of accounts receivable. See Note 3 for further detail on accounts receivable.

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 inventory includes such factors as expiry date, inventory turnover, and management's assessment of product demand. The Company has recorded an inventory reserve of $1,191 and $610 as of March 31, 2019 and 2018, respectively.

Property and Equipment

The Company's property and equipment consist of machinery used in manufacturing, computers, 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. Construction in progress consists of multiple projects, primarily related to the expansion of the Company's manufacturing facility in New Jersey.

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. 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 determined 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.

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, a second step is required to measure possible goodwill impairment loss. The second step includes hypothetically valuing the tangible and intangible assets and liabilities of the Company's one reporting unit as if it had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of that goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied goodwill, the Company recognizes an impairment loss in an amount equal to the excess. Based on the Company's qualitative assessment, it was determined that it was more likely than not that the fair value exceeded its carrying value; therefore no goodwill impairment was identified during the years ended March 31, 2019 and 2018.

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.

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, 2019 and 2018, there was no impairment of long-lived assets.

Deferred Issuance Costs

Deferred 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.

Revenue Recognition

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, title and risk of loss has transferred to the customer, the price is fixed and determinable, and collection is reasonably assured. Provisions for estimates, including rebates, sales discounts, wholesaler chargebacks, returns and other potential adjustments, are recorded upon sale.

Accruals for these provisions are recorded in the consolidated financial statements as an offset to accounts receivable and a reduction to sales at the time the accounts receivable and revenue are initially recognized. These provisions are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and current contract sales terms with direct and indirect customers. The estimation process used to determine these provisions has been applied on a consistent basis, and no material adjustments have been necessary to increase or decrease such reserves as a result of a significant change in underlying estimates. The Company uses a variety of methods to assess the adequacy of the reserves to ensure that its consolidated financial statements are fairly stated. This includes periodic reviews of customer inventory data, customer contract programs and product pricing trends to analyze and validate the reserves.

The provision for chargebacks represents a significant sales allowance. A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid to the Company by its wholesale customer for a particular product and the negotiated contract price that the wholesaler's customer pays for that product.

Rebates are offered to key customers to promote loyalty and assist in product sales. Since rebates are contractually agreed upon, they are estimated based on the specific terms in each agreement based on historical trends and expected sales.

Returns of products sold are accrued by the Company based on historical averages of the value of returned product to sales in prior periods.

Sales discounts are offered to the Company's customers for prompt payment of invoiced sales. Based on historical payments, the Company accrues for sales discounts on every sale.

Heritage Pharma Labs also recognizes revenue related to formulation and development services with third parties seeking regulatory approval from the FDA. Service contracts generally take the form of fee-for-service, where revenue is recognized as services are performed. In some cases, a portion of the contract fee is paid at the time the contract is initiated or prior to the services being performed. In such cases the revenue is deferred and recognized as the services are performed. Additional payments may be made based upon the achievement of performance-based milestones over the contract duration. Revenues from milestone payments are recognized upon successful accomplishment of the milestone, assuming all other revenue recognition criteria are met.

Shipping and Handling Costs

Outbound shipping and handling costs are captured as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations. For the years ended March 31, 2019 and 2018, outbound shipping and handling costs amounted to $2,418 and $1,682, respectively.

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.

Share-Based Compensation

The Company applies the intrinsic value method provided for under Accounting Standards Codification ("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. See Note 12, *Shared-Based Compensation*.

Income Taxes

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.

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,

2019 and 2018, the Company reported a loss on foreign currency transactions of approximately $0 and $15, respectively. These amounts are included in other income in the accompanying consolidated statements of operations.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a new model for revenue recognition and includes considerations around: (1) transfer of control; (2) variable consideration; (3) allocation of transaction price based on relative standalone selling price; (4) licenses; (5) time value of money; and (6) contract costs. Further disclosures will be required to provide a better understanding of revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. The guidance was effective for fiscal years beginning after December 15, 2017. After re-deliberations, the FASB approved a one-year deferral of the effective date of this guidance, such that it will be effective on April 1, 2019 for the Company. Early adoption is permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements. The Company expects to apply this guidance under the modified retrospective method with the cumulative effect recognized as of the date of initial application.

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, 2019, 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 August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides new guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure the amount of impairment loss, if any, under the second step of the current goodwill impairment test. Under the update, the goodwill impairment loss would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual reporting periods 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, but does not expect the impact to be material.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business*. ASU 2017-01 requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of identifiable assets, the set of assets would not represent a business. Also, in order to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. Under the update, fewer sets of assets are expected to be considered businesses. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2018. The Company adopted the ASU in the current year and the impact on its consolidated financial statements was immaterial.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718)*: *Scope of Modification Accounting*, to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in *Compensation - Stock Compensation* (Topic 718) about a change to the terms and conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted, and applied prospectively to modifications occurring on or after the adoption date. The Company adopted the ASU in the current year and the impact on its consolidated financial statements was immaterial.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*: *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-14 eliminates, modifies and adds disclosure requirements for fair value measurements. The amendments in ASU 2018-13 are effective for annual reporting periods beginning after December 15, 2019, 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, but does not expect the impact to be material.

(in thousands)

4. ACCOUNTS RECEIVABLE

At March 31, 2019 and 2018, accounts receivable balances, net of estimated rebates, chargeback allowance and other discounts and allowances, are as follows:

	2019	2018
Accounts receivable, gross	$ 79,630	$ 90,239
Chargeback allowance	(24,072)	(23,171)
Rebates	(10,065)	(9,438)
Returns	(2,925)	(2,473)
Other discounts and allowances	(3,258)	(4,963)
Accounts receivable, net	$ 39,310	$ 50,194

Accounts receivable, net include credit adjustments issued to customers for agreed and accepted rebates, chargebacks and other discounts and allowances, along with payback adjustments due to the Company for deductions taken by customers not accepted and agreed to by the Company. Credit adjustments reduce the gross value of accounts receivable, while payback adjustments remain in the gross value of accounts receivable until resolved or paid.

5. INVENTORY

Inventory consists of the following as of March 31, 2019 and 2018:

	2019	2018
Finished goods	$ 48,985	$ 27,648
Raw materials	10,292	7,389
Work in process	1,696	711
Packaging materials	854	548
Inventory, gross	61,827	36,296
Inventory reserves	(1,191)	(610)
Inventory, net	$ 60,636	$ 35,686

(in thousands)

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following as of March 31, 2019 and 2018:

	2019	2018
Prepaid expenses	$ 1,405	$ 2,528
Other current assets	931	21
Income tax receivable	-	3,000
Prepaid expenses and other current assets	$ 2,336	$ 5,549

7. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of March 31, 2019 and 2018:

	2019	2018
Leasehold improvements	$ 23,245	$ 22,542
Machinery and equipment	17,026	13,949
Computer equipment and software	1,398	949
Furniture and fixtures	711	711
Office equipment	85	85
Construction in process	580	2,400
Total property and equipment, gross	43,045	40,636
Less: accumulated depreciation expense	(17,719)	(13,429)
Total property and equipment, net	$ 25,326	$ 27,207

For the year ended March 31, 2019, depreciation expense was $4,300, of which $3,687 was recorded as a component of cost of goods sold and $613 was recorded as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations. For the year ended March 31, 2018, depreciation expense was $1,602, of which $1,020 was recorded as a component of cost of goods sold and $582 was recorded as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

During the year ended March 31, 2019, the Company disposed of property and equipment with a cost of approximately $11 and accumulated depreciation of approximately $10. The $1 loss on disposal was recorded as a component of selling, general and administrative expense in the accompanying consolidated

(in thousands)

statements of operations. During the year ended March 31, 2018, the Company disposed of property and equipment with a cost of approximately $182 and accumulated depreciation of approximately $129. The $53 loss on disposal was recorded as a component of selling, general and administrative expense in the accompanying consolidated statements of operations.

8. INTANGIBLE ASSETS

During the year ended March 31, 2019, the Company acquired ANDA's for a purchase price of $17,164. During the year ended March 31, 2018, the Company acquired ANDA's for a purchase price of $245.

During the year ended March 31, 2019, the Company acquired new licensing rights totaling $592, while $600 in licensing rights expired. During the year ended March 31, 2018, the Company acquired new licensing rights totaling $241 and extended one license in the amount of $100, while $1,900 in licensing rights expired.

Intangible assets are comprised of the following at March 31, 2019 and 2018:

	2019	2018
ANDAs	$ 42,810	$ 25,646
Less: accumulated amortization	(8,954)	(6,455)
Total acquired ANDAs	33,856	19,191
License rights	1,875	1,883
Less: accumulated amortization	(736)	(1,078)
Total license rights	1,139	805
Customer relationships	4,279	4,279
Less: accumulated amortization	(3,388)	(2,960)
Total customer relationships	891	1,319
Intangible assets, net	$ 35,886	$ 21,315

Total amortization expense was $3,185 and $2,820 for the years ended March 31, 2019 and 2018, respectively. The Company estimates that $2,712, $2,707, $2,196, $2,021 and $1,816 of amortization expense will be incurred for each of the years ended March 31, 2020 through March 31, 2024.

(in thousands)

9. OTHER ASSETS

Other assets consist of the following as of March 31, 2019 and 2018:

	2019	2018
Deferred tax assets, net	$ 10,128	$ 6,938
Other assets	5,284	5,632
Debt service reserve fund	1,073	1,073
Total other assets	$ 16,485	$ 13,643

Refer to Note 10 for information regarding deferred tax assets and income taxes of the Company.

10. DEBT

At March 31, 2019 and 2018, debt, net of any unamortized debt issuance costs, are as follows:

	2019	2018
Term Loan Agreement	$ 16,188	$ 49,992
Revolving Credit Agreement	65,191	24,480
Less unamortized debt issuance costs	(1,214)	(1,368)
Total debt, net	80,165	73,104
Less short-term borrowings and current portion of long-term debt	(71,727)	(48,372)
Total long-term debt, net	$ 8,438	$ 24,732

On December 28, 2016, the Company entered into a $100,000 Facility Agreement with the Bank of Baroda (the "Baroda Facility Agreement"). Upon execution, the Baroda Facility Agreement was comprised of a $60,000 Term Loan Agreement (the "Term Loan Agreement"), a $15,000 Heritage Pharma Labs Term Loan Agreement (the "Labs Term Loan Agreement") and a $25,000 Revolving Credit Agreement (the "Revolving Credit Agreement"). The Baroda Facility Agreement is 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.

On January 9, 2017, the Company and Heritage Pharma Labs borrowed $60,000 under the Term Loan Agreement. The Term Loan Agreement matures on September 30, 2019. Quarterly principal payments commenced on March 31, 2017. For the years ended March 31, 2019 and 2018, the Company made principal payments totaling $22,000 and $20,000, respectively. Further, during the year ended March 31, 2019, the Company made additional principal payments under the Term Loan Agreement totaling $11,000. As of March 31, 2019, the unpaid principal amount under the Term Loan Agreement amounted to $4,000.

Interest is charged at a rate of 400 basis points above the three-month LIBOR rate. The rate at March 31, 2019 and 2018 was 6.8% and 5.7%, respectively. For the years ended March 31, 2019 and 2018, total interest incurred under the Term Loan Agreement amounted to $1,603 and $2,675, respectively. The Term

Loan Agreement is secured by a corporate guarantee provided by the Parent Company. The Company is subject to annual financial and other covenants under the Term Loan Agreement. As of March 31, 2019, the Company was not in compliance with its financial covenants. On June 25, 2019, the Company received a waiver from the Bank of Baroda regarding covenant compliance as of March 31, 2019.

On April 17, 2017, Heritage Pharma Labs entered into a $15,000 Labs Term Loan Agreement to be used for capital expenditures. The Labs Term Loan Agreement has a term of five years, including a one-year moratorium from the date of first utilization. After the one-year moratorium, equal principal installments in the amount of $938 are due quarterly, which commenced July 31, 2018. During the year ended March 31, 2019, the Company made repayments of $2,812 against the Labs Term Loan Agreement. The Labs Term Loan Agreement is disbursed based on qualifying capital expenditures. During the year ended March 31, 2019 and 2018, the Company received proceeds of $2,008 and 12,992, respectively. As of March 31, 2019, the unpaid principal amount under the Term Loan Agreement amounted to $12,187.

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 March 31, 2019 and 2018 was 6.8% and 5.7%, respectively. For the year ended March 31, 2019, total interest incurred under the Labs Term Loan Agreement amounted to $865, which was recorded as a component of cost of goods sold in the accompanying consolidated statements of operations. For the year ended March 31, 2018, total interest incurred under the Labs Term Loan Agreement amounted to $508, of which $341 has been capitalized and recorded as a component of property and equipment, net in the accompanying consolidated balance sheets.

On April 17, 2017, Heritage Pharmaceuticals entered into a $25,000 Revolving Credit Agreement with the Bank of Baroda to be used for general corporate purposes, including but not limited to working capital. On April 25, 2017, the Company received proceeds in the amount of $25,000. The Company made repayments of $520 during the year ended March 31, 2018. On September 12, 2018, Heritage Pharmaceuticals entered into an Amended and Restated Credit Agreement (the "Amended Revolving Credit Agreement") to increase the Revolving Credit Agreement from $25,000 to $85,000. Borrowing is based upon the Company's eligible inventory and accounts receivables. The Amended Revolving Credit Agreement is payable on demand. During the year ended March 31, 2019, the Company borrowed $106,766 and made repayments of $66,055. As of March 31, 2019, the outstanding balance under the Amended Revolving Credit Agreement amounted to $65,191.

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, 2019 and 2018 was 6.3% and 5.3%, respectively. For the year ended March 31, 2019 and 2018, respectively, total interest incurred under the Amended Revolving Credit Agreement amounted to $2,119 and $1,146.

In connection with the Baroda Facility Agreement, the Company incurred fees during the years ended March 31, 2019 and 2018 of $2,397 and $2,169 consisting of standby letters of credit, upfront fees and legal fees, of which $1,300 related to 2019 remains unpaid as of March 31, 2019. These fees have been recorded as a debt issuance costs and are being recognized as interest expense over the term of the debt using the effective interest method. The Company amortized $1,251 and $2,415 of such fees to interest expense during the years ended March 31, 2019 and 2018, respectively. As of March 31, 2019 and 2018, $1,214 and $1,368 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,

(in thousands)

Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Such fees will be fully amortized by March 31, 2020. In addition, the Company was required to fund a debt service reserve account equivalent to one quarter of interest. During the years ended March 31, 2019 and 2018, respectively, the Company paid $0 and $313 into the debt service reserve account. As of March 31, 2019 and 2018, respectively, the debt service reserve amount was $1,073, and was recorded as a component of other non-current assets in the accompanying consolidated balance sheets.

The repayment schedule for the years ending after March 31, 2019 is as follows, which includes borrowings under the Term Loan Agreement, Labs Term Loan Agreement and Holdings Term Loan Agreement.

Years Ending March 31,	
2020	$ 7,750
2021	5,063
2022	5,500
2023	2,688
2024 and thereafter	2,187

11. INCOME TAXES

For the years ended March 31, 2019 and 2018, the income tax (benefit) provision is comprised of the following:

	2019	2018
Current tax provision (benefit)		
Federal	$ (427)	$ 1,523
State	13	20
Total current (benefit) provision	(414)	1,543
Deferred tax provision (benefit)		
Federal	(3,163)	2,786
State	(28)	630
Total deferred (benefit) provision	(3,191)	3,416
	$ (3,605)	$ 4,959

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21.0% and the reported income tax (benefit) expense primarily relate to nondeductible expenses, and state and local taxes.

(in thousands)

The components of the Company's deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax asset		
Federal net operating loss carryforwards	$ 5,781	$ 867
State net operating loss carryforwards	2,278	1,586
Interest limitation	1,825	-
Tax credits	1,290	1,012
Uniform capitalization	1,282	1,021
Stock appreciation rights	331	4,162
Accrued expenses	879	-
Department of Justice Restitution	740	-
Inventory reserve	465	166
Other	50	985
Total deferred tax asset	14,921	9,799
Less: valuation allowance	(2,641)	(1,694)
Net deferred tax asset	12,280	8,105
Deferred tax liability		
Depreciation and amortization	(2,152)	(1,167)
Total deferred tax liability	(2,152)	(1,167)
Net deferred tax asset	$ 10,128	$ 6,938

As of March 31, 2019 and 2018, the Company had available approximately $27,532 and $4,130, respectively of federal unused net operating loss carryforwards, of which federal unused net operating loss carryforward of $26,491 can be carried forward indefinitely and the remaining $1,041 will begin to expire in 2034. The Company also had $35,613 and $22,561, respectively, of net operating losses for state tax purposes that may be applied against future taxable income, which will begin to expire in 2027.

The Company evaluates its deferred tax assets for realizability based on all available positive and negative evidence. As such, the Company believes that it is more likely than not that all of its deferred tax assets will be realized. The Company does however record a partial valuation allowance around its state deferred tax assets in New Jersey. The change in valuation allowance related to New Jersey deferred tax assets is approximately $1,200.

The Company recorded a reversal of $471 of the previous year's uncertain tax liability to certain of its accrued expenses for the year ended March 31, 2019.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the TCJA or Tax Reform. The TCJA included a broad range of complex provisions impacting the taxation of multi-national companies including the Company. Specifically, the Company is impacted by the change in the U.S. federal corporate income tax rate from 35% to 21%, full expensing of fixed assets, the deductibility of certain costs and interest limitation. Generally, accounting for the impacts of newly enacted tax legislation is required to be completed in the period of enactment. However, in response to the complexities and ambiguity surrounding the TCJA, the Securities Exchange Commission ("SEC") released Staff Accounting Bulletin No. 118 ("SAB 118") to provide companies with relief with respect to the initial accounting for the effects of the TCJA.

Further, SAB 118 clarifies accounting for income taxes under ASC 740 if information is not yet available or complete and provides for up to a one-year period in which to complete the required analyses and accounting (the measurement period). SAB 118 describes three scenarios (or "buckets") associated with a company's status of accounting for the Tax Act: (1) a company is complete with its accounting for certain effects of the Tax Act; (2) a company is able to determine a reasonable estimate for certain effects of the Tax Act and records that estimate as a provisional amount; or (3) a company is not able to determine a reasonable estimate and therefore continues to apply ASC 740, based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted.

The Company recognized accrued interest related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits, noted above, the Company accrued interest and penalties of approximately $97 and $337 as of March 31, 2019 and 2018, respectively.

The Company has completed the accounting for the relevant impacts surrounding the TCJA, specifically the change in tax rates from 35% to 21%. The Company has taken advantage of full expensing of fixed assets acquired after September 30, 2017 and has added back the full amount of interest expenses limited under 163(j) for the year ended March 31, 2019 due to the Company's taxable loss position. The Company continues to monitor and evaluate the legislation as it develops and will evaluate any further impacts accordingly.

The Company files federal and various state income tax returns. The Company is subject to tax examinations for tax year 2016 and forward in all taxing jurisdictions. The Company is currently under federal audit for the year ended March 31, 2017.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has several non-cancelable 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 $1,557 and $1,466 for the years ended March 31, 2019 and 2018, respectively.

(in thousands)

On February 1, 2017, the Heritage Pharmaceuticals entered into a sublease agreement for warehouse space commencing on March 31, 2017. Such sublease expired on June 30, 2019. On December 22, 2017, Heritage Pharma Labs entered into a sublease agreement for office space commencing on December 31, 2017. Such lease and sublease expires on September 30, 2019. For the years ended March 31, 2019 and 2018, the Company recognized sublease income in the amount of $466 and $376, respectively. For the year ended March 31, 2020, sub lease income is expected to be $137.

As of March 31, 2019, future minimum rental commitments under all non-cancelable operating leases are as follows:

Years Ending March 31,	
2020	$ 1,773
2021	1,741
2022	1,752
2023	1,754
2024	1,306
Thereafter	1,861
	$ 10,187

Legal Matters

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.

Intellectual Property Matters

Sumitomo Dainippon Pharma Co., Ltd., et al. v. Emcure Pharmaceuticals Ltd. and Heritage Pharma Labs Inc. (Lurasidone)

In January 2015, February 2018 and June 2018, Sumitomo Dainippon Pharma Co., Ltd. ("Sumitomo") and Sunovion Pharmaceuticals Inc. ("Sunovion") filed suit against Emcure Pharmaceuticals Ltd. ("Emcure") and Heritage Pharma Labs Inc. (formerly Emcure Pharmaceuticals USA, Inc.) alleging infringement of

three U.S. patents: 5,532,372, 9,815,827 and 9,907,794. Sumitomo and Sunovion based their infringement allegations in connection with each of the above referenced patents on Emcure's filing of an ANDA seeking approval by the FDA to sell a generic version of a tableted lurasidone product prior to the expiration of such patents.

In November 2018, 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 Sumitomo and Sunovion to begin selling its lurasidone product on a date prior to the expiration of the asserted patents.

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 a tableted apremilast product prior to the expiration of each of these four patents. The parties are currently engaged in preliminary discovery and at this early stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

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

In August 2015, Eli Lilly Company filed suit against Heritage Pharma 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 a consolidated suit against a number of defendants including Emcure and the Company (together "Emcure") alleging infringement of U.S. patent: 9,187,405 (the "405 patent") in connection with its fingolimod capsules, 0.5 mg, product sold under the trade name GILENYA®. 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 prior to the expiration of the '405 patent.

In December 2018, the parties agreed to enter into a stipulation that effectively stayed the litigation against Emcure in exchange for Emcure's consent to an injunction and its agreement to be bound by a final judgment entered by the Court on the validity of the '405 patent in the underlying consolidated litigation. At this early stage in the proceedings, it is not possible to estimate the likelihood or extent of the Company's potential liability, if any.

Drug Pricing Matters

Generic Pharmaceutical Pricing Investigation By the Federal Government

Following Congressional inquiries into the prices of generic pharmaceutical products beginning in October 2014, the United States Department of Justice, Antitrust Division ("DOJ") commenced an investigation concerning possible collusion and anticompetitive conduct in the generic pharmaceutical industry. The DOJ investigation relates to potential criminal violations of the Sherman Act, including allegations of price fixing, bid rigging, and market or customer allocation among competing generic drug companies with respect to a variety of generic drugs.

On December 2, 2015, the Company learned that the 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 is fully cooperating with the DOJ and responding to its subpoenas.

In connection with the DOJ's investigation, the Company also undertook its own internal investigation. As a result of its investigation, the Company terminated Heritage's former Chief Executive Officer, Jeffrey Glazer, and former President, Jason Malek, on August 24, 2016.

In plea agreements dated December 9, 2016 and made public in January 2017, former Heritage executives Glazer and Malek pleaded guilty to violating the Sherman Act by participating in a conspiracy to suppress and eliminate competition by allocating customers, rigging bids, and fixing and maintaining prices for doxycycline hyclate sold in the United States from in or about April 2013 and continuing until at least December 2015, and by participating in a conspiracy to suppress and eliminate competition by allocating customers and fixing and maintaining prices for glyburide sold in the United States from in or about April 2014 and continuing until at least December 2015.

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. These resolutions fully resolve the Company's potential exposure in connection with the DOJ's ongoing investigation into the generics pharmaceutical industry and have been recorded as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended March 31, 2019.

Generic Pharmaceutical Pricing Investigation By the State Attorneys General

In May 2016, the Company received a subpoena from the Attorney General of Connecticut ("Connecticut AG") seeking the production of documents regarding its pricing of generic pharmaceutical products. The Company fully cooperated with the Connecticut AG in response to the subpoena.

On December 15, 2016, the Connecticut AG, along with the attorneys general of 19 other states, filed suit against the Company and other defendants in the District of Connecticut, alleging that they engaged in anticompetitive conduct concerning two drugs: doxycycline DR and glyburide. On March 1, 2017, the state attorneys general filed an amended complaint adding claims under various state antitrust and consumer protection statutes and was joined by 20 additional states, bringing the total to 40. The amended complaint asserts claims by the State Attorneys General on behalf of consumers in their states. On August 3, 2017, the Judicial Panel for Multidistrict Litigation ("JPML") transferred this case to the Eastern District of Pennsylvania and it was included in the multidistrict litigation captioned *In re Generic Pharmaceuticals Pricing Antitrust Litigation*, Case No. 16-MD-2724, which is currently pending in the Eastern District of Pennsylvania.

On July 17, 2017, five additional State Attorneys General filed suit against the Company and other defendants in the District of Connecticut, alleging that they engaged in anticompetitive conduct concerning two drugs: doxycycline DR and glyburide. This action was also transferred to the Eastern District of Pennsylvania.

On June 18, 2018, the State Attorneys General filed an amended complaint on behalf of 44 states, the District of Columbia and Puerto Rico, and asserted claims based on 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 amended complaint alleges that the Company and 17 other companies participated in an overarching industry-wide conspiracy to engage in anticompetitive conduct with respect to each identified drug. The amended complaint also named Emcure Pharmaceuticals, Ltd. ("Emcure") and Emcure's Chief Executive Officer, Satish Mehta, in connection with alleged anticompetitive conduct concerning one product: doxycycline hyclate DR. It should be noted that only 35 of the State Attorneys General brought this claim against Mr. Mehta individually. On February 21, 2019, defendants filed a motion to dismiss against the State Attorneys Generals' complaint in connection with the alleged overarching industry-wide conspiracy, and that motion remain pending. In addition, on May 31, 2019, a motion to dismiss the amended complaint was filed on behalf of Emcure and Mr. Mehta in the Eastern District of Pennsylvania, and that motion remains pending.

On May 10, 2019, the State Attorneys General filed another complaint on behalf of 44 states, including Puerto Rico, alleging a broader overarching industry-wide conspiracy with additional generic companies to engage in anticompetitive conduct with respect to additional drug products. Although the Company is

referenced factually in various places throughout this most recent complaint, neither the Company nor Emcure, nor Mr. Mehta, are named as party defendants. The JPML also transferred this newly filed action to the Eastern District of Pennsylvania.

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

Private Plaintiffs' Litigation against Heritage and Other Defendants

Beginning in March 2016, plaintiffs began filing complaints on behalf of putative classes of direct and indirect purchasers, and a number of direct purchaser opt-out plaintiffs, against various generic pharmaceutical companies, including the Company. In these complaints, plaintiffs have alleged that defendants engaged in anticompetitive conduct by fixing prices and/or allocating markets in connection with various generic pharmaceuticals products, and plaintiffs are seeking injunctive relief and damages under federal and state antitrust laws.

On April 6, 2017, these complaints were consolidated and transferred into a multidistrict litigation captioned *In re: Generic Pharmaceuticals Pricing Antitrust Litigation*, Case No. 16-MD-2724, and that litigation remains pending before the U.S. District Court for the Eastern District of Pennsylvania. On August 15, 2017, plaintiffs filed a consolidated amended complaint, along with a number of additional complaints, alleging that various generic pharmaceutical companies, including the Company, conspired to fix prices and/or allocate markets in connection with a number of other products. In June 2018, each putative class of direct and indirect purchasers, and the direct purchaser opt-out plaintiffs, each filed an amended complaint alleging that various generic pharmaceutical companies, including the Company, participated in an overarching industry-wide conspiracy to engage in anticompetitive conduct with respect to each identified pharmaceuticals product.

On October 16, 2018, the Court denied a motion to dismiss filed by a number of defendants in connection with plaintiffs' federal law claims. On February 15, 2019, the Court granted in part, and denied in part, defendants' motion to dismiss in connection with certain claims under state law. On February 21, 2019, defendants filed various motions to dismiss against each plaintiffs' complaint in connection with the alleged overarching industry-wide conspiracy, and those motions remain pending.

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

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.

On November 29, 2016, the Company filed a motion for preliminary injunction, requesting that Glazer and Malek be ordered to return certain intellectual property and other trade secrets to the Company and that certain funds be placed in escrow to prevent the defendants from dissipating their assets and otherwise ensuring that any future judgment would be collectible. On January 26, 2017, the Court entered a Stipulation and Consent Order to prohibit defendants from disclosing, transferring, selling, possessing, or using any of the Company's intellectual property or trade secrets.

On December 13, 2016, after intervening in the case, the U.S. Department of Justice ("DOJ") filed a motion to stay the litigation. The motion was granted on February 6, 2017, and all proceedings in the case were stayed until July 31, 2017. The stay was subsequently extended to October 31, 2017, and then again until March 5, 2018. The litigation remained stayed pending the outcome of defendants' motions to disqualify Gibson Dunn as counsel for the Company that were filed on March 21, 2018.

On March 1, 2019, the Court issued an opinion that was favorable to the Company and denied defendants' motion to disqualify in its entirety. Defendants now have until the end of July 2019 to respond to the Company's complaint and the Company expects the litigation will begin to proceed.

13. SHARE-BASED COMPENSATION

Cash Settled Stock Appreciation Rights Awards

The Company grants 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"). The SAR Awards are classified as liabilities as they are settled in cash and are reported as share-based compensation payable in the accompanying consolidated balance sheets.

As a non-public company as defined by U.S. GAAP, the Company records 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. As of March 31, 2018, no change of control event occurred.

A SAR Award entitles participants to receive cash based on the intrinsic value of the Company's common stock on the vesting date. 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 is authorized to issue SAR Awards that in aggregate may not exceed 13% of outstanding shares.

As of March 31, 2019, the total intrinsic value of awards granted was $1,473 of which $1,538 was vested and therefore unrecognized compensation expense related to non-vested Awards was $65, net of estimated forfeitures. This cost will be amortized on a straight-line basis over the remaining weighted average vesting period of approximately 1.0 years. During the year ended March 31, 2019, the SAR liability decreased

(in thousands)

$17,806, of which $14,226 related the reversal of its SAR liability and $3,580 related to the change in fair value.

The following table represents SAR Award activity for the years ended March 31, 2019 and 2018.

	SAR Awards Number of Shares
Outstanding - March 31, 2017	$ 103,695
Granted	-
Exercised	-
Forfeited	(7,874)
Outstanding - March 31, 2018	95,821
Granted	-
Exercised	-
Forfeited	(2,338)
Outstanding - March 31, 2019	93,483
Vested - March 31, 2019	82,493

Subsequent to year-end, the Company cash settled 25,000 shares of SAR Awards, which were outstanding and vested as of March 31, 2019 for $100.

14. AGREEMENTS

The Company has entered into licensing, development and contract manufacturing agreements with third-party product suppliers for the production of generic pharmaceutical products. In many of these arrangements, the Company shares product development costs with these third parties by providing funding for the development of the product or to obtain rights to the use of an ANDA through milestone payments, in exchange for marketing, distribution and/or ownership rights to the product. Milestones represent the completion of specific contractual events, and it is uncertain if, and when, these milestones will be achieved, hence the Company has not attempted to predict the period in which such milestones would possibly be incurred. In addition, in many of these agreements, the Company shares net profits at predetermined ratios.

15. RELATED PARTY TRANSACTIONS

Purchases from the Parent Company including the cost of finished goods and amounts due to the Parent Company for profit sharing amounted to $80,679 and $79,676 for the years ended March 31, 2019 and 2018, respectively, which is recorded as a component of cost of goods sold in the accompanying consolidated statements of operations. 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 $4,630 and $2,683, respectively, for the years ended March 31, 2019 and 2018. As of March 31, 2019 and 2018, amounts included in accounts payable and accrued expenses owed to the Parent Company were $15,884 and $8,047, respectively.

Purchases of API by Heritage Pharma Labs from the Parent Company totaled $962 and $1,203, respectively for the years ended March 31, 2019 and 2018. In addition, Heritage Pharma Labs reimbursed the Parent Company for certain expenses paid on its behalf, which amounted to $377 and $286 for the years ended March 31, 2019 and 2018, respectively. As of March 31, 2019 and 2018, amounts included in accounts payable and accrued expenses owed to the Parent Company were $734 and $451, respectively. During the years ended March 31, 2019 and 2018, Heritage Pharma Labs provided services of $421 and $229, respectively, to the Parent Company. As of March 31, 2019 and 2018, amounts included in accounts receivable due from the Parent Company were $11 and $15, respectively.

During the year ended March 31, 2019, the Company was allocated $867 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 Statements of Operations. Upon full vesting, the Company expects to settle these shares in cash; therefore a liability in the amount of $867 has been recorded as of March 31, 2019, which is recorded as a component of share-based compensation payable in the accompanying consolidated balance sheets.

During the years ended March 31, 2019 and 2018, Heritage Pharmaceuticals sold products to Marcan Pharmaceuticals Inc. ("Marcan"), a subsidiary of the Parent Company, in the amount of $0 and $5,426, respectively. As of March 31, 2019 and 2018, amounts included in accounts receivable due from Marcan Pharmaceuticals Inc. was $0 and $2,994, respectively. During the year ended March 31, 2019, Heritage Pharma Labs sold products to Marcan in the amount of $406 and purchases of API by Heritage Pharma Labs totaled $41. During the years ended March 31, 2019 and 2018, Heritage Pharma Labs provided services to Marcan in the amount of $29 and $13, respectively. As of March 31, 2019, amounts included in accounts receivable due from Marcan was $65.

During the years ended March 31, 2019 and 2018, Heritage Pharmaceuticals sold products to Tilomed Laboratories, Ltd. ("Tilomed") a subsidiary of the Parent Company, in the amount of $0 and $3, respectively. As of March 31, 2019 and 2018, there was $0 and $1, respectively, due from Tilomed. During the year ended March 31, 2019, Heritage Pharma Labs provided services to Tilomed in the amount of $3. As of March 31, 2019, there were no outstanding receivables due from Tilomed.

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through July 31, 2019, the date the financial statements were available to be issued.

On April 4, 2019, the Company acquired ANDA's totaling $4,000.

On May 29, 2019, the Company entered into a $7,000 Term Loan Agreement with the Bank of Baroda (the "Holdings Term Loan Agreement") that will be used to fund ANDA acquisitions. The Holdings Term Loan Agreement has 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 will commence July 31, 2020. Interest is charged at a rate of 400 basis points above the three-month LIBOR rate to be paid on a quarterly basis. Upon execution of the Holdings Term Loan Agreement, the Company paid a processing fee of $53, equal to 0.75%, which will be capitalized and amortized to interest expense over the term of the Holdings Term Loan Agreement.

On July 24, 2019, the litigation by the Company against former executives Jeffrey Glazer and Jason Malek was terminated by the U.S. District Court for the District of New Jersey as a result of a settlement between the parties.

SUPPLEMENTARY INFORMATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Heritage Pharma Holdings, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Heritage Pharma Holdings, Inc. and subsidiaries as of and for the years ended March 31, 2019 and 2018, and our report thereon dated July 31, 2019 expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on these consolidated financial statements as a whole.

The accompanying consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Iselin, New Jersey
July 31, 2019

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
Supplementary Information
Condensed Consolidating Balance Sheet
As of March 31, 2019
(in thousands)

	Heritage Pharma Holdings, Inc.	Heritage Pharmaceuticals, Inc.	Heritage Pharma Labs	Eliminations	Consolidated
ASSETS					
Total current assets	$ 169	$ 126,047	$ 21,763	$ (44,103)	$ 103,876
Property and equipment, net	-	620	24,706	-	25,326
Intangible assets, net	891	18,495	16,500	-	35,886
Goodwill	24,064	-	-	-	24,064
Investment in subsidiary	19,000	-	-	(19,000)	-
Other non-current assets	15,608	16,340	480	(15,943)	16,485
Total assets	$ 59,732	$ 161,502	$ 63,449	$ (79,046)	$ 205,637
LIABILITIES AND STOCKHOLDER'S EQUITY					
Total current liabilities	$ 2,822	$ 123,208	$ 52,798	$ (39,566)	$ 139,262
Long-term debt, net	-	-	24,381	(15,943)	8,438
Inter-company payable (receivable)	127,215	(127,215)	-	-	-
Other long-term liabilities	-	443	10	-	453
Total liabilities	130,037	(3,564)	77,189	(55,509)	148,153
Stockholder's equity (deficit):					
Common stock	25,000	1	1,561	(1,562)	25,000
Additional paid-in capital	-	999	8,639	(9,638)	-
Retained earnings (accumulated deficit)	(95,305)	164,066	(23,940)	(12,337)	32,484
Total stockholder's equity (deficit)	(70,305)	165,066	(13,740)	(23,537)	57,484
Total liabilities and stockholder's equity	$ 59,732	$ 161,502	$ 63,449	$ (79,046)	$ 205,637

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
Supplementary Information
Condensed Consolidating Balance Sheet
As of March 31, 2018
(in thousands)

	Heritage Pharma Holdings, Inc.	Heritage Pharmaceuticals, Inc.	Heritage Pharma Labs	Eliminations	Consolidated
ASSETS					
Total current assets	$ 4,190	$ 114,709	$ 18,471	$ (20,975)	$ 116,395
Property and equipment, net	-	727	26,480	-	27,207
Intangible assets, net	1,319	19,996	-	-	21,315
Goodwill	24,064	-	-	-	24,064
Investment in subsidiary	19,000	-	-	(19,000)	-
Other non-current assets	14,841	15,114	(75)	(16,237)	13,643
Total assets	$ 63,414	$ 150,546	$ 44,876	$ (56,212)	$ 202,624
LIABILITIES AND STOCKHOLDER'S EQUITY					
Total current liabilities	$ 21,095	$ 81,138	$ 20,367	$ (16,622)	$ 105,978
Long-term debt, net	14,552	-	26,417	(16,237)	24,732
Inter-company payable (receivable)	95,266	(95,266)	-	-	-
Other long-term liabilities	-	507	-	-	507
Total liabilities	130,913	(13,621)	46,784	(32,859)	131,217
Stockholder's equity (deficit):					
Common stock	25,000	1	1,561	(1,562)	25,000
Additional paid-in capital	-	999	8,639	(9,638)	-
Retained earnings (accumulated deficit)	(92,499)	163,167	(12,108)	(12,153)	46,407
Total stockholder's equity (deficit)	(67,499)	164,167	(1,908)	(23,353)	71,407
Total liabilities and stockholder's equity	$ 63,414	$ 150,546	$ 44,876	$ (56,212)	$ 202,624

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
Supplementary Information
Condensed Consolidating Statement of Operations
For the year ended March 31, 2019
(in thousands)

	Heritage Pharma Holdings, Inc.	Heritage Pharmaceuticals, Inc.	Heritage Pharma Labs	Eliminations	Consolidated
Net sales	$ -	$ 173,483	$ 30,382	$ (27,239)	$ 176,626
Cost of goods sold	-	150,519	36,988	(27,055)	160,452
Gross margin	-	22,964	(6,606)	(184)	16,174
OPERATING EXPENSES					
Selling, general and administrative	24	17,257	2,882	-	20,163
Research and development	-	1,540	2,747	-	4,287
Depreciation and amortization	428	2,945	425	-	3,798
Total operating expenses	452	21,742	6,054	-	28,248
(Loss) income from operations	(452)	1,222	(12,660)	(184)	(12,074)
OTHER (INCOME) EXPENSE					
Interest expense, net	3,112	2,736	81	-	5,929
Gain on sale of intangible assets	-	-	(475)	-	(475)
Total expense, net	3,112	2,736	(394)	-	5,454
Loss before income tax benefit	(3,564)	(1,514)	(12,266)	(184)	(17,528)
Income tax benefit	(758)	(2,413)	(434)	-	(3,605)
Net (loss) income	$ (2,806)	$ 899	$ (11,832)	$ (184)	$ (13,923)

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
Supplementary Information
Condensed Consolidating Statement of Operations
For the year ended March 31, 2018
(in thousands)

	Heritage Pharma Holdings, Inc.	Heritage Pharmaceuticals, Inc.	Heritage Pharma Labs	Eliminations	Consolidated
Net sales	$ -	$ 204,328	$ 28,246	$ (21,928)	$ 210,646
Cost of goods sold	-	162,951	25,013	(22,192)	165,772
Gross margin	-	41,377	3,233	264	44,874
OPERATING EXPENSES					
Selling, general and administrative	-	28,161	3,544	-	31,705
Research and development	-	1,367	2,516	-	3,883
Depreciation and amortization	428	2,536	438	-	3,402
Total operating expenses	428	32,064	6,498	-	38,990
Income (loss) from operations	(428)	9,313	(3,265)	264	5,884
OTHER (INCOME) EXPENSE					
Interest expense, net	4,531	1,262	570	-	6,363
Foreign currency loss	-	15	-	-	15
Total expense, net	4,531	1,277	570	-	6,378
(Loss) income before income tax provision	(4,959)	8,036	(3,835)	264	(494)
Income tax provision (benefit)	10,241	(6,225)	943	-	4,959
Net (loss) income	$ (15,200)	$ 14,261	$ (4,778)	$ 264	$ (5,453)