Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries

(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Years Ended March 31, 2020 and 2019

Consolidated Financial Statements

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SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

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Rehmann Robson
1500 W. Big Beaver Road
2nd Floor
Troy, MI 48084
Ph: 248.952.5000
Fx: 248.952.5750
rehmann.com

INDEPENDENT AUDITORS' REPORT

June 19, 2020

Board of Directors and Shareholders
Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries
Princeton, New Jersey

We have audited the accompanying consolidated financial statements of ***Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries*** (the "Company"), which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries*** as of March 31, 2020 and 2019, and the consolidated 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.

Change in Accounting Principle

As described in Note 1, during the year ended March 31, 2020 the Company implemented a recent accounting principle related to the recognition and disclosure of leased assets. Our opinion is not modified with respect to this matter.

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Consolidated Balance Sheets
(amounts in thousands)

	March 31	
	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 34,407	$ 58,623
Accounts receivable, net	489,971	529,766
Due from related parties	278,407	135,210
Inventories	328,231	343,625
Refundable income taxes	518	1,355
Prepaid expenses and deposits	12,923	15,320
Total current assets	**1,144,457**	**1,083,899**
Property, plant and equipment		
Land	2,365	2,365
Buildings and improvements	108,913	110,135
Equipment	194,325	179,543
Furniture and fixtures	6,745	6,119
Vehicles	15,700	16,864
Construction in process	20,898	25,575
Total	348,946	340,601
Less accumulated depreciation	188,329	177,517
Net property, plant and equipment	**160,617**	**163,084**
Investments		
Marketable equity securities	160,949	262,588
Nonmarketable equity securities	10,159	7,361
Interests in unconsolidated subsidiaries	94,999	107,565
Convertible notes	12,000	11,100
Total investments	**278,107**	**388,614**
Operating lease assets	10,619	-
Goodwill	80,579	80,579
Other intangible assets, net	49,940	89,360
Deferred income taxes	29,282	15,909
Total assets	**$ 1,753,601**	**$ 1,821,445**

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

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Consolidated Balance Sheets
(amounts in thousands)

	March 31	
	2020	2019
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 230,000	$ 370,000
Accounts payable - trade	101,758	114,287
Accrued expenses	221,927	156,936
Contingent liability related to acquisition	6,250	6,250
Current portion of operating lease obligations	1,654	-
Current portion of finance lease obligations	3,877	4,551
Total current liabilities	**565,466**	**652,024**
Advances from affiliate	320,304	312,387
Operating lease obligations, net of current portion	9,544	-
Finance lease obligations, net of current portion	9,856	13,337
Total liabilities	**905,170**	**977,748**
Commitments and contingencies (Notes 1, 7, 12, 13, and 16)		
Shareholders' equity		
Controlling interest		
Common stock	-	-
Additional paid-in capital	543,880	543,880
Retained earnings	280,773	277,062
Total controlling interest	824,653	820,942
Affiliated interest	23,778	22,755
Total shareholders' equity	**848,431**	**843,697**
Total liabilities and shareholders' equity	**$ 1,753,601**	**$ 1,821,445**

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Consolidated Statements of Income
(amounts in thousands)

	Year Ended March 31	
	2020	**2019**
Sales	$ 987,245	$ 985,478
Other operating revenue	8,571	13,059
Total revenue	**995,816**	**998,537**
Cost of goods sold	676,690	611,327
Selling, general and administrative expenses	158,869	312,893
Research and development costs	31,401	42,042
(Gain) loss on disposal of property, plant, and equipment	(1,587)	7,920
Operating income	**130,443**	**24,355**
Other (expense) income		
Interest expense	(22,788)	(20,675)
Dividend and interest income	983	30,924
(Losses) gains on equity securities	(101,470)	48,894
Equity in earnings from unconsolidated subsidiaries	8,639	21,323
Gain on sale of intangible asset	-	148
Other (expense) income	(372)	4,576
Other (expense) income, net	**(115,008)**	**85,190**
Income before income taxes	**15,435**	**109,545**
Income taxes	8,527	15,856
Net income	**6,908**	**93,689**
Net income attributable to affiliated interest	1,032	2,832
Net income attributable to controlling interest	**$ 5,876**	**$ 90,857**

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

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Consolidated Statements of Shareholders' Equity
(in thousands except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Affiliated Interest in Subsidiary	Total Shareholders' Equity
	Shares	Amount					
Balances, April 1, 2018	**1**	**$ -**	**$ 543,880**	**$ 26,588**	**$ 19,276**	**$ 15,304**	**$ 605,048**
Net income	-	-	-	90,857	-	2,832	93,689
Cumulative effect of change in accounting principle (Note 2)	-	-	-	162,010	(19,276)	4,619	147,353
Distributions	-	-	-	(2,393)	-	-	(2,393)
Balances, March 31, 2019	**1**	**-**	**543,880**	**277,062**	**-**	**22,755**	**843,697**
Net income	-	-	-	5,876	-	1,032	6,908
Cumulative effect of change in accounting principle (Note 1)	-	-	-	(305)	-	(9)	(314)
Distributions	-	-	-	(1,860)	-	-	(1,860)
Balances, March 31, 2020	**1**	**$ -**	**$ 543,880**	**$ 280,773**	**$ -**	**$ 23,778**	**$ 848,431**

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

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended March 31	
	2020	2019
Cash flows from operating activities		
Net income	$ 6,908	$ 93,689
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	20,794	26,916
Amortization	39,420	39,741
Losses (gains) on equity securities	101,470	(48,894)
Equity in earnings from unconsolidated subsidiaries	(8,639)	(21,323)
Stock dividend from investee	-	(913)
(Gain) loss on disposal of property, plant, and equipment	(1,587)	7,920
Gain on sale of intangible asset	-	(148)
Deferred income taxes	(13,289)	12,891
Allowance for (recovery of) doubtful accounts	233	(1,633)
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	39,562	(175,443)
Due from related parties	(143,197)	(135,210)
Inventories	15,394	(47,932)
Refundable income taxes	837	1,308
Prepaid expenses and deposits	2,397	34,754
Accounts payable	(12,529)	(59,992)
Accrued expenses	64,991	(3,425)
Lease obligations	(1,024)	-
Net cash provided by (used in) operating activities	**111,741**	**(277,694)**
Cash flows from investing activities		
Purchases and construction of property, plant and equipment	(10,883)	(17,969)
Investment in unconsolidated entities	(3,335)	(6,111)
Distributions from unconsolidated subsidiaries	21,911	5,831
Issuance of convertible note	(900)	(4,100)
Proceeds on disposal of property, plant, and equipment	-	17,678
Proceeds from sale of intangible assets	-	344
Net cash provided by (used in) investing activities	**6,793**	**(4,327)**
Cash flows from financing activities		
Proceeds from short-term bank borrowings	20,000	210,000
Net repayment of line of credit borrowings	(160,000)	(100,000)
Net advances from affiliates	7,917	138,011
Repayment of long-term debt	-	(16,733)
Repayment of lease obligations	(8,807)	(8,974)
Distributions	(1,860)	(2,393)
Net cash (used in) provided by financing activities	**(142,750)**	**219,911**
Net decrease in cash and cash equivalents	**(24,216)**	**(62,110)**
Cash and cash equivalents, beginning of year	58,623	120,733
Cash and cash equivalents, end of year	**$ 34,407**	**$ 58,623**

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

Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(amounts in thousands)

Organization, Basis of Presentation, and Nature of Business

Sun Pharmaceutical Holdings USA, Inc. ("Sun Holding"), with headquarters in Princeton, New Jersey, is a wholly-owned subsidiary of Sun Pharmaceutical Industries Limited ("Sun Limited"), a specialty pharmaceutical business organized under the laws of, and based in, India. Sun Holding has no operating activities. All operating activities are carried out by its subsidiaries; Sun Pharmaceutical Industries, Inc. and subsidiaries ("Sun"), which is 97% owned by Sun Holding and 3% by Sun Limited, and Ranbaxy, Inc. and subsidiaries ("Ranbaxy"), which is wholly owned by Sun Holding (collectively, "Sun Pharma" or the "Company").

The Company develops, licenses, manufactures, markets and distributes generic and brand prescription and over-the-counter pharmaceuticals to the nation's largest wholesalers, distributors, warehousing and non-warehousing chain drugstores and managed care providers, throughout the United States, Canada and Puerto Rico. The process of developing a line of proprietary drugs requires approvals by the United States Food and Drug Administration ("FDA") of Abbreviated New Drug Applications ("ANDAs") for generic drugs and New Drug Applications ("NDAs") for brand drugs. The Company distributes various products exclusively for Sun Limited and also Company-owned products (those products for which the Company owns the ANDAs) manufactured in its own facilities as well as by Sun Limited and other third parties. Generic products are intended to treat a variety of disorders including, but not limited to, hypertension, arthritis, epilepsy, diabetes, depression, cancer and pain management. The Company has brand products which currently are primarily intended to treat patients related to dermatology. The Company has divisions for the distribution of various proprietary brand products in the therapeutic categories of ophthalmology, dermatology (biologics), oncology and neurology.

Subsidiaries of Sun Pharmaceutical Industries, Inc. include:

Chattem Chemicals, Inc. ("Chattem"), a wholly owned subsidiary, is based in Chattanooga, Tennessee. Chattem is primarily engaged in the business of manufacturing Active Pharmaceutical Ingredients ("APIs"), surfactants and aluminum performance additives.

Mutual Pharmaceutical Company Inc. ("Mutual"), a wholly owned subsidiary that was based in Philadelphia, Pennsylvania. In June 2016, Mutual sold its real property and operating assets. At the same time, Mutual entered into a manufacturing contract agreement with the new owners to manufacture certain of the drugs previously manufactured by the Company. The term of the agreement is two years with provisions for extensions.

DUSA Pharmaceuticals Inc. ("DUSA"), a wholly owned subsidiary, is based in Wilmington, Massachusetts, and is primarily engaged in the business of manufacturing and marketing branded dermatology formulations and medical devices used for treatment of dermatological conditions.

Pharmalucence Inc. ("Pharmalucence") a wholly owned subsidiary is based in Billerica, Massachusetts. Pharmalucence manufactures its own line of generic injectable radiopharmaceuticals and sells to radiopharmacies and distributors. It also provides contract and private label formulation development and manufacturing services of parenteral products in either liquid or lyophilized form.

Notes to Consolidated Financial Statements

Taro Development Corporation ("TDC"), a wholly owned subsidiary, is based in New York and has a wholly owned subsidiary, Morley & Company, also based in New York. Neither of these entities had operating activity in Fiscal 2020 or 2019.

Sun's manufacturing facilities are located in Cranbury, New Jersey; Chattanooga, Tennessee; and Wilmington, Massachusetts, and Billerica, Massachusetts. The Company also has warehouses and executive offices in these locations.

Subsidiaries of Ranbaxy include:

Ohm Laboratories, Inc. ("Ohm") a wholly owned subsidiary is based in New Brunswick, New Jersey, and has two manufacturing locations in New Jersey and one warehouse in New Brunswick.

InSite Vision Incorporated ("InSite") a wholly owned subsidiary is based in Alameda, California and develops products to treat eye problems: ocular infection, pain and inflammation in ocular surgery and glaucoma.

Ranbaxy Signature L.L.C. ("Signature") is a 67.5% owned joint venture. Signature has the rights to a diabetic product that is marketed and distributed through Ranbaxy Labs.

Principles of Consolidation

The consolidated financial statements, which are the responsibility of management, have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP). The consolidated financial statements are prepared in the functional currency of US dollars and include the accounts of consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with US 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 dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates. Significant estimates include, but are not limited to, realization of deferred tax assets, provisions for estimated customer returns, discounts, rebates, coupons and other price adjustments, including customer chargebacks (see "Revenue Recognition" below), valuation of inventories, valuation of investments, determination of useful lives and potential impairment of property, plant and equipment and intangible assets and other long-lived assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Company invests its excess cash primarily in deposits with major banks and in other high quality short-term liquid money market investments. During the normal course of business, the Company may maintain cash on deposit in excess of federally insured limits with financial institutions. The Company maintains a policy of making investments only with institutions with at least an investment grade credit rating.

Notes to Consolidated Financial Statements

Investments

The Company invests in equity securities of public and private companies to promote business and strategic objectives. These investments, although long-term, are generally focused on the development of these individual drugs and are not intended to be ongoing relationships.

Marketable equity securities are equity securities with readily determinable fair value that are measured and recorded at fair value on a recurring basis with changes in fair value, whether realized or unrealized, recorded through the consolidated statement of income. Sun, through its subsidiary TDC, holds 2,333,802 shares of Taro Pharmaceutical Industries, Ltd. ("Taro"). Sun Limited, along with several of its subsidiaries, holds the majority of the common shares of Taro. The American Depository Shares of Taro are traded on the New York Stock Exchange. Management does not intend to sell the securities of this affiliate in the near future since such interests were acquired as strategic investments by Sun Limited and its subsidiaries.

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for using the equity method of accounting. Whether or not the Company exercises significant influence with respect to an Investee depends on an evaluation of several factors including, among others, representation on the Investee company's board of directors, and ownership level, which is generally a 20% to 50% interest in the voting securities for corporate entities and between 5% and 50% interest in the voting securities for noncorporate entities. Under the equity method of accounting, an Investee's underlying accounts are not reflected within the Company's consolidated balance sheets and consolidated income statements; rather, the Company's share of the earnings or losses of the Investee is reflected in the caption ''Equity in earnings from unconsolidated subsidiaries'' in the consolidated statements of income. The Company's carrying value in an equity method Investee is reflected in the caption "Interests in unconsolidated subsidiaries" on the consolidated balance sheets.

Nonmarketable equity securities are equity securities without readily determinable fair values that are not accounted for under the consolidation or the equity method of accounting. Management has elected the measurement alternative for these investments that do not have readily determined fair values. Under this alternative, such investments are measured at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes in orderly transactions for an identical or similar investment of the same issuer. At March 31, 2020, the Company has outstanding capital commitments of approximately $3,180 to these investees.

Realized and unrealized gains and losses resulting from changes in fair value or the sale of equity investments are reported as "(Losses) gains on equity securities" on the consolidated statements of income. All (losses) gains recognized in Fiscal 2020 and 2019 are unrealized.

Convertible Notes

During Fiscal 2018, the Company converted a $7,000 advance to one of its development stage investees into a convertible note. The convertible note matures in February 2020. Interest accrues at an annual rate of 5%. The investee may prepay the convertible note in $1,000 increments without penalty. The Company has the right to convert any outstanding principal into shares of the investee's common stock, at any time on or before the maturity date at its discretion. If the Company chooses to convert, it will forfeit all accrued and unpaid interest.

Notes to Consolidated Financial Statements

During Fiscal 2019, an addendum to the original convertible note agreement was signed. As a result, the Company agreed to invest an additional $5,000 of which $900 and $4,100 was invested in Fiscal 2020 and 2019, respectively. These convertible notes matured in December 2019 at which time management did not elect to convert the notes into common stock. Interest accrues at an annual rate of 12%. The investee may prepay the convertible note in $1,000 increments without penalty. The Company has the right to convert any outstanding principal into shares of the investee's common stock, at any time on or before the maturity date at its discretion at a conversion price of $5,000 per unit. If the Company chooses to convert, it will forfeit all accrued and unpaid interest. Additionally, the existing convertible note conversion price was amended to $5,000 per unit from $12,500 per unit.

The conversion feature of these notes does not allow for a cash settlement. The shares delivered on conversion are privately held and therefore not readily convertible to cash. As a result, the conversion feature does not have a net settlement characteristic and therefore does not meet the definition of a derivative.

Advances from Affiliates (Related by Common Ownership and Management Control)

The Company has received funds, on various dates, from Alkaloida Chemical Co. ZRT and Sun Pharma Netherlands B.V. These advances are considered unsecured operating loans. On an annual basis, any unpaid accrued interest is rolled into the principal balance. There are no formal repayment terms for either principal or interest. While these loans can be called on demand at the affiliates' discretion, it is not anticipated that this will occur within the next year and accordingly the advances have been classified as noncurrent in the consolidated balance sheets.

Revenue Recognition

Revenue from product sales is recognized only when: the parties to the contract have approved it and are committed to perform their respective obligation, 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 is entitled in exchange for the goods or services that will be transferred to the customer.

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, excluding amounts collected on behalf of other third parties and sales taxes.

The amount of consideration the Company expects to be entitled varies as a result of rebates, chargebacks, returns, and other sales reserves and allowances the Company offers its customers and their customers, as well as the occurrence or nonoccurrence of future events, including milestone events. A minimum amount of variable consideration is recorded concurrently with the satisfaction of performance obligations to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimates of variable consideration are based on historical experience and the specific terms in the individual agreements (which management believes approximates expected value). Rebates and chargebacks are the largest components of sales reserves and allowances. For further description of sales reserves and allowances and how they are estimated, see "Allowances for Sales Adjustments" below.

Notes to Consolidated Financial Statements

Shipping and handling costs are considered to be a fulfillment cost. These costs are included in selling, general and administrative expenses and amounted to $13,244 and $9,299 in Fiscal 2020 and Fiscal 2019, respectively.

The Company does not adjust the promised consideration for the effects of a significant financing component as it is expected, at contract inception, that the period between the transfer of the promised goods or services to the customer and the time the customer pays for these goods or services to be generally one year or less. The Company's credit terms to customers are in average between sixty and ninety days.

The Company's customers consist primarily of large pharmaceutical wholesalers who sell directly into the retail channel, chain drug stores, distributors, and managed care customers. For the products being sold from DUSA the primary customers are physicians and hospitals. Pharmalucence's primary customers are radiopharmaceutical pharmacies.

Revenue from the sales of goods, including sales to wholesalers, is recognized when the customer obtains control of the product. This generally occurs when the products are received by the customers and they obtain the risks and rewards of ownership and the Company has a right to payment.

Revenue for distinct intellectual property ("IP") rights is accounted for based on the nature of the promise to grant the license. In determining whether the Company's promise is to provide a right to access its IP or a right to use its IP, the Company considers the nature of the IP to which the customer will have rights. IP is either function IP which has significant standalone functionality or symbolic IP which does not have significant standalone functionality. Revenue from functional IP is recognized at the point in time when control of the distinct license is transferred to the customer, when the Company has a present right to payment and risks and rewards of ownership are transferred to the customer. Revenue from symbolic IP is recognized over the access period to the Company's IP.

Revenue from royalties promised in exchange for a license of IP is recognized at the point in time that the related products are sold by the third party. Revenues from licensing arrangements included royalty income of $326 and $498 in Fiscal 2020 and Fiscal 2019, respectively, and are included in "Other operating revenue" on the consolidated statements of income.

The Company makes sales of products under various marketing and distribution agreements. The Company recognizes revenue from such sales in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 606-10-55-37, "*Principal versus Agent Considerations.* " Management has evaluated the various indicators described under this guidance and has determined that such revenues should be considered on a gross reporting basis. The factors include the following, which led management to make such determination: (1) the title of the goods have been transferred to the Company and the Company assumes all general inventory risks; (2) the Company is responsible for fulfilling the promise to provide the specified good to customers; and (3) the Company has discretion in establishing the prices for the specific good.

InSite performs research and development activities on behalf of Sun Limited. These activities are undertaken with the prospect of gaining new scientific or technical knowledge and to plan or design for the production of new or substantially improved products or processes. Revenue related to these activities is recognized when the performance obligations outlined by Sun Limited are fulfilled. The Company manufactures exhibit batches for Sun Limited and also provides business support services to Sun Limited and Ranbaxy Canada (a party related through ultimate common ownership). The Company recovers the cost of manufacturing exhibit batches and the cost of services plus an agreed-upon markup pursuant to the terms of the respective agreements. These revenues amounted to $8,031 and $12,561 for Fiscal 2020 and Fiscal 2019, respectively, and are included in "Other operating revenue" on the consolidated statements of income.

Contract liabilities are mainly comprised of deferred revenues. When the Company receives advance payments from customers for the sale of products, such payments are deferred and reported as advances from customers until all conditions for revenue recognition are met. These amounts are immaterial at March 31, 2020 and 2019.

Allowances for Sales Adjustments

Variable consideration includes sales reserves and allowances. Chargebacks, customer rebates, shelf stock adjustments and sales discounts are netted against trade receivables. Sales returns, Medicaid and Medicare rebates, managed care rebates, and patient coupons are recorded within accrued expenses on the consolidated balance sheets. The Company recognizes these provisions at the time of the sale and adjusts them if the actual amounts differ from the estimated provisions. The following briefly describes the nature of each deduction and how the provisions are estimated:

Chargebacks

Chargebacks represent the Company's most significant provision against gross accounts receivable and related reduction to gross sales revenue. Chargebacks are retroactive credits given to wholesale customers that represent the difference between the lower price they sell (contractual price) to retail, chain stores, and managed care organizations and what the Company charges the wholesaler. The Company estimates chargebacks at the time of sale to their wholesale customers. The Company is currently unable to specifically determine whether the amounts provided in specific prior periods for chargeback allowances have been over or understated. Wholesaler customers who submit chargebacks to the Company do not reference a specific invoice that the chargeback is related to when the chargeback is submitted to the Company. Thus, the Company cannot determine the specific period to which the wholesaler's chargeback relates.

The Company considers the following factors in the determination of the estimates of sales chargebacks:

1) The historical data of chargebacks as a percentage of sales, as well as actual chargeback reports received from primary wholesaler customers.

2) Volume of all products sold to wholesaler customers and the average chargeback rates for the current quarter as compared to the previous quarter and compared to the last six-month period.

3) The sales trends and future estimated prices of products, wholesale acquisition cost ("WAC"), the contract prices with the retailers, chain stores, managed care organizations (end-users), and wholesaler customer's contract prices.

4) The Company utilizes data on remaining inventories on hand at primary wholesaler customers at the end of each reporting period in the calculation of estimates.

Approximately 75% and 77% of the total allowance for trade receivables at March 31, 2020 and 2019, respectively, have been established to provide for estimated sales chargebacks (see Note 3).

Shelf Stock Adjustments

General practices within the pharmaceutical industry include granting customers a shelf stock adjustment based on the customers' existing inventory and decreases in the market price of the related product. The most significant of these adjustments relate to products for which an exclusivity period exists.

Management considers the following factors when recording an allowance for shelf stock adjustments: estimated launch dates of competing products based on market intelligence, estimated decline in market price of products based on historical experience and input from customers, and levels of inventory held by customers at the date of the pricing adjustments.

Rebates

Customer rebates are estimated at the end of every reporting period, based on direct or indirect purchases. If the purchases are direct (purchases made by end use customers directly from the Company), the rebates are recognized when products are purchased and a periodic credit is given. For indirect purchases (purchases by end use customers through wholesale customers), the rebates are recognized based on the terms with such customer.

Medicaid and Other Governmental Rebates

Medicaid rebates are earned by states based on the amount of our products dispensed under the Medicaid plan. Medicaid rebates are principally comprised of amounts due under U.S. Government pricing programs such as Medicaid, Medicare and Tricare (Department of Veteran Affairs). These rebates have been estimated as per the stipulated regulations and prescribed guidelines, which consider the calculation of the average manufacturers' price, historical data the Company receives from the public sector benefit providers, which is based on the final dispensing of the products by a pharmacy to a benefit plan participant, and fluctuations in sales volumes.

Notes to Consolidated Financial Statements

Product Returns

In the pharmaceutical industry, customers are normally granted the right to return product for credit, or replacement with fresh product, if the product has not been used prior to its expiration date. The Company's return policy typically allows product returns for products within a 12-month window from six months prior to the expiration date and up to six months after the expiration date. The Company estimates the level of sales that will ultimately be returned, pursuant to its return policy, and records a related allowance at the time of sale. These amounts are deducted from its gross sales to determine net sales. These estimates take into consideration historical returns of the products and the Company's future expectations. The Company periodically reviews the allowances established for returns and adjusts them based on actual experience, as necessary. The primary factors considered in estimating its potential product returns include shelf life of expiration date of each product and historical levels of expired product returns. If the Company becomes aware of any returns due to product quality related issues, this information is used to estimate an additional allowance. The Company provides for an allowance related to returns resulting from product recalls, in the period that such recalls occur. The amount of actual product return could be either higher or lower than the amounts provided. Changes in these estimates, if any, would be recorded in the income statement in the period the change is determined. If the Company over or under estimates the quantity of product that will ultimately be returned, there may be a material impact to its financial statements.

Allowance for Doubtful Accounts

Doubtful accounts are estimated based on the data available from external sources, including information obtained related to the financial condition of customers. Delinquent accounts are reviewed by management on a quarterly basis, to identify and record allowances, as considered necessary, for accounts receivable not expected to be recoverable.

Other Allowances

Billbacks are special promotions or discounts provided over a specific time period to a defined customer base, and for a defined product group. Distribution allowances are a fixed percentage of gross purchases for inventory shipped to a national distribution facility that the Company pays to its top wholesalers on a monthly basis. Administration fees are paid to certain wholesalers, buying groups, and other customers for stocking our products and managing contracts and servicing other customers.

The Company has a patient coupon program in relation to certain products. These patient coupons enable eligible customers to a discount at the time of dispensing of prescriptions and the related cost of such patient coupons is borne by the Company. The accrual related to patient coupons is estimated based on historical experience regarding the usage of coupons by the eligible customers.

Notes to Consolidated Financial Statements

Accounts Receivable

The Company sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Company has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Accounts receivable totaled $489,971, $529,766, and $354,323 at March 31, 2020, 2019, and 2018, respectively.

Inventories

Inventories, which consist of raw materials, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the moving average method, or net realizable value. The Company analyzes its inventory levels quarterly and writes down any inventory that has become obsolete and inventory that has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are expensed when incurred. Materials acquired for research and development on products yet to be launched are written off in the year of acquisition. Inventory includes material purchased related to products for which the Company has filed ANDAs with the FDA, and the commercial launch of such products will commence once the approvals are received. The determination of whether or not inventory costs will be realizable requires estimates by management. A critical estimate in this determination is the estimate of the future expected inventory requirements, whereby the Company compares its internal sales forecasts to inventory on hand. Actual results may differ from those estimates and additional inventory write-offs may be required. The Company must also make estimates about the amount of manufacturing overhead to allocate to its finished goods and work in process inventories. Although the manufacturing process is generally similar for its products, the Company must make judgments as to the portion of costs to allocate to purchased product, work in process and finished goods, and such allocations can vary based upon the composition of these components and the fact that each product produced does not necessarily require the same amount of time or effort for the same production step. Accordingly, the assumptions made can impact the value of reported inventories and cost of sales. For inventories related to distributed products, the Company absorbs losses of obsolesce or expiries, however if mutually agreed upon and in specific circumstances (like inventory built up on launch of new products), the Company recovers the cost from suppliers. The Company incurs costs related to non-supply of products it has committed to sell to its customers as per the contracts it has entered with these customers. As mutually agreed, the Company recovers certain of these costs from its suppliers.

BLU-U® commercial light sources placed in physicians' offices for an initial evaluation period are included in inventory in the consolidated balance sheets and amortized over a three-year period or until sold to the physician's office evidenced by the fact that all revenue recognition criteria have been met.

Notes to Consolidated Financial Statements

Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost less accumulated depreciation, which for property and equipment acquired in business acquisitions approximates the fair value determined at the acquisition date. Land is carried at cost. Construction in process is carried at cost until such time the associated asset(s) is placed into service. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment (See Note 5).

Leases

The majority of the Company's lease obligations are real estate operating leases used in warehouse and distribution operations and vehicles used by the Company's sales force. For any lease with an initial term in excess of 12 months, the related lease assets and liabilities are recognized on the consolidated balance sheets as either operating leases or finance leases at the inception of an agreement where it is determined that a lease exists. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and the Company recognizes lease expense on these leases on a straight-line basis over the lease term.

Operating lease assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. The Company estimates the incremental borrowing rate for each lease based on an evaluation of the Company's credit ratings and the prevailing market rates for collateralized debt in a similar economic environment with similar payment terms and maturity dates commensurate with the terms of the lease. The Company's lease terms generally do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised. Fixed payments may contain predetermined fixed rent escalations. Related rent expense is recognized on a straight-line basis from the commencement date to the end of the lease term.

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the consolidated financial statement and federal income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. In concluding that it is not more-likely-than-not that the Company’s deferred tax assets will be realized, the Company evaluates both positive and negative evidence regarding the future utilization of these assets. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

Research and Development Costs

Research and development costs settled in cash are charged to expense as incurred. Capital expenditures incurred on equipment and facilities that are acquired or constructed for research and development activities and having alternative future uses are capitalized as tangible assets when acquired or constructed. The Company has not incurred any non-cash research and development costs during the Fiscal 2020 and 2019.

Advertising and Promotion Costs

Advertising and promotion costs which are expensed as incurred and included in selling, general and administrative expenses, amounted to $2,590 and $21,336 in Fiscal 2020 and Fiscal 2019, respectively.

Goodwill

Goodwill represents the cost in excess of the fair value of net assets acquired in business combinations. Goodwill is tested annually for impairment or more frequently if events or circumstances indicate that the asset might be impaired. The Company concluded, based on management's assessment, that there was no impairment at March 31, 2020 or 2019.

Other Intangible Assets

Intangible assets with lives that are not finite are amortized over periods ranging from three to fifteen years and are evaluated for impairment at least annually. Intangibles are included in the "Other intangible assets, net" caption on the consolidated balance sheets. The Company concluded, based on management's assessment, that there was no impairment at March 31, 2020 or 2019.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurements, refer to Note 2.

Change in Accounting Principle

The Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-02, *Leases* , in January 2016. The standard requires the recognition of lease assets and lease liabilities on the balance sheet. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Under the new standard, disclosures are required to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

On April 1, 2019, the Company adopted the standard using the modified retrospective method. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward the historical lease classification as operating or capital leases. The Company also elected to combine lease and non-lease components and to exclude short-term leases from the consolidated balance sheets. The Company did not elect the hindsight practical expedient in determining the lease term for existing leases as of March 31, 2019.

The most significant impact of adoption was the recognition of operating lease assets and operating lease liabilities of $12,454 and $12,852, respectively, while accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The cumulative impact of these changes decreased equity by $314. We expect the impact of adoption to be immaterial to our consolidated income statements and consolidated statements of cash flows on an ongoing basis. See Note 12, Leases, for additional lease disclosures.

The cumulative effect of the changes made to the consolidated balance sheets for the adoption of this standard was as follows:

	March 31, 2019 As Reported	ASU 2016-02 Adjustment on April 1, 2019	April 1, 2019 As Adjusted
Assets			
Operating lease assets	$ -	$ 12,454	$ 12,454
Deferred tax assets	15,909	84	15,993
Liabilities			
Current portion of operating lease obligations	-	1,655	1,655
Operating lease obligations, net of current portion	-	11,197	11,197
Equity			
Retained earnings	277,062	(305)	276,757
Affiliated interest in subsidiary	22,755	(9)	22,746

Notes to Consolidated Financial Statements

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2020, the most recent consolidated balance sheet presented herein, through June 19, 2020, the date these consolidated financial statements were available to be issued. No such significant events or transactions were identified except as discussed in Note 9.

2. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

On April 1, 2018, the Company adopted a new accounting and disclosure standard related to accounting for the recognition of financial assets and liabilities. As result of the adoption, the Company recorded a cumulative effect adjustment as an increase to equity of $147,353 (cumulative previously unrecognized unrealized gains of $194,912 net of related deferred income tax of $47,559).

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Marketable equity securities, the convertible notes receivable, and the contingent liability on acquisition are recorded at fair value on a recurring basis. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as inventory, non-marketable equity securities, goodwill and other long-lived assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value. The description includes an indication of the level of the fair value hierarchy in which the assets are classified.

Marketable Equity Securities

Marketable equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets. All marketable equity security investments as of March 31, 2020 and 2019 are considered Level 1 securities.

Convertible Notes

As quoted prices in active markets or other observable inputs were not available for these notes, in order to measure them at fair value, the Company utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible notes; accordingly, the asset was categorized within Level 3 of the fair value hierarchy. At March, 31, 2020 and 2019, it was determined that cost reasonably approximates the estimated fair value of the notes.

Notes to Consolidated Financial Statements

Contingent Liability on Acquisition

As quoted prices in active markets or other observable inputs were not available for this liability, in order to measure it at estimated fair value, the Company utilized a discounted cash flows model using a discount rate reflecting the current market lending rate. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible note; accordingly, the asset was categorized within Level 3 of the fair value hierarchy.

The preceding methods described may produce fair value calculations that may not be indicative of net realizable values or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. At March, 31, 2020 and 2019, it was determined that cost approximates the fair value of the liability.

Assets and Liability Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets and liability measured at estimated fair value on a recurring basis at March 31:

	Assets at Fair Value			
2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Marketable equity securities by industry				
Healthcare	$ 160,949	$ -	$ -	$ 160,949
Convertible notes	-	-	12,000	12,000
Total assets at fair value	**$ 160,949**	**$ -**	**$ 12,000**	**$ 172,949**

	Assets at Fair Value			
2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Marketable equity securities by industry				
Healthcare	$ 262,588	$ -	$ -	$ 262,588
Convertible note	-	-	11,100	11,100
Total assets at fair value	**$ 262,588**	**$ -**	**$ 11,100**	**$ 273,688**

	Liability at Fair Value			
2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Contingent liability on acquisition	**$ -**	**$ -**	**$ 6,250**	**$ 6,250**

	Liability at Fair Value			
2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Contingent liability on acquisition	**$ -**	**$ -**	**$ 6,250**	**$ 6,250**

Notes to Consolidated Financial Statements

The following table sets forth a summary of changes in the fair value of the Company's Level 3 assets measured at estimated fair value on a recurring basis for the years ended March 31:

	2020	2019
Beginning balance of recurring Level 3 assets	$ 11,100	$ 7,000
Investment in convertible notes	900	4,100
Ending balance of recurring Level 3 assets	**$ 12,000**	**$ 11,100**

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liability measured at estimated fair value on a recurring basis for the years ended March 31:

	2020	2019
Beginning balance of recurring Level 3 liability	$ 6,250	$ 20,208
Change in estimate*	-	(13,958)
Ending balance of recurring Level 3 liability	**$ 6,250**	**$ 6,250**

*During Fiscal 2019, certain obligations related to the contingent liability were not met within the timeframe specified in the original acquisition agreement. As a result, management concluded that the obligation to the previous owner no longer existed and reversed the portion of the liability related to these obligations. This reversal was recognized as a reduction of selling, general, and administrative expenses in the 2019 consolidated statement of income.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable and related valuation allowances are summarized as follows at March 31:

	2020	2019
Accounts receivable, gross	$ 632,820	$ 652,174
Valuation allowances		
Chargebacks and shelf stock	106,900	93,767
Direct and indirect rebates (includes administrative fees, service fees and related allowances, etc.)	20,750	14,779
Cash discounts	13,741	13,361
Allowance for doubtful accounts	351	84
Other concessions	1,107	417
Total valuation allowances	142,849	122,408
Accounts receivable, net	**$ 489,971**	**$ 529,766**

The following table sets forth a summary of the activity in the accounts receivable valuation allowances for the Fiscal years ended March 31:

	2020	2019
Beginning balance	**$ 122,408**	**$ 141,422**
Additions charged to net sales	1,904,520	1,902,710
Deductions allowed to customers	(1,884,079)	(1,921,724)
Ending balance	**$ 142,849**	**$ 122,408**

4. INVENTORIES (INCLUDING RELATED PARTIES)

Inventories consist of the following components at March 31:

	2020	2019
Raw materials	$ 41,545	$ 40,641
Work in process	17,416	49,423
Goods in transit (distributed products)	19,577	18,634
Finished goods (Company-owned products)	236,918	223,273
Finished goods (distributed products)	12,775	11,654
Total inventories	**$ 328,231**	**$ 343,625**

The principal components used in the Company's business are active and inactive pharmaceutical ingredients and certain packaging materials. While some of these components are purchased from single sources, the majority of the components have an alternate source of supply available. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers. Also, a major component of the Company’s inventory includes purchased finished goods for distribution under various marketing agreements.

During Fiscal 2020 and Fiscal 2019, the Company made net purchases of inventory components, consisting of raw materials and finished goods, of approximately $378,441 and $333,211, respectively, from Sun Limited and its affiliates. These amounts are net of credits issued by the Company for the cost of expired and non-saleable products or for free replacement of fresh product to the Company primarily as a result of pending expiration or stale-dating of product held by the Company and its customers, without cost to the Company, which was acting in its normal distributor role for sales of such products.

Notes to Consolidated Financial Statements

5. PROPERTY, PLANT AND EQUIPMENT

In July 2018, the Company announced plans to consolidate its New Jersey manufacturing facilities. As a result, a leased facility in Cranbury, New Jersey has been closed. During Fiscal 2019, the Company recognized approximately $21,000 in costs related to this closure including severance, asset write-offs, accelerated depreciation, remaining lease commitments, and exit cleanup costs. Of the approximate $21,000 in costs, $7,789 and $13,211 is recognized within "(Gain) loss on disposal of property, plant, and equipment" and "Selling, general, and administrative expenses," respectively, in the Fiscal 2019 consolidated statement of income.

In October 2018, Pharmalucence sold its Bedford, Massachusetts facility that was utilized for research and development and inventory storage and recorded a gain of approximately $125 within "Loss on disposal of property, plant, and equipment" in the 2019 consolidated statement of income. Total consideration was $1,608 which was received in full at March 31, 2019. All operations for this subsidiary are now completed at the Billerica, Massachusetts facility.

In addition, during Fiscal 2018 the Company closed its distribution facility in Jacksonville, Florida that was subject to a long-term lease. Effective October 26, 2018, the Company entered into a termination agreement with the landlord at which time $6,300 was paid into an escrow account. The escrow payment represented the maximum obligation of the Company if a substitute lease could not be executed prior to the termination date. The termination date was determined to be the earlier of either the execution of a substitute lease or October 5, 2019. As a result of this transaction, an approximate $3,000 gain was recognized within "(Gain) loss on disposal of property, plant and equipment in the Fiscal 2020 consolidated statement of income.

6. OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following amounts at March 31:

	2020	2019
Patents and trademarks	$ 232,123	$ 232,123
Product rights and licenses	138,728	138,728
Technical know-how	17,161	17,161
Intellectual property	5,300	5,300
Other	1,800	1,800
Total	395,112	395,112
Less accumulated amortization	345,172	305,752
Other intangible assets, net	**$ 49,940**	**$ 89,360**

Intangible assets are amortized ratably over periods ranging from 3 to 15 years, which correspond with the expected periods of future economic benefit.

Notes to Consolidated Financial Statements

Estimated annual amortization expense for each of the five years succeeding March 31, 2020 and thereafter, are summarized as follows:

Year Ended March 31	Amount
2021	$ 25,728
2022	8,794
2023	6,520
2024	5,874
2025	2,435
Thereafter	589
Total	**$ 49,940**

7. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

At March 31, 2020 and 2019, investments accounted for under the equity method, and the percentage interest owned, consisted of Frazier Healthcare VII, L.P. (6.83%), Versant Venture Capital V, L.P. (7.46%), Medinstill LLC (19.99%), Atlas Venture Fund X L.P. (3.57%), and 5AM Ventures IV L.P. (3.33%). These investments are reflected in the caption “Interests in unconsolidated subsidiaries” on the Company’s consolidated balance sheets.

On April 1, 2018, the Company adopted a new accounting and disclosure principle related to accounting for the recognition of certain financial assets and liabilities. As a result of the adoption, the investments in Atlas Venture Fund X L.P. and 5AM Ventures IV L.P. are now reported as unconsolidated subsidiaries and accounted for under the equity method. At March 31, 2018, these investments were carried at their cost basis of $12,827. The Company recorded the $13,059 cumulative impact of the change in accounting principle for these interests as an increase to the investment as of April 1, 2018 and a $9,873 and $3,186 increase to retained earnings and deferred income tax liabilities, respectively, at that date.

In April 2018, the Company vacated its position on the board of directors of scPharmaceuticals. As a result, the Company no longer exercises significant influence over this investee and now classifies its investment in scPharmaceuticals within "Marketable equity securities" on the consolidated balance sheets.

Notes to Consolidated Financial Statements

Activity in the investment in unconsolidated subsidiaries account is summarized as follows:

Balance, April 1, 2018	**$**	**71,838**
Change in accounting principle and reclassification		25,886
Reclassification of scPharmaceuticals		(8,537)
Capital contributions		2,886
Proportionate share of equity in net income		21,323
Distributions		(5,831)
Balance, March 31, 2019		**107,565**
Capital contributions		706
Proportionate share of equity in net income		8,639
Distributions		(21,911)
Balance, March 31, 2020	**$**	**94,999**

At March 31, 2020, the Company has outstanding capital commitments of approximately $1,486 to these investees.

Combined, condensed balance sheet information underlying the Company's interests in unconsolidated subsidiaries, accounted for using the equity method, is summarized as follows at March 31:

	2020	2019
Current assets	$ 52,930	$ 63,459
Investments at estimated fair value	2,089,558	2,086,039
Property and equipment	2,995	3,711
Total assets	**$ 2,145,483**	**$ 2,153,209**
Current liabilities	$ 59,303	$ 51,462
Noncurrent liabilities	10,304	6,928
Total equity	2,075,876	2,094,819
Total liabilities and equity	**$ 2,145,483**	**$ 2,153,209**

Notes to Consolidated Financial Statements

Combined, condensed income statement information underlying the Company's interests in unconsolidated subsidiaries, accounted for using the equity method, is summarized as follows for the

	2020	2019
Operating income	$ 1,323	$ 389
Gain on investments	366,723	610,030
Research and development	(64)	(698)
Management fees	(15,279)	(17,149)
Professional fees	(1,455)	(862)
Other expenses	(13,766)	(2,548)
Net income	**$ 337,482**	**$ 589,162**

8. ACCRUED EXPENSES

Accrued expenses consist of the following amounts at March 31:

	2020	2019
Sales returns	$ 67,110	$ 43,546
Medicaid rebates	25,292	10,965
Managed care	46,873	25,407
Employee-related benefits	38,590	36,141
Royalties and profit sharing	21,522	16,121
Patient coupons	22,426	24,464
Interest	114	292
Total	**$ 221,927**	**$ 156,936**

9. SHORT-TERM BANK BORROWINGS

In March 2015, the Company entered into a line of credit ("credit agreement") with JP Morgan for $20,000, of which $10,000 was outstanding at March 31, 2019. There is no balance outstanding under the credit agreement at March 31, 2020.

In December 2016, the Company entered into an uncommitted revolving line-of-credit agreement (revolving agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan") for a maximum borrowing availability of $200,000, of which $180,000 and $200,000 was outstanding at March 31, 2020 and 2019, respectively. The agreement has no fixed termination date, and thus will terminate at such time either party chooses. The effective interest rate was 1.7% at March 31, 2020.

In September 2019, the Company entered into an uncommitted line of credit ("credit agreement") with JP Morgan for $50,000, which is outstanding at March 31, 2020 and 2019. The effective interest rate was 1.7% at March 31, 2020. As of June 2020, the Company paid off the loan in full, with interest in the amount of $51,013.

Notes to Consolidated Financial Statements

In November 2018, the Company entered into an uncommitted line of credit agreement ("credit agreement") with Standard Chartered Bank with a termination date of November 20, 2020. The maximum available borrowings under the credit agreement is $160,000, which was outstanding at March 31, 2019. There is no balance outstanding under the credit agreement at March 31, 2020.

In June 2020, the Company entered into an uncommitted line of credit agreement ("credit agreement") with Citibank with a termination date of June 2, 2021. The maximum available borrowings under the credit agreement is $45,000.

10. LONG-TERM DEBT

As part of the Fiscal 2015 acquisition of Pharmalucence, the Company assumed Pharmalucence's obligation under its bond agreement with the Massachusetts Development Finance Agency. The original amount of the loan was $20,000 with an assumed balance of $19,355 at the time of the acquisition in Fiscal 2015. The loan was repaid in full during Fiscal 2019.

11. INCOME TAXES

The provision for income taxes consists of the following components for the years ended March 31:

	2020	2019
Current expense	$ 21,816	$ 2,965
Deferred (benefit) expense	(13,289)	12,891
Income tax expense	**$ 8,527**	**$ 15,856**

The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income or loss before income taxes. The items causing the difference are summarized as follows for the years ended March 31:

	2020	2019
Federal tax at statutory rate	$ 3,241	$ 23,004
State income taxes, net of federal benefit	351	(6,237)
Deemed repatriation	-	1,068
Dividend income	-	(1,699)
GILTI tax	-	3,316
Research and development credit	(1,400)	(1,072)
Uncertain tax position	3,458	-
Valuation allowance	210	-
Other	2,667	(2,524)
Income tax expense	**$ 8,527**	**$ 15,856**

Notes to Consolidated Financial Statements

Net deferred income tax assets consist of the following components at March 31:

	2020	2019
Deferred tax assets		
Net operating loss carryforwards (NOLs)	$ 14,906	$ 22,959
Receivables	26,558	13,231
Goodwill and other intangibles	10,113	15,783
Inventory	12,963	9,548
Research and development credit	-	2,593
Accrued expenses and other	16,692	18,891
Total deferred tax assets	**81,232**	**83,005**
Deferred tax liabilities		
Investments	49,028	63,518
Depreciation	2,672	1,565
Other	250	2,013
Total deferred tax liabilities	**51,950**	**67,096**
Net deferred tax assets	**$ 29,282**	**$ 15,909**

Valuation allowances against deferred income tax assets are provided when, based upon the weight of available evidence, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Excluding NOLs there are no such valuation allowances considered necessary as of March 31, 2020 or 2019. Based upon the level of projected future taxable income over the periods in which deferred tax assets are realizable, the Company expects that it is more likely than not that it will realize the benefit of these temporary differences. Some of the Company's NOLs are subject to annual limitations under income tax rules. As a result of such restrictions, certain of such NOLs, amounting to approximately $41,000, will expire and are not likely to be available for future benefit. Accordingly, the deferred tax asset related to the NOLs has been reduced by the amount of NOLs which the Company will likely not be in a position to utilize prior to their expiration between 2021 and 2033.

The Company analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years (Fiscal 2018 to 2020) in these jurisdictions. The Company identified and recorded unrecognized tax benefits ("UTB") of $3,458 as of March 31, 2020 as a result of the Internal Revenue Service examinations. The Company does not expect the total amount of UTB to significantly increase or decrease in the next 12 months.

The Internal Revenue Service has completed its examination of Sun's Fiscal 2016 tax return and issued tax return adjustments resulting in approximately $29,314 of additional tax expense. The Company is disputing the assessment and has included $3,458 additional tax expense within the Fiscal 2020 tax provision. The IRS has opened an audit related to the 2017 Sun tax return. No final audit adjustments have been communicated related to Sun's Fiscal 2017 return and management believes that such adjustments, if any, will not have a material impact on the Company's consolidated financial statements.

Notes to Consolidated Financial Statements

12. LEASES (INCLUDING RELATED PARTY)

The Company conducts a portion of its operations with leased property and equipment, including rental of office and warehouse space in Cranbury, New Jersey, from an affiliated company, Taro. As disclosed in Note 1, effective April 1, 2019 the Company implemented Accounting Standards Codification ("ASC") 842, *Leases*. In accordance with prior guidance, ASC 840, *Leases*, the Company's leases were previously designated as either capital or operating. Previously designated capital leases are now considered finance leases under the new guidance, ASC 842. The designation of operating leases remains substantially unchanged under the new guidance.

Supplemental consolidated balance sheet information related to leases is as follows at March 31, 2020:

Lease assets		
Operating leases	$	10,619
Finance leases (included within property, plant, and equipment)		13,189
Total lease assets	**$**	**23,808**
Liabilities		
Current:		
Operating leases	$	1,654
Finance leases		3,877
Noncurrent:		
Operating leases		9,544
Finance leases		9,856
Total lease liabilities	**$**	**24,931**

Components of total lease costs were as follows for Fiscal 2020:

Operating lease cost (included in administrative expenses)	$	2,879
Finance lease cost:		
Depreciation on lease assets (included in administrative expenses)		2,473
Interest on lease liabilities (included in interest expense)		1,569
Total lease costs	**$**	**6,921**

The following is a schedule of annual future minimum lease payments required under leases with initial or remaining noncancelable lease terms in excess of one year as of March 31, 2020:

Year Ended March 31	Finance Leases	Operating Leases (including affiliates)
2021	$ 4,605	$ 2,239
2022	3,994	2,063
2023	3,266	2,026
2024	1,820	1,797
2025	1,519	920
Thereafter	-	3,070
Total future undiscounted lease payments	**15,204**	**12,115**
Less amounts representing interest	1,471	917
Total reported lease liability	**$ 13,733**	**$ 11,198**

13. ROYALTY AND PROFIT SHARE AGREEMENTS

The Company has entered into several distribution and profit share arrangements wherein a specified percentage of the profit earned is paid by the Company to unrelated third parties as royalty or profit share expense. During Fiscal 2020 and Fiscal 2019, royalty and profit share expense was $31,667 and $30,549, respectively. Of these amounts, $28,299 and $26,013, respectively, have been included in cost of goods sold and $3,368 and $4,536, respectively, have been included in selling, general and administrative expenses in the consolidated statements of income.

14. RETIREMENT PLAN

Each entity within the Company maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under these plans, eligible employees are permitted to contribute up to the maximum allowable amount determined by the Internal Revenue Code. The Company may make discretionary matching and profit sharing contributions under the provisions of these plans. The Company made contributions in the amounts of $6,237 and $6,065 to the plans for Fiscal 2020 and Fiscal 2019, respectively.

Notes to Consolidated Financial Statements

15. SALES CONCENTRATIONS

Major Customers

Shipments to four customers, including three wholesalers, accounted for approximately 41% and 48% of net revenues for Fiscal 2020 and Fiscal 2019, respectively. Balances due from these customers (gross outstanding amounts) represented approximately 89% and 87% of gross accounts receivable at March 31, 2020 and 2019, respectively. As is typical in the U.S. retail sector, many of the Company's customers are serviced through their designated wholesalers. Of the net sales made to wholesalers, the majority include sales for various customers of the Company that have underlying direct contracts with the Company that are facilitated through such wholesale customers. No other single customer accounted for more than 10% of net sales for Fiscal 2020 or Fiscal 2019. The loss of any of these customers would have a materially adverse effect on short-term operating results.

Major Products

Shipments of four products accounted for 41% of net sales for Fiscal 2020. Shipments of three products accounted for 33% of net sales for Fiscal 2019.

16. COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS

Employment Contracts

The Company has employment agreements with three of its executive officers that provide for annual salaries that include merit increases and at least a six-month continuance, including insurance benefits, upon termination without cause.

Litigation

The Company and / or its subsidiaries are involved in various legal proceedings including product liability, contracts, employment claims, anti-trust and other regulatory matters relating to conduct of its business. Some of the key matters are discussed below. Most of the legal proceedings involve complex issues, which are specific to the case and don't have precedents and hence for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors, including: the stage of the proceedings and the overall length and the discovery process ; the entitlement of the parties to an action to appeal a decision; the extent of the claims, including the size of any potential class, particularly when damages are not specified or are indeterminate; the possible need for further legal proceedings to establish the appropriate amount of damages, if any ; the settlement posture of the other parties to the litigation and any other factors that may have a material effect on the litigation. The Company makes its assessment of likely outcome, based on the views of internal legal counsel and in consultation with external legal counsel representing the Company. The Company also believes that disclosure of the amount sought by plaintiffs, would not be meaningful because historical evidence indicates that the amounts settled (if any) are significantly different than those claimed by plaintiffs. Some of the legal claims against the Company, if decided against the Company may result into significant impact on its results of operations of a given period during which the claim is settled.

Antitrust - Generic Drug Price Fixing

Beginning in 2016, subsidiaries in United States of America (US subsidiaries) separately received a grand jury subpoena from the United States Department of Justice, Antitrust Division, seeking documents relating to corporate and employee records, generic pharmaceutical products and pricing, communications with competitors and others regarding the sale of generic pharmaceutical products, and certain other related matters. The subsidiaries are in the process of responding to the subpoenas. Certain current and former officers and employees in the companies' respective commercial teams have also received related subpoenas. A similar subpoena was received by each subsidiary from the Connecticut Attorney General.

US subsidiaries separately have received a Civil Investigative Demand from the U.S. Department of Justice pursuant to the False Claims Act seeking information relating to corporate and employee records, generic pharmaceutical products and pricing, communications and/or agreements with competitors and others regarding the sale of generic pharmaceutical products, and certain other related matters. The subsidiaries are in the process of responding to the requests.

US subsidiaries, and in the case of two complaints, a former member of one subsidiary's sales group, are defendants along with other pharmaceutical companies in a number of putative class action lawsuits and individual actions brought by purchasers and payors of several generic pharmaceutical products, as well as State Attorneys Generals, alleging a conspiracy with competitors to fix prices, rig bids, or allocate customers, and also an industry-wide conspiracy as to all generic pharmaceutical products. Each of these cases has been transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings. The Court had sequenced the 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. Certain cases are proceeding in discovery pursuant to a case management order that is, in part, subject to review by the U.S. Supreme Court.

Antitrust - Modanfinil

The Group was a defendant in a number of putative class action lawsuits and individual actions brought by purchasers and payors, as well as a generic manufacturer, in US alleging that the Company and its affiliates violated antitrust laws in connection with a 2005 patent settlement agreement with Cephalon concerning Modafinil. The cases were transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings, subsequently the Company has reached settlements in these coordinated proceedings.

Antitrust - Lipitor

The Group is a defendant in a number of putative class action lawsuits and individual actions brought by purchasers and payors in US alleging that the Company and its affiliates violated antitrust laws in connection with a 2008 patent settlement agreement with Pfizer concerning Atorvastatin. The cases have been transferred to the United States District Court for the District of New Jersey for coordinated proceedings. The cases are proceeding in discovery.

Antitrust - Ranbaxy Generic Drug Application

The Group is a defendant in a number of putative class action lawsuits and individual actions brought by purchasers and payors in US alleging that the Company and its affiliates violated antitrust laws and the Racketeer Influenced and Corrupt Organizations Act, with respect to its ANDAs for Valganciclovir, Valsartan and Esomeprazole. The cases have been transferred to the United States District Court for the District of Massachusetts for coordinated proceedings. The cases are proceeding in discovery.

Product Liability and Insurance

The Company currently maintains a product liability insurance policy which provides coverage on a claims made basis and is subject to annual renewal. In addition, the Company maintains policies for property, workers' compensation and officers' and directors' liability and other general liability claims. There can be no assurance that the coverage limits of these policies will be adequate to cover the Company's liabilities, should they occur, or that such insurance may not be available in the future on acceptable terms or at all.

Regulatory Matters

All facilities remain in good standing for certified good manufacturing practice ("cGMP") compliance for FDA registered drug or device manufacturing operations.

Economic Uncertainty

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. Many United State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most industries and businesses, having the effect of suspending or severely curtailing operations. The extent of the ultimate impact of the pandemic on the Company's operational and financial performance will depend on various developments, including the duration and spread of the outbreak, and its impact on customers, employees, and vendors, all of which cannot be reasonably predicted at this time. While management reasonably expects the COVID-19 outbreak to negatively impact the Company's financial condition, operating results, and timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

Notes to Consolidated Financial Statements

17. OPERATING SEGMENT INFORMATION

The Company operates in reportable segments consisting of Company-owned products and those products distributed under various agreements with Sun Limited and its affiliates, as well as third parties. The sales and gross profit earned on these categories of products are summarized as follows for the years ended March 31:

	2020		2019	
	Sales	Gross Profit	Sales	Gross Profit
Category				
Company-owned products	$ 577,215	$ 214,461	$ 703,354	$ 320,348
Distributed products	410,030	96,094	282,124	53,803
Total	**$ 987,245**	**$ 310,555**	**$ 985,478**	**$ 374,151**

The Company is in the business of manufacturing, developing, selling and distributing various therapeutic classes of solid oral dosage and injectables of generic pharmaceuticals. The Company is also in the business of manufacturing, developing, selling and distributing various proprietary brand products in the therapeutic categories of ophthalmology, dermatology, oncology, and neurology. There are no separate management teams or individuals assigned to a product or products or therapeutic classes of products, no separate allocation of funds or resources to distinct product or products or therapeutic classes or products, and the performance of any individual product or products or therapeutic classes of products is not separately assessed. Sales are solely based on the receipt and fulfillment of customers' orders.

18. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing Activities

The Company financed the acquisition of vehicles by entering into capital leases totaling $6,008 and $7,520 in Fiscal 2020 and Fiscal 2019, respectively.

Cash paid for interest and income taxes (net of refunds) amounted to the following during the years ended March 31:

	2020	2019
Interest	$ 8,540	$ 21,535
Income taxes paid	$ 25,505	$ -

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