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, 2020 and 2019

(With Independent Auditors' Report Thereon)

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

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 sheet as of March 31, 2020, and the related consolidated statements of operations, changes in stockholder's equity, and statement of cash flows for the year 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 audit. We conducted our audit 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 2020 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, 2020, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

The accompanying consolidated financial statements of Heritage Pharma Holdings, Inc. and subsidiaries (doing business as Avet Pharmaceuticals Holdings, Inc. and subsidiaries) as of March 31, 2019 and for the year then ended were audited by other auditors whose report thereon dated July 31, 2019, expressed an unmodified opinion on those financial statements.

KPMG LLP

Short Hills, New Jersey
August 10, 2020

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
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Consolidated Balance Sheets

March 31, 2020 and 2019

(In thousands, except share data)

Assets		**2020**	**2019**
Current assets:			
Cash	$	4,844	1,594
Accounts receivable, net		32,519	39,310
Inventory, net		68,985	60,636
Prepaid expenses and other current assets		15,000	2,336
Total current assets		121,348	103,876
Property and equipment, net		22,135	25,326
Intangible assets, net		35,874	35,886
Goodwill		24,064	24,064
Other noncurrent assets		10,326	16,485
Total assets	$	213,747	205,637
Liabilities and Stockholder's Equity			
Current liabilities:			
Current portion of long-term debt and revolver, net	$	91,012	71,727
Accounts payable and accrued expenses		75,346	65,131
Other current liabilities		3,401	2,404
Total current liabilities		169,759	139,262
Long-term debt, net		—	8,438
Other long-term liabilities		344	453
Total liabilities		170,103	148,153
Commitments and contingencies			
Stockholder's equity:			
Common stock, no par value; 5,000 shares authorized and 2,135 and 2,085 shares issued and outstanding as of March 31, 2020 and 2019, respectively.		30,000	25,000
Additional paid-in capital		—	—
Retained earnings		13,644	32,484
Total stockholder's equity		43,644	57,484
Total liabilities and stockholder's equity	$	213,747	205,637

See accompanying notes to consolidated financial statements.

HERITAGE PHARMA HOLDINGS, INC. AND SUBSIDIARIES
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Consolidated Statements of Operations

Years ended March 31, 2020 and 2019

(In thousands)

	2020	2019
Net sales	$ 152,426	176,626
Cost of goods sold	130,709	160,452
Gross margin	21,717	16,174
Operating expenses:		
Selling, general and administrative	38,317	20,899
Research and development	3,085	3,551
Depreciation and amortization	3,372	3,798
Total operating expenses	44,774	28,248
Loss from operations	(23,057)	(12,074)
Other expense (income):		
Interest expense, net	8,407	5,929
Impairment of intangible assets	175	—
Gain on sale of intangible assets	—	(475)
Other income	(1,233)	—
Total other expense, net	7,349	5,454
Loss before benefit for income taxes	(30,406)	(17,528)
Benefit for income taxes	(11,566)	(3,605)
Net loss	$ (18,840)	(13,923)

See accompanying notes to consolidated financial statements.

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AND SUBSIDIARIES

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Consolidated Statements of Changes in Stockholder's Equity

Years ended March 31, 2020 and 2019

(In thousands, except share data)

	Common stock			
	Number of shares	Amount	Retained earnings	Total stockholder's equity
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
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

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, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Net loss	$	(18,840)	(13,923)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		7,643	7,486
Amortization of debt issuance costs		2,727	1,251
Impairment of intangible assets		175	—
Share-based compensation expense		1,127	(16,939)
Loss on disposal of property and equipment		9	1
Deferred income taxes		2,719	(3,190)
Changes in:			
Accounts receivable		6,791	10,884
Inventory		(8,349)	(24,950)
Prepaid expenses and other current assets		(12,664)	3,213
Other noncurrent assets		3,440	348
Accounts payable and accrued expenses		10,215	26,868
Other current liabilities		(130)	—
Other long-term liabilities		(109)	(54)
Net cash used in operating activities		(5,246)	(9,005)
Cash flows from investing activities:			
Purchases of intangible assets		(3,276)	(17,757)
Purchases of property and equipment		(1,348)	(2,420)
Net cash used in investing activities		(4,624)	(20,177)
Cash flows from financing activities:			
Borrowings from revolving debt		33,032	106,766
Repayments on revolving debt		(22,500)	(66,055)
Proceeds from issuance of long-term debt		7,000	2,008
Repayments on long-term debt		(7,751)	(35,812)
Payments for debt issuance costs		(1,661)	(1,097)
Issuance of common stock		5,000	—
Net cash provided by financing activities		13,120	5,810
Net increase (decrease) in cash		3,250	(23,372)
Cash at beginning of year		1,594	24,966
Cash at end of year	$	4,844	1,594
Supplementary disclosures of cash flow information:			
Interest paid	$	4,993	4,587
Income taxes paid		66	31
Income taxes refunded		—	4,100

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) and Avet Pharmaceuticals Labs Inc. (hereafter Avet Pharmaceuticals Labs, a New Jersey, 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 year ended March 31, 2020. As of March 31, 2020, the Company's current liabilities exceed current assets by approximately $48,411, which include related party assets of $1,368 and related party liabilities of $44,087, and $75,631 in revolver borrowings which are payable on demand, and $15,381 in term debt that is classified as current as a result of failing its annual debt covenant tests . 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 and Avet Pharmaceuticals 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.

(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 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.

(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, 2020 and 2019.

(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, 2020, the Company had three customers that met the definition of significant, comprising 25%, 17% and 14% of total net sales, respectively. During the year ended March 31, 2019, the Company had three customers that met the definition of significant, comprising 26%, 22% and 20% of total net sales, respectively. As of March 31, 2020, these customers represented 38%, 25% and 19% of the Company's accounts receivable, respectively. As of March 31, 2019, these customers represented 23%, 49% and 13% 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 $3,904 and $1,191 as of March 31, 2020 and 2019, 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 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, an impairment charge is recorded equal to the excess. The Company performed a quantitative assessment as of March 31, 2020 and determined that there was no indication of goodwill impairment. Based on the Company's qualitative assessment performed at March 31, 2019, 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 year ended March 31, 2019.

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 year ended March 31, 2020 and 2019, the Company recorded an impairment charge related to definite-life intangible assets of $175 and $0, 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's revenue recognition accounting policy until March 31, 2019, prior to the adoption of the 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):

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.

Avet Pharmaceuticals 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.

The Company's revenue recognition accounting policy effective April 1, 2019, with the adoption of ASC 606:

On April 1, 2019, the Company adopted ASC 606 for all contracts using the modified retrospective method. 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. 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), which amounted to $2,750 for the year ended March 31, 2020.

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, 2020 and 2019, outbound shipping and handling costs amounted to $2,211 and $2,418, 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, 2020 and 2019, the Company did not enter into any material foreign currency transactions.

(r) 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 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 2018-13 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.

(4) Revenue from Contracts with Customers

Effective April 1, 2019, the Company adopted ASC 606 to all contracts using the modified retrospective method. The cumulative initial effect of applying the new revenue standard did not impact the consolidated financial statements. See Note 3 for a summary of the significant accounting policies.

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, 2020 and 2019, provisions for SR&A that are netted against trade receivables amounted to $55,228 and $40,320, respectively, and included in accounts payable and accrued expenses amounted to $1,197 and $1,759, 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, 2020 and 2019, SR&A is as follows:

		2020	2019
Chargeback allowance	$	(34,126)	(24,072)
Rebates		(14,519)	(11,019)
Returns		(3,350)	(2,925)
Sales discounts		(2,133)	(2,304)
Other discounts and allowances		(2,297)	(1,759)
Sales reserves and allowances	$	(56,425)	(42,079)

(5) Inventory

Inventory consists of the following as of March 31, 2020 and 2019:

		2020	2019
Finished goods	$	56,317	48,985
Raw materials		13,826	10,292
Work in process		1,877	1,696
Packaging materials		869	854
Inventory, gross		72,889	61,827
Inventory reserves		(3,904)	(1,191)
Inventory, net	$	68,985	60,636

(6) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following as of March 31, 2020 and 2019:

		2020	2019
Income tax receivable	$	13,263	—
Prepaid expenses		1,603	1,405
Other current assets		134	931
Prepaid expenses and other current assets	$	15,000	2,336

(Continued)

(7) Property and Equipment

Property and equipment are comprised of the following as of March 31, 2020 and 2019:

		2020	2019
Leasehold improvements	$	23,451	23,245
Machinery and equipment		18,327	17,026
Computer equipment and software		1,566	1,398
Furniture and fixtures		732	711
Construction in process		202	580
Office equipment		97	85
Total property and equipment, gross		44,375	43,045
Less accumulated depreciation expense		(22,240)	(17,719)
Total property and equipment, net	$	22,135	25,326

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. 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 operating expenses in the accompanying consolidated statements of operations.

(8) Intangible Assets

During the year ended March 31, 2020, the Company acquired ANDA's for a purchase price of $3,076. During the year ended March 31, 2020, the Company impaired ANDAs with a cost of approximately $363 and accumulated amortization of approximately $285 related to the discontinuation of certain products. The impairment charge of $78 was recorded as a component of other expense, net in the accompanying consolidated statements of operations. 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, 2020, the Company acquired new licensing rights totaling $200. During the year ended March 31, 2020, the Company impaired license rights with a cost of approximately $175 and accumulated amortization of approximately $78 related to the discontinuation of certain products. The impairment charge of $97 was recorded as a component of other expense, net in the accompanying consolidated statements of operations. During the year ended March 31, 2019, the Company acquired new licensing rights totaling $592, while $600 in licensing rights expired.

(Continued)

Intangible assets are comprised of the following at March 31, 2020 and 2019:

		2020	2019
ANDAs	$	45,523	42,810
Less accumulated amortization		(11,187)	(8,954)
Total acquired ANDAs		34,336	33,856
License rights		1,900	1,875
Less accumulated amortization		(825)	(736)
Total license rights		1,075	1,139
Customer relationships		4,279	4,279
Less accumulated amortization		(3,816)	(3,388)
Total customer relationships		463	891
Intangible assets, net	$	35,874	35,886

For the year ended March 31, 2020, amortization expense was $3,113, of which $360 was recorded as a component of cost of goods sold and $2,753 was recorded as a component of operating expenses in the accompanying consolidated statements of operations. For the year ended March 31, 2019, amortization expense was $3,185 and recorded as a component of operating expenses in the accompanying consolidated statements of operations. The Company estimates that $3,452, $2,766, $2,561, $2,399 and $2,297 of amortization expense will be incurred for each of the years ended March 31, 2021 through March 31, 2025. These estimates do not include the impact of products that have not launched that will be amortized in the future.

(9) Other Assets

Other assets consist of the following as of March 31, 2020 and 2019:

		2020	2019
Deferred tax assets, net	$	7,409	10,128
Other assets		1,844	5,284
Debt service reserve fund		1,073	1,073
Total other assets	$	10,326	16,485

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

(Continued)

(10) Debt

At March 31, 2020 and 2019, debt, net of any unamortized debt issuance costs, is as follows:

		2020	2019
Term loan agreements	$	15,437	16,188
Revolving credit agreement		75,723	65,191
Less unamortized debt issuance costs		(148)	(1,214)
Total debt, net		91,012	80,165
Less short-term borrowings and current portion of long-term debt		(91,012)	(71,727)
Total long-term debt, net	$	—	8,438

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 Avet Pharmaceuticals Labs Term Loan Agreement (the Labs Term Loan Agreement) and a $25,000 Revolving Credit Agreement (the Revolving Credit Agreement). On September 12, 2018, the Company entered into an Amended and Restated Revolving Credit Agreement (the Amended Revolving Credit Agreement) to increase the Revolving Credit Agreement from $25,000 to $85,000. On May 3, 2019, the Company amended the Baroda Facility Agreement to add a $7,000 Term Loan Agreement (the Holdings Term Loan 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. The Company is subject to annual financial and other covenants under the Baroda Facility Agreement. As of March 31, 2020, the Company was not in compliance with its financial covenants. As a result, the Company has classified all of its debt obligations in current liabilities in the accompanying consolidated balance sheet.

On January 9, 2017, the Company borrowed $60,000 under the Term Loan Agreement. The Term Loan Agreement matured on September 30, 2019. Quarterly principal payments commenced on March 31, 2017. For the years ended March 31, 2020 and 2019, the Company made principal payments totaling $4,000 and $22,000, respectively. As of March 31, 2020, the Term Loan Agreement was fully repaid. 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 September 30, 2019 (the date on which the Term Loan Agreement was fully repaid) and March 31, 2019 was 6.1% and 6.8%, respectively. For the years ended March 31, 2020 and 2019, total interest incurred under the Term Loan Agreement amounted to $71 and $1,603, respectively.

On April 17, 2017, the Company started borrowing under the 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

(Continued)

the amount of $938 are due quarterly, which commenced on July 31, 2018. For the years ended March 31, 2020 and 2019, the Company made principal payments of $3,751 and $2,812, respectively. The Labs Term Loan Agreement was disbursed based on qualifying capital expenditures up to the $15,000. During the year ended March 31, 2020 and 2019, the Company received qualified disbursements of $0 and $2,008, respectively. As of March 31, 2020 and 2019, the unpaid principal amount under the Term Loan Agreement amounted to $8,437 and $12,188, 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 March 31, 2020 and 2019 was 5.6% and 6.8%, respectively. For the years ended March 31, 2020 and 2019, total interest incurred under the Labs Term Loan Agreement amounted to $646 and $865, respectively, which was recorded as a component of cost of goods sold in the accompanying consolidated statements of operations.

On April 25, 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 Amended Revolving Credit Agreement is payable on demand, which renews annually. For the year ended March 31, 2020, the Company borrowed $33,032 and made repayments of $22,500. For the year ended March 31, 2019, the Company borrowed $106,766 and made repayments of $66,055. As of March 31, 2020 and 2019, the outstanding balance under the Amended Revolving Credit Agreement amounted to $75,723 and $65,191, 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, 2020 and 2019 was 4.8% and 6.3%, respectively. For the year ended March 31, 2020 and 2019, respectively, total interest incurred under the Amended Revolving Credit Agreement amounted to $4,457 and $2,119.

On May 31, 2019, the Company borrowed $7,000 under the Holdings Term Loan Agreement that was 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 on July 31, 2020. As of March 31, 2020, the unpaid principal amount under the Holdings Term Loan Agreement amounted to $7,000.

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, 2020 was 5.6%. For the year ended March 31, 2020, total interest incurred under the Holdings Term Loan Agreement amounted to $365.

On March 27, 2020, the Reserve Bank of India (RBI) permitted banks to allow a moratorium for repayment of term loan principal installments and interest, as well as deferral of interest on working capital limits for a three-month period. On May 22, 2020, RBI allowed for a further extension. As a result, the Company’s term loan principal installments and interest payments due April 2020 and July 2020 have been extended to October 2020 and January 2021. In addition, interest payments under the Amended Revolving Credit Agreement have been deferred for a six-month period and accumulated interest for the period from March 2020 to August 2020 can be converted into an interest term loan that is payable in installments by March 31, 2021.

In connection with the Baroda Facility Agreement, the Company incurred fees during the years ended March 31, 2020 and 2019 of $1,661 and $2,397 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 $2,727 and $1,251 of such fees to interest expense during the years ended March 31, 2020 and 2019, respectively. As of March 31, 2020 and 2019, $148 and $1,214 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 May 31, 2024. In addition, the Company was required to fund a debt service reserve account equivalent to one quarter of interest. As of March 31, 2020 and 2019, respectively, the debt service reserve amount was $1,073, and was recorded as a component of other noncurrent assets in the accompanying consolidated balance sheets.

The repayment schedule for the years ending after March 31, 2020 is as follows, which includes borrowings under the Labs Term Loan Agreement and Holdings Term Loan Agreement.

Years ending March 31:		
2021	$	2,750
2022		5,500
2023		4,563
2024		1,750
2025 and thereafter		874

(11) Income taxes

For the years ended March 31, 2020 and 2019, the income tax (benefit) provision is comprised of the following:

		2020	2019
Current tax provision (benefit):			
Federal	$	(14,298)	(427)
State		13	13
Total current benefit		(14,285)	(414)
Deferred tax provision (benefit):			
Federal		3,770	(3,163)
State		(1,051)	(28)
Total deferred provision (benefit)		2,719	(3,191)
Benefit for income taxes	$	(11,566)	(3,605)

(Continued)

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.

The components of the Company's deferred tax assets and liabilities at March 31, 2020 and 2019 are as follows:

		2020	2019
Deferred tax asset:			
Inventory reserve	$	5,188	465
Interest limitation		3,439	1,825
State net operating loss carryforwards		2,680	2,278
Tax credits		1,564	1,290
Insurance receivable		1,454	—
Accrued expenses		1,188	680
Uniform capitalization		793	1,282
Share-based compensation expense		450	199
Stock appreciation rights		318	331
Federal net operating loss carryforwards		218	5,781
Other		14	50
Department of Justice Restitution		—	740
Total deferred tax asset		17,306	14,921
Less valuation allowance		(7,471)	(2,641)
Net deferred tax asset		9,835	12,280
Deferred tax liability:			
Depreciation and amortization		(2,426)	(2,152)
Total deferred tax liability		(2,426)	(2,152)
Net deferred tax asset	$	7,409	10,128

As of March 31, 2020 and 2019, the Company had available approximately $1,041 and $28,672, respectively of federal unused net operating loss carryforwards, of which federal unused net operating loss carryforwards of $27,631 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 and the remaining $1,041 of Separate Return Loss Year (SRLY) net operating losses will be carried forward and will expire in 2034. The Company also had $37,506 and $35,613, 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, 2020. 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 partial 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, 2020 was $4,830.

The Company recorded a reversal of the $1,034 of the prior year's uncertain tax liability related to certain of its accrued expenses for the year ended March 31, 2020.

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 $ 13.2 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, 2020.

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

(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 $1,331 and $1,557 for the years ended March 31, 2020 and 2019, respectively.

On February 1, 2017, Avet Pharmaceuticals entered into a sublease agreement for warehouse space commencing on March 31, 2017. Such sublease expired on June 30, 2019. On August 12, 2019, Avet Pharmaceuticals entered into a sublease agreement for warehouse space commencing on October 1, 2019. On December 22, 2017, Avet Pharmaceuticals Labs entered into a sublease agreement for office space commencing on December 31, 2017. Such lease and sublease expired on September 30, 2019. For the years ended March 31, 2020 and 2019, the Company recognized sublease income in the amount of $370 and $466, 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, 2021, sub lease income is expected to be $477.

As of March 31, 2020, future minimum rental commitments under all noncancelable operating leases are as follows:

Years ending March 31:		
2021	$	1,776
2022		1,790
2023		1,792
2024		1,344
2025		1,321
Thereafter		580
	$	8,603

(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

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 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 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 the Company (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. 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.

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. The 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. This lawsuit has been transferred to the MDL proceeding in the Eastern District of Pennsylvania. On October 31, 2017, attorneys general of forty-five states, the District of Columbia and the Commonwealth of Puerto Rico filed a motion for leave to file a consolidated amended complaint ("proposed amended complaint") against various drug manufacturers, including the Company. The proposed amended complaint was permitted and was filed on June 18, 2018 and included two additional states. The Company is alleged to have 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 amended 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 amended complaint are similar to those in the previously filed complaints.

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 an MDL proceeding in the Eastern District of Pennsylvania. The Court has sequenced these lawsuits into separate groups for purposes of briefing motions to dismiss. Defendants filed motions to dismiss complaints in the first group. On October 16, 2018, the Court denied the motions with respect to the federal law claims. On February 15, 2019, the Court granted in part and denied in part the motions with respect to the state law 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.

(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.

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, and five individually-filed purported class actions have been filed against a number of defendants, including the Company, Heritage Pharma Labs Inc., and Emcure Pharmaceuticals, 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.

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, 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. 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 is authorized to issue SAR Awards that in aggregate may not exceed 13% of outstanding shares.

As of March 31, 2020, SAR awards in the amount of $1,408 were outstanding and vested. During the year ended March 31, 2020, the SAR liability decreased by $130 related to the cash settlement of vested SAR awards. During the year ended March 31, 2019, the SAR liability decreased $17,806, of which $14,226 related to 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, 2020 and 2019.

	SAR awards number of shares
Outstanding – March 31, 2018	95,821
Granted	—
Exercised	—
Forfeited	(2,338)
Outstanding – March 31, 2019	93,483
Granted	—
Exercised	(48,483)
Forfeited	—
Outstanding – March 31, 2020	45,000
Vested – March 31, 2020	45,000

(14) Related Party Transactions

Purchases from the Parent Company including finished goods and API, as well as amounts due to the Parent Company for profit sharing amounted to $34,922 and $81,641 for the years ended March 31, 2020 and 2019, 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 $5,596 and $5,007, respectively, for the years ended March 31, 2020 and 2019. As of March 31, 2020 and 2019, amounts included in accounts payable and accrued expenses owed to the Parent Company were $44,087 and $16,618, respectively.

During the years ended March 31, 2020 and 2019, the Company provided services of $324 and $421, respectively, to the Parent Company. In addition, during the year ended March 31, 2020 and 2019, the Company made payments on behalf of the Parent Company totaling $550 and $651, respectively. As of March 31, 2020 and 2019, amounts included in accounts receivable due from the Parent Company were $1,350 and $11, respectively.

During the year ended March 31, 2020 and 2019, the Company was allocated $1,127 and $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 Parent Company shares in cash; therefore a liability in the amount of $1,993 and $867 has been recorded as of March 31, 2020 and 2019, respectively, which is recorded as a component of other current liabilities in the accompanying consolidated balance sheets.

During the years ended March 31, 2020 and 2019, the Company sold products to Marcan in the amount of $895 and $406, respectively, and recorded purchases of API of $0 and $41, respectively. During the years ended March 31, 2020 and 2019, the Company provided services to Marcan in the amount of $24 and $29, respectively. As of March 31, 2020 and 2019, amounts included in accounts receivable due from Marcan were $17 and $65, respectively.

During the year ended March 31, 2020, the Company received an advance from Tillomed Laboratories, Ltd. (Tillomed) a subsidiary of the Parent Company, in the amount of $530, which was subsequently repaid. During the year ended March 31, 2020, the Company provided services to Tillomed in the amount of $1. As of March 31, 2020 and 2019, amounts included in accounts receivable from Tillomed were $1 and $0, respectively.

(15) Subsequent Events

The Company has evaluated subsequent events through August 10, 2020, the date the financial statements were available to be issued.