

**Ranbaxy, Inc.  
and  
Subsidiaries**

**Years Ended  
March 31,  
2016 and 2015**

**Consolidated  
Financial  
Statements**

## RANBAXY, INC. AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

July 8, 2016

Board of Directors and Stockholders  
Ranbaxy, Inc. and Subsidiaries  
Princeton, New Jersey

We have audited the accompanying consolidated financial statements of *Ranbaxy, Inc. and Subsidiaries* (the "Company"), which comprise the consolidated balance sheet as of March 31, 2016, and the related consolidated statements of income, stockholder's equity and cash flows for the year 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 the fiscal 2016 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 fiscal 2016 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 fiscal 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Ranbaxy, Inc. and Subsidiaries* as of March 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Predecessor Auditors*

The consolidated financial statements of *Ranbaxy, Inc. and Subsidiaries* as of and for the year ended March 31, 2015, were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements on July 8, 2016.

## RANBAXY, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

ASSETS	March 31	
	2016	2015
<b>Current assets</b>		
Cash and cash equivalents	\$ 119,401,816	\$ 116,861,825
Trade accounts receivable, net	124,150,212	52,306,438
Inventories, net	113,264,615	71,005,113
Due from related parties	286,692,929	175,765,219
Other current assets	18,108,695	11,371,484
Deferred income taxes	54,039,269	20,282,176
<b>Total current assets</b>	<b>715,657,536</b>	<b>447,592,255</b>
Property, plant and equipment, net	95,856,893	94,911,981
Identifiable intangible assets, net	37,032,249	30,571,914
Goodwill	10,379,075	7,826,846
Deferred income taxes	6,422,207	436,726
Other assets	490,467	489,740
<b>Total assets</b>	<b>\$ 865,838,427</b>	<b>\$ 581,829,462</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 20,224,887	\$ 23,002,006
Due to related parties	190,892,315	9,395,439
Income taxes payable	30,584,642	7,017,885
Accrued expenses and other current liabilities	103,348,455	88,675,282
Current portion of capital lease obligations	488,796	350,433
<b>Total current liabilities</b>	<b>345,539,095</b>	<b>128,441,045</b>
Capital lease obligations, net of current portion	10,790,357	16,691
Other liabilities	776,056	612,980
<b>Total liabilities</b>	<b>357,105,508</b>	<b>129,070,716</b>
Commitments and contingencies (Notes 9 and 17)		
<b>Stockholder's equity</b>		
Class A common stock, \$1 par value; authorized 15,000,000 shares, issued and outstanding 13,000,000 shares	13,000,000	13,000,000
Class B common stock, no par value; authorized 1,500 shares, issued and outstanding 519 shares	-	-
Additional paid-in capital	47,955,889	47,256,385
Retained earnings	447,777,030	392,502,361
<b>Total stockholder's equity</b>	<b>508,732,919</b>	<b>452,758,746</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 865,838,427</b>	<b>\$ 581,829,462</b>

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

## RANBAXY, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

	Year Ended March 31	
	2016	2015
Net sales	\$ 533,781,631	\$ 599,044,849
Other operating revenue	9,051,260	9,108,466
<b>Total revenue</b>	<b>542,832,891</b>	<b>608,153,315</b>
Cost of goods sold	328,910,320	352,161,414
Selling, general and administrative expenses	113,489,824	118,291,755
Research and development expenses	12,078,589	12,196,553
Depreciation and amortization	18,076,645	16,390,016
Impairment loss (Note 5)	6,188,567	-
<b>Operating income</b>	<b>64,088,946</b>	<b>109,113,577</b>
Other income (expense)		
Interest expense	(1,333,206)	(254,426)
Interest income	249,001	377,480
Other income, net	1,976,371	877,108
<b>Other income</b>	<b>892,166</b>	<b>1,000,162</b>
<b>Income before income taxes</b>	<b>64,981,112</b>	<b>110,113,739</b>
Income taxes	9,706,443	39,895,683
<b>Net income</b>	<b>\$ 55,274,669</b>	<b>\$ 70,218,056</b>

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

## RANBAXY, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balances, April 1, 2014	13,000,000	\$ 13,000,000	\$ 46,354,476	\$ 322,284,305	\$ 381,638,781
Net income	-	-	-	70,218,056	70,218,056
Share-based compensation	-	-	901,909	-	901,909
Balances, March 31, 2015	13,000,000	13,000,000	47,256,385	392,502,361	452,758,746
Net income	-	-	-	55,274,669	55,274,669
Share-based compensation	-	-	699,504	-	699,504
Balances, March 31, 2016	<u>13,000,000</u>	<u>\$ 13,000,000</u>	<u>\$ 47,955,889</u>	<u>\$ 447,777,030</u>	<u>\$ 508,732,919</u>

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

## RANBAXY, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income	\$ 55,274,669	\$ 70,218,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,076,645	16,390,016
Impairment loss	6,188,567	-
Loss on disposal of property, plant and equipment	66,696	67,324
Gain on sale of intangible assets	(1,976,371)	-
Deferred income taxes (benefit)	(39,742,574)	4,254,557
Provision for (reversal of) inventory obsolescence, net	(4,676,146)	2,571,384
Share-based compensation expense	699,504	901,909
Changes in operating assets and liabilities which (used) provided cash, net of effects of business combination in 2016:		
Trade accounts receivable	(71,685,607)	18,753,096
Inventories	(37,583,356)	115,077,985
Other assets	(6,541,581)	(6,230,909)
Trades accounts payable, accrued expenses and other liabilities	4,009,545	(25,642,633)
Income taxes payable	23,566,757	(2,913,105)
Due to/from related parties, net of advance activity	170,542,101	206,932,131
<b>Net cash provided by operating activities</b>	<b>116,218,849</b>	<b>400,379,811</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(4,750,704)	(6,321,611)
Purchases of intangible assets	(6,660,743)	(2,248,124)
Proceeds from sale of intangible assets	66,650,000	-
Acquisition of business, net of cash acquired	(68,249,679)	-
(Advances to) repaid advances - related parties, net	(100,000,000)	40,000,000
<b>Net cash (used in) provided by investing activities</b>	<b>(113,011,126)</b>	<b>31,430,265</b>
<b>Cash flows from financing activities</b>		
Repayment of capital lease obligations	(667,732)	(1,849,692)
Repayment of advance from related party	-	(358,400,000)
<b>Net cash used in financing activities</b>	<b>(667,732)</b>	<b>(360,249,692)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,539,991</b>	<b>71,560,384</b>
Cash and cash equivalents, beginning of year	116,861,825	45,301,441
<b>Cash and cash equivalents, end of year</b>	<b>\$ 119,401,816</b>	<b>\$ 116,861,825</b>

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



## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Nature of Business

Ranbaxy, Inc., a Delaware corporation, is a wholly owned subsidiary of Ranbaxy (Holdings) U.K. Limited (RHUK), a wholly owned subsidiary of Ranbaxy (Netherlands) BV (RNBV), which in turn is a wholly owned subsidiary of Mumbai, India-based Sun Pharmaceuticals Industries Limited (Sun) (effective March 25, 2015), which is the ultimate parent company. Ranbaxy and its subsidiaries (the "Company", or "Ranbaxy") manufacture and distribute prescription, branded and over-the-counter drugs. The Company operates two manufacturing facilities in New Jersey and sells to customers throughout the United States of America and Canada. The Company obtains its products from its owned manufacturing plants, Sun and third parties. The Company distributes its products pursuant to rights obtained through Abbreviated New Drug Application (ANDA) approvals in the USA, licensing rights obtained from Sun and third parties. The Company's products are subject to the regulatory approval and oversight of the United States Food and Drug Administration (US FDA).

##### Principles of Consolidation

The accompanying 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 U.S. Dollars and include the accounts of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

These consolidated financial statements include the accounts of the following subsidiaries:

Subsidiary	Ranbaxy Ownership
Ranbaxy Pharmaceuticals, Inc.	100%
Ranbaxy USA, Inc.	100
Ohm Laboratories, Inc.	100
Ranbaxy Laboratories, Inc.	100
InSite Vision Incorporated	100
Ranbaxy Signature L.L.C.	67.5

##### Fiscal Year

The Company's fiscal year ends on March 31. References hereafter to 2016 and 2015 represent the years ended March 31, 2016 and 2015, respectively.

##### Concentration Risks

During 2016 and 2015, the Company's three and four largest customers accounted in aggregate for approximately 71% and 73%, respectively, of the Company's net revenue. Further, during 2016 and 2015, no other individual customers accounted for more than 4% and 3%, respectively, of the Company's net revenue.

The Company is subject to a concentration of credit risk with respect to its accounts receivable, all of which is due from wholesalers, distributors, chain drug stores and service providers operating in the health care and pharmaceutical industries. As of March 31, 2016 and 2015, approximately 85% and 82%, respectively, of the accounts receivable was due from the Company's three largest customers.

## RANBAXY, INC. AND SUBSIDIARIES

### ■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Certain of the Company's finished products and raw materials were obtained from related parties. During 2016 and 2015, net sales of third-party manufactured products (excluding related parties) accounted for approximately 55% and 49%, respectively, of the Company's net sales. During 2016 and 2015, the Company's three largest third-party vendors (excluding related parties) accounted for 22% and 67%, respectively, of total product purchases.

#### 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 date of the consolidated financial statements and the reported amounts of income and expenses during the reporting year. Actual results could differ from those estimates. Significant estimates include, but are not limited to, realization of deferred tax assets, determination of allowances for sales returns and doubtful accounts receivable, chargebacks, accruals related to rebates and coupons, valuation of inventories, 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 and cash on hand. The Company considers all deposits placed with banks with an original maturity of three months or less to be cash equivalents. During the normal course of business, the Company may maintain cash on deposit in excess of federally insured limits with financial institutions. Management does not believe the Company is exposed to any significant financial risk as a result of these deposits.

#### Revenue Recognition

Revenue is earned when persuasive evidence of an arrangement exists, the seller's price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company records revenue from product sales when title and risk of ownership have been transferred to the customer, which is generally upon delivery to the customer. Revenue from services, included in net sales, is recognized when the related services are rendered.

Revenue is presented net of applicable cash discounts, volume discounts, rebates, chargebacks, patient coupons and other credits and allowances as applicable. Allowances for sales returns are estimated and provided for at the time of sale. Such allowances are made based on historical trends. The Company evaluates the allowance for sales returns of all products at the end of each reporting period and necessary adjustments, if any, are made.

Chargebacks represent the difference between the invoice price paid by a wholesaler for a particular product and the negotiated contract price that the ultimate customer pays for that product. The Company estimates the amount of expected chargebacks primarily based on historical experience regarding expected wholesaler inventories and current contract prices.

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. Such discount is estimated based on historical experience regarding the usage of coupons by the eligible customers.

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Company manufactures exhibit batches for Sun and also provides business support services to Sun 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.

Royalty income is recognized in accordance with the terms of the respective contractual agreements when collectability is reasonably assured and revenue can be reliably measured.

Shipping and handling costs incurred to transport products to customers are included in selling, general and administrative expenses. Such costs amounted to \$2,816,923 and \$4,097,514, respectively in 2016 and 2015.

#### Accounts Receivable

The Company sells its products using customary trade terms; the resulting 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. Balance 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.

#### Inventories

Inventories are stated at the lower of cost or market. Finished goods and work-in-process are determined using the first-in, first-out (FIFO) method. Raw materials, packing materials and stores and spares are determined using weighted-average cost.

Inventories are reviewed on a periodic basis for identification and write-off of slow moving and obsolete inventory. Such write-downs, if any, are included in cost of goods sold.

#### Research and Development

Research and development costs are expensed 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.

#### Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated 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 progress 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 4 to 39 years. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment. (See Note 5)

## RANBAXY, INC. AND SUBSIDIARIES

### ■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the 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.

The Company analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Company reports interest and penalties attributable to income taxes, to the extent they arise, as a component of income tax expenses.

#### 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, 2016 and 2015.

#### Identifiable Intangible Assets

Intangible assets, including trademarks, licenses, etc., with definite useful lives are amortized over periods ranging from 4 to 15 years and are tested for impairment at least annually.

#### Employee Stock Options

The Company recognizes all employee share-based compensation as a cost in the consolidated financial statements. Common stock options are measured at grant date fair value of the award, estimated using the Black-Scholes option pricing model.

#### 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).

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

#### Reclassification

Certain amounts as reported in the 2015 consolidated financial statements have been reclassified to conform with the 2016 presentation.

#### Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2016, the most recent consolidated balance sheet presented herein, through July 8, 2016, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

## 2. TRADE ACCOUNTS RECEIVABLE, NET

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

	2016	2015
Accounts receivable, gross	\$ 317,666,223	\$ 115,520,206
Allowances		
Cash discounts	5,810,130	3,146,272
Direct and indirect rebates (including administrative fees, service fees and related allowances, etc.)	33,946,408	7,620,004
Chargebacks	58,740,803	31,091,143
Sales returns	11,588,153	13,080,839
Other allowances	83,430,517	8,275,510
Total allowances	193,516,011	63,213,768
Trade accounts receivable, net	\$ 124,150,212	\$ 52,306,438

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The activity in the allowance for sales returns consist of the following for the years ended March 31:

	2016	2015
Balance, beginning of year	\$ 13,080,839	\$ 13,080,839
Returns claimed	(23,312,275)	(11,287,098)
Reserve provided	<u>21,819,589</u>	<u>11,287,098</u>
Balance, end of year	<u>\$ 11,588,153</u>	<u>\$ 13,080,839</u>

#### 3. INVENTORIES

Inventories, net of valuation adjustments and allowances, consist of the following amounts at March 31:

	2016	2015
Raw materials	\$ 12,862,762	\$ 11,227,371
Packing materials	1,856,127	1,943,302
Stores and spares	1,631,363	1,765,557
Work-in-process	8,078,043	12,523,527
Finished goods	<u>88,836,320</u>	<u>43,545,356</u>
Total inventories	<u>\$ 113,264,615</u>	<u>\$ 71,005,113</u>

As of March 31, 2016 and 2015, the allowance for slow-moving and obsolete inventory was \$32,325,016 and \$37,001,162, respectively.

#### 4. OTHER CURRENT ASSETS

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

	2016	2015
Prepaid expenses	\$ 2,331,249	\$ 3,519,834
Advances to suppliers	15,596,813	898,147
Other receivables	<u>180,633</u>	<u>6,953,503</u>
Total other current assets	<u>\$ 18,108,695</u>	<u>\$ 11,371,484</u>

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consists of the following components at March 31:

	2016		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,558,500	\$ -	\$ 1,558,500
Building and improvements	73,455,634	19,757,918	53,697,716
Capital lease assets	24,684,637	13,634,180	11,050,457
Machinery and equipment	82,685,100	61,607,366	21,077,734
Computers	8,655,289	7,005,226	1,650,063
Office equipment	394,004	332,308	61,696
Furniture and fixtures	2,986,856	2,503,517	483,339
Construction in progress	6,277,388	-	6,277,388
<b>Total</b>	<b>\$ 200,697,408</b>	<b>\$ 104,840,515</b>	<b>\$ 95,856,893</b>

	2015		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,583,500	\$ -	\$ 1,583,500
Building and improvements	73,428,521	15,132,256	58,296,265
Capital leased assets	12,441,905	12,204,200	237,705
Machinery and equipment	80,028,438	53,722,522	26,305,916
Computers	8,379,375	5,763,363	2,616,012
Office equipment	373,507	275,769	97,738
Furniture and fixtures	3,118,161	2,530,356	587,805
Construction in progress	5,187,040	-	5,187,040
<b>Total</b>	<b>\$ 184,540,447</b>	<b>\$ 89,628,466</b>	<b>\$ 94,911,981</b>

Construction in progress primarily relates to the expansion of the Company's manufacturing activities and includes building, machinery and equipment, which have not been completed and placed in service as of the end of the related year.

Depreciation expense was \$10,462,505 and \$11,159,517 for 2016 and 2015, respectively.

During 2016, the Company identified certain property and equipment that was deemed to be impaired based on the assessment of the fair value in use and expected future cash flows of the long-lived asset. Accordingly, the Company recognized approximately \$6,200,000 of impairment charges on one of its facilities. Estimated fair value was determined using significant unobservable inputs (Level 3) based on an income approach.

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 6. GOODWILL

Goodwill as of March 31, 2016, was \$10,379,075, consisting of \$412,545 on Ranbaxy Pharmaceuticals Inc., \$7,414,301 on Ohm Laboratories Inc. and \$2,552,229 on InSite Vision Incorporated. Goodwill as of March 31, 2015, was \$7,826,846, with \$412,545 on Ranbaxy Pharmaceuticals Inc. and \$7,414,301 on Ohm Laboratories Inc.

#### 7. IDENTIFIABLE INTANGIBLE ASSETS

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

	2016		
	Cost	Accumulated Amortization	Net Book Value
Trademarks	\$ 13,834,232	\$ 11,344,163	\$ 2,490,069
Technical know-how	17,161,256	10,106,076	7,055,180
Licenses	29,028,457	8,884,708	20,143,749
Intellectual property	5,300,000	220,833	5,079,167
Software	7,913,743	5,649,659	2,264,084
<b>Identifiable intangible assets</b>	<b>\$ 73,237,688</b>	<b>\$ 36,205,439</b>	<b>\$ 37,032,249</b>

  

	2015		
	Cost	Accumulated Amortization	Net Book Value
Trademarks	\$ 13,834,232	\$ 10,940,368	\$ 2,893,864
Technical know-how	17,161,256	8,961,992	8,199,264
Licenses	23,028,457	6,262,298	16,766,159
Software	7,253,000	4,540,373	2,712,627
<b>Identifiable intangible assets</b>	<b>\$ 61,276,945</b>	<b>\$ 30,705,031</b>	<b>\$ 30,571,914</b>

Trademark, technical knowhow, licenses and intellectual property are amortized over periods ranging from 5 to 15 years. Software is amortized over a period of 4 years. Amortization expense was \$7,614,140 and \$5,230,499 for 2016 and 2015, respectively.



## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated future amortization of the identifiable intangible assets is summarized as follows for each of the next five years and thereafter:

Year Ending March 31	Amount
2017	\$ 6,570,829
2018	6,435,838
2019	5,865,973
2020	5,501,656
2021	4,617,831
2022 and thereafter	<u>8,040,122</u>
Total	<u>\$ 37,032,249</u>

### 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following at March 31:

	2016	2015
Accrued expenses	\$ 58,320,681	\$ 45,064,082
Medicaid rebates	20,013,075	12,312,908
Employee-related liabilities	4,956,137	2,576,542
Advances from customers	6,207,727	222,227
Book overdraft	2,107,402	1,723,138
Provision towards legal settlements	-	19,750,000
Other current liabilities	<u>11,743,433</u>	<u>7,026,385</u>
Total current liabilities	<u>\$ 103,348,455</u>	<u>\$ 88,675,282</u>

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.

### 9. LEASES

The Company conducts a portion of its operations with leased property and equipment, including a warehouse facility and related equipment, a portion of which meet capitalization criteria specified by generally accepted accounting principles.

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and equipment held under capitalized leases and included with owned properties on the consolidated balance sheets are summarized as follows at March 31:

	2016	2015
Building	\$ 24,376,791	\$ 12,134,059
Equipment	232,930	232,930
Computers	<u>74,916</u>	<u>74,916</u>
Total	24,684,637	12,441,905
Less accumulated amortization	<u>13,634,180</u>	<u>12,204,200</u>
Net book value	<u>\$ 11,050,457</u>	<u>\$ 237,705</u>

Net rental expense for operating leases was \$1,859,286 and \$1,744,757 for 2016 and 2015, respectively.

The following is a schedule of annual future minimum lease payments required under capitalized leases and under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2016:

Year Ended March 31	Capitalized Leases	Non- Cancelable Operating Leases
2017	\$ 2,028,071	\$ 1,186,814
2018	2,068,999	693,195
2019	2,117,012	7,418
2020	2,169,937	1,239
2021	2,224,186	-
Thereafter	<u>9,877,716</u>	<u>-</u>
Total minimum payments due	20,485,921	<u>\$ 1,888,666</u>
Less amounts representing interest of 5%	<u>9,206,768</u>	
Present value of net minimum lease payments	<u>\$ 11,279,153</u>	

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 10. INCOME TAXES

The income tax expense consists of the following components for the years ended March 31:

	2016	2015
Currently payable		
Federal	\$ 47,938,585	\$ 34,671,123
State	<u>1,510,432</u>	<u>970,026</u>
Total current expense	<u>49,449,017</u>	<u>35,641,149</u>
Deferred		
Federal (benefit)	(38,484,032)	3,966,306
State (benefit)	<u>(1,258,542)</u>	<u>288,228</u>
Total deferred (benefit) expense	<u>(39,742,574)</u>	<u>4,254,534</u>
<b>Income tax expense</b>	<b><u>\$ 9,706,443</u></b>	<b><u>\$ 39,895,683</u></b>

A reconciliation of the provision for income taxes, and the amount computed by applying the statutory federal income tax rates to income before income taxes is summarized as follows for the years ended March 31:

	2016		2015	
	Amount	Effective Rate	Amount	Effective Rate
Federal taxes	\$ 22,743,389	35.0%	\$ 38,539,809	35.0%
State income taxes, net of federal benefit	158,400	0.2%	867,195	0.7%
Federal R&D credit true up	(241,708)	(0.4)%	(257,918)	(0.2)%
Recognition of tax benefit of InSite net operating loss carryforward	(13,553,232)	(20.9)%	-	-
Other	<u>599,594</u>	<u>0.9%</u>	<u>746,597</u>	<u>0.7%</u>
<b>Income tax expense</b>	<b><u>\$ 9,706,443</u></b>	<b><u>14.8%</u></b>	<b><u>\$ 39,895,683</u></b>	<b><u>36.2%</u></b>

The net deferred income assets consist of the following components at March 31:

	2016	2015
Current		
Sales / receivables allowances	\$ 41,147,070	\$ 4,648,703
Inventory	4,394,346	3,153,673
Intangibles / goodwill	6,075,138	-
Accrued expenses	5,702,680	5,488,965
Tax credit carryforwards	391,147	-
Prepaid expenses and other	(3,671,112)	-
Texas settlement accrual	<u>-</u>	<u>6,990,835</u>
<b>Total current</b>	<b><u>54,039,269</u></b>	<b><u>20,282,176</u></b>

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2016	2015
Noncurrent		
Intangibles / goodwill	\$ (1,543,084)	\$ (1,411,489)
Capitalized lease	(4,270,286)	-
Accrued expenses	84,904	-
Net operating loss carryforwards	14,244,033	-
Basis of property, plant and equipment	(2,093,360)	1,450,390
Other	-	397,825
	<u>6,422,207</u>	<u>436,726</u>
<b>Total noncurrent</b>		
	<u>\$ 60,461,476</u>	<u>\$ 20,718,902</u>
<b>Net deferred tax assets</b>		

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. There were no such valuation allowances deemed necessary as of March 31, 2016 or 2015. Based upon the level of projected future taxable incomes over the periods in which deferred assets are deductible, the Company expects that it is more likely than not that it will realize the benefit of these temporary differences.

The Company has analyzed its income tax positions for fiscal 2013 through 2016, the years, which remain subject to examination by major tax jurisdictions as of March 31, 2016. The Company does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase or decrease in the next 12 months.

### 11. RELATED PARTY TRANSACTIONS

A summary of transactions with related parties is as follows as of and for the year ended March 31:

	2016	2015
Sun Pharmaceutical Industries Limited		
Purchases of materials and finished goods	\$ 14,394,318	\$ 130,167,431
Sales of goods	43,818	-
Royalty charges paid	4,561,487	5,960,415
Business support and market research expenses	2,784,994	2,903,998
Income from exhibit batches manufactured	3,267,921	4,024,463
Management fee income	44,668	7,072,860
Ranbaxy Pharmaceuticals Canada Inc.		
Management fee income	988,113	1,274,133
Sales of goods	2,643,789	2,437,155

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2016	2015
Sun Pharmaceutical Industries Inc.		
Interest income	\$ 249,000	\$ -
Operating advance to affiliate	100,000,000	-
Taro Pharmaceuticals U.S.A., Inc.		
Purchases of goods	4,108,830	-
Daiichi Sankyo Inc.		
Traded purchases of goods	-	12,869,479
Branded prescription drug fee	-	2,905,154
RNBV		
Operating advances to affiliate	-	15,000,000
Repayment received on operating advances	-	55,000,000
Interest income	-	299,895
Repayment of advances for acquisition	-	358,400,000
Sun Pharma Global (FZE)		
Purchases of goods	174,734,991	-
Sale of intangible asset	66,650,000	-
Aditya Acquisition Company Ltd.		
Legal and professional charges paid	264,002	-

A summary of the balances due from related parties is as follows as of March 31:

	2016	2015
Sun Pharmaceutical Industries Ltd	\$ 180,295,447	\$ 171,965,584
Sun Pharmaceutical Industries Inc.	100,249,000	-
Taro Pharmaceuticals U.S.A., Inc.	185,365	-
Ranbaxy Pharmaceuticals Canada, Inc.	<u>5,963,117</u>	<u>3,799,635</u>
<b>Total due from related parties</b>	<b><u>\$ 286,692,929</u></b>	<b><u>\$ 175,765,219</u></b>

A summary of the balances due to related parties is as follows as of March 31:

	2016	2015
Sun Pharmaceutical Industries Ltd	\$ 8,979,900	\$ 1,858,541
Sun Pharmaceutical Industries Inc.	1,652,653	-
Aditya Acquisition Company Ltd.	264,002	-
Sun Pharma Global (FZE)	179,725,718	-
Taro Pharmaceuticals U.S.A., Inc.	270,042	-
Daiichi Sankyo, Inc.	<u>-</u>	<u>7,536,898</u>
<b>Total due to related parties</b>	<b><u>\$ 190,892,315</u></b>	<b><u>\$ 9,395,439</u></b>

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The above amounts include both operating activity and balances outstanding on advances. Advances to and from these related parties have no formal repayment date. Historically, settlement has occurred within one year; therefore, such amounts are included as current assets and liabilities on the consolidated balance sheets under the headings of "Due from related parties" and "Due to related parties". Interest amounts on such advances are disclosed above.

#### 12. 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 2016 and 2015, royalty and profit share expense was \$50,078,248 and \$58,740,804, respectively. Of these amounts, \$48,069,572 and \$57,027,585, respectively, have been included in cost of goods sold and \$2,008,676 and \$1,713,219, respectively, have been included in selling, general and administrative expenses.

#### 13. SHARE-BASED COMPENSATION

Suns' Employee Stock Option Schemes (ESOSs) provide for the grant of common stock options to eligible employees and Directors of Sun and its subsidiaries. The ESOSs are administered by the Compensation Committee (Committee) of the Board of Directors of Sun. Options are granted at the discretion of the Committee to selected employees depending upon certain criterion.

The options vest evenly over five years from the date of grant and expire ten years from the date of grant.

	Year Ended March 31, 2016		
	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at the beginning of the year	338,249	\$ 4.45	2.84
Granted during the year	75,548	0.09	0.09
Forfeited and lapsed during the year	(179,904)	2.69	-
Exercised during the year	<u>(56,996)</u>	<u>2.41</u>	<u>-</u>
Outstanding, end of the year	<u>176,897</u>	<u>\$ 5.03</u>	<u>2.28</u>
Exercisable at the end of the year	<u>148,253</u>	<u>\$ 5.99</u>	<u>2.47</u>

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended March 31, 2015		
	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at the beginning of the year	635,315	\$ 5.50	-
Granted during the year	104,000	.08	-
Forfeited and lapsed during the year	(213,744)	6.23	-
Exercised during the year	(187,322)	3.55	-
Outstanding, end of the year	<u>338,249</u>	<u>\$ 4.45</u>	<u>2.84</u>
Exercisable at the end of the year	<u>255,681</u>	<u>\$ 5.86</u>	<u>3.07</u>

The following table summarizes information about common stock options outstanding as of March 31, 2016:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Up to \$4.83	65,291	\$ 1.96	2.14	36,647	\$ 3.43	2.78
\$4.84 - \$7.53	<u>111,606</u>	<u>\$ 6.83</u>	<u>2.36</u>	<u>111,606</u>	<u>\$ 6.83</u>	<u>2.36</u>
	<u>176,897</u>			<u>148,253</u>		

The weighted average grant date fair value of options granted during 2016 and 2015 was \$0.08 in both years.

The fair value of options issued under the share-based compensation plans is calculated using a Black-Scholes model. The following table summarizes the assumptions used in calculating the grant date fair value for options granted each year:

	2016	2015
Dividend yield	0.41%	0.43%
Expected life of options from the date(s) of grant	2.25 years	2.25 years
Risk free interest rate	7.79%	8.64%
Volatility	44.83%	40.47%

## RANBAXY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 14. EMPLOYEE BENEFIT PLAN

The Company sponsors a retirement plan under Section 401(k) of the Internal Revenue Code covering substantially all eligible employees. The plan allows for employees to defer up to 15% of their gross compensation up to a maximum determined by the Internal Revenue Code. The plan provides that the Company can make discretionary contributions in amounts up to the maximum allowable by Section 404 of the Internal Revenue Code. Contributions to the employee benefit plan were \$1,106,159 and \$1,531,134 in 2016 and 2015, respectively.

#### 15. BUSINESS COMBINATION

On November 2, 2015, the Company acquired certain assets and assumed certain liabilities of InSite Vision Incorporated (InSite). Accordingly, the results of operations for InSite have been included in these consolidated financial statements from that date forward. The Company acquired InSite to facilitate its parent company's entry and expansion into the ophthalmic market in the United States. The acquisition price of \$71,482,400 was funded by cash.

The following assets and liabilities were recognized in the acquisition (at fair value):

Cash	\$ 3,232,721
Accounts receivable	158,167
Other current assets	196,357
Property and equipment	1,332,215
Identifiable intangibles	67,900,000
Goodwill	6,712,525
Accounts payable	(3,883,993)
Accrued expenses and other current liabilities	(4,165,592)
<b>Total identifiable net assets</b>	<b><u>\$ 71,482,400</u></b>

InSite had net sales of \$775,000 during the five months of 2016.

Subsequent to the acquisition of InSite, the Company entered into an agreement with Sun Pharma Global FZE (a related party) to sell two of the acquired intangible assets for \$66,650,000. The gain on sale of these intangible assets and related goodwill of \$4,160,296, was \$1,976,371 for 2016, which is included in other income, net in the 2016 consolidated statement of income.

#### 16. SUPPLEMENTAL CASH FLOWS INFORMATION

##### Non-Cash Investing Activities

The Company financed the purchase of a building facility during 2016 by entering into a capital lease in the amount of \$11,579,761.



## RANBAXY, INC. AND SUBSIDIARIES

### ■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Other Cash Flows Information

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

	2016	2015
Interest	\$ 1,333,206	\$ 333,358
Income taxes paid (refunded)	\$ (13,860,314)	\$ 38,367,152

### ■ 17. COMMITMENTS AND CONTINGENCIES

The Company is involved in lawsuits, claims and proceedings, which arise in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability is not currently determinable because of considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a material adverse effect on the consolidated financial statements.

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