Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries

(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Years Ended March 31, 2019 and 2018

Consolidated Financial Statements

Rehmann

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

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INDEPENDENT AUDITORS' REPORT

May 24, 2019

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, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), 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, 2019 and 2018, 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.

Changes in Accounting Principles

As described in Note 1, during Fiscal 2019 the Company implemented recent accounting principles related to revenue recognition and the recognition and measurement of certain financial assets and liabilities. 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	
	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 58,623	$ 120,733
Accounts receivable, net	529,766	354,323
Accounts receivable - Sun Limited and affiliates	135,210	-
Inventories	343,625	295,693
Refundable income taxes	1,355	2,663
Prepaid expenses and deposits	15,320	50,074
Current portion of note receivable	-	8,714
Total current assets	**1,083,899**	**832,200**
Property, plant and equipment		
Land	2,365	2,682
Buildings and improvements	110,135	106,626
Equipment	179,543	198,851
Furniture and fixtures	6,119	5,988
Vehicles	16,864	11,112
Construction in process	25,575	38,609
Total	340,601	363,868
Less accumulated depreciation	177,517	188,552
Net property, plant and equipment	**163,084**	**175,316**
Investments		
Marketable equity securities	262,588	2,777
Nonmarketable equity securities	7,361	36,576
Interests in unconsolidated subsidiaries	107,565	71,838
Convertible notes	11,100	7,000
Total investments	**388,614**	**118,191**
Goodwill	80,579	80,579
Other intangible assets, net	89,360	129,297
Deferred income taxes	15,909	76,360
Note receivable, net of current portion	-	4,446
Total assets	**$ 1,821,445**	**$ 1,416,389**

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	
	2019	2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	$ 370,000	$ 260,000
Accounts payable - trade	114,287	113,710
Accounts payable - Sun Limited and affiliates	-	60,569
Accrued expenses	156,936	146,403
Current portion of contingent liability on acquisition	6,250	15,625
Current portion of capital lease obligations	4,551	1,992
Current portion of long-term debt	-	788
Total current liabilities	**652,024**	**599,087**
Advances from affiliate	312,387	174,376
Contingent liability on acquisition, net of current portion	-	4,583
Capital lease obligations, net of current portion	13,337	17,350
Long-term debt, net of current portion	-	15,945
Total liabilities	**977,748**	**811,341**
Commitments and contingencies (Notes 1, 12, 14, 15, and 17)		
Shareholders' equity		
Controlling interest		
Common stock	-	-
Additional paid-in capital	543,880	543,880
Retained earnings	277,062	26,588
Accumulated other comprehensive income	-	19,276
Total controlling interest	820,942	589,744
Affiliated interest	22,755	15,304
Total shareholders' equity	**843,697**	**605,048**
Total liabilities and shareholders' equity	**$ 1,821,445**	**$ 1,416,389**

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 Operations
(amounts in thousands)

	Year Ended March 31	
	2019	2018
Net sales	$ 985,478	$ 830,294
Other operating revenue	13,059	18,275
Total revenue	**998,537**	**848,569**
Cost of goods sold	611,327	597,461
Selling, general and administrative expenses	312,893	301,356
Research and development costs	42,042	55,208
Loss on disposal of property, plant, and equipment	7,920	1,577
Operating income (loss)	**24,355**	**(107,033)**
Other (expense) income		
Interest expense	(20,675)	(14,837)
Dividend and interest income	30,924	3,741
Gains on equity securities	48,894	-
Equity in earnings (losses) from unconsolidated subsidiaries	21,323	(6,040)
Gain on sale of intangible asset	148	-
Impairment of goodwill	-	(413)
Other income	4,576	2,718
Other income (expense), net	**85,190**	**(14,831)**
Income (loss) before income taxes (benefit)	**109,545**	**(121,864)**
Income taxes (benefit)	15,856	(2,660)
Net income (loss)	**93,689**	**(119,204)**
Net income (loss) attributable to affiliated interest	2,832	(651)
Net income (loss) attributable to controlling interest	**$ 90,857**	**$ (118,553)**

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 Comprehensive Income (Loss)
(amounts in thousands)

	Year Ended March 31	
	2019	2018
Net income (loss)	$ 93,689	$ (119,204)
Other comprehensive income, net of tax (Note 20)	-	10,439
Comprehensive income (loss)	**$ 93,689**	**$ (108,765)**

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, 2017 (Note 1)	1	$ -	$543,341	$147,338	$ 7,193	$ 15,955	$ 713,827
Comprehensive loss	-	-	-	(118,553)	10,439	(651)	(108,765)
Reclassification related to Tax Cuts and Jobs Act (Note 20)	-	-	-	(1,644)	1,644	-	-
Distributions	-	-	-	(553)	-	-	(553)
Share-based compensation	-	-	539	-	-	-	539
Balances, March 31, 2018 (Note 1)	1	-	543,880	26,588	19,276	15,304	605,048
Comprehensive income	-	-	-	90,857	-	2,832	93,689
Cumulative effect of change in accounting principle (Note 1)	-	-	-	162,010	(19,276)	4,619	147,353
Distributions	-	-	-	(2,393)	-	-	(2,393)
Balances, March 31, 2019	1	$ -	$543,880	$ 277,062	$ -	$ 22,755	$ 843,696

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	
	2019	**2018**
Cash flows from operating activities		
Net income (loss)	$ 93,689	$ (119,204)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities		
Depreciation	26,916	41,468
Amortization	39,741	38,963
Gains on equity securities	(48,894)	-
Equity in (earnings) losses from unconsolidated subsidiaries	(21,323)	6,040
Stock dividend from investee	(913)	-
Loss on disposal of property, plant, and equipment	7,920	1,577
Gain on sale of intangible asset	(148)	-
Deferred income taxes (benefit)	12,891	(19,718)
(Recovery of) provision for doubtful accounts	(1,633)	12,717
Contingent earn-out interest expense	-	227
Share-based compensation	-	539
Goodwill impairment charge	-	413
Changes in operating assets and liabilities which (used) provided cash		
Accounts receivable	(175,443)	23,906
Due from related parties	(135,210)	80,621
Inventories	(47,932)	(7,235)
Refundable income taxes	1,308	13,728
Prepaid expenses and deposits	34,754	(25,092)
Accounts payable	(59,992)	79,596
Accrued expenses	(3,425)	(18,148)
Net cash (used in) provided by operating activities	**(277,694)**	**110,398**
Cash flows from investing activities		
Purchases and construction of property, plant and equipment	(17,969)	(23,877)
Proceeds on disposal of property, plant, and equipment	17,678	8,960
Proceeds from sale of intangible assets	344	-
Investment in unconsolidated entities	(6,111)	(13,942)
Distributions from unconsolidated subsidiaries	5,831	5,131
Issuance of convertible note	(4,100)	-
Proceeds from dissolution of joint venture interest	-	2,598
Net cash used in investing activities	**(4,327)**	**(21,130)**
Cash flows from financing activities		
Proceeds from short-term bank borrowings	210,000	50,000
Repayment of line of credit borrowings	(100,000)	(100,000)
Advances from affiliates	138,011	-
Repayment of long-term debt	(16,733)	(756)
Repayment of capital lease obligations	(8,974)	(2,561)
Distributions	(2,393)	(553)
Net cash provided by (used in) financing activities	**219,911**	**(53,870)**
Net (decrease) increase in cash and cash equivalents	**(62,110)**	**35,398**
Cash and cash equivalents, beginning of year	120,733	85,335
Cash and cash equivalents, end of year	**$ 58,623**	**$ 120,733**

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

Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS 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"). Prior to March 2018, Sun was 81% owned by Sun Holding and 19% by Sun Limited. This change in ownership interest was applied retrospectively to the beginning of the first period presented and as result, retained earnings increased and affiliated interest in subsidiary decreased by $112,230 and $132,697 at March 31, 2018 and April, 1, 2017, respectively.

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 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.

Notes to Consolidated Financial Statements

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.

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 have any current operating activities.

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.

Ranbaxy Pharmaceuticals, Inc. ("Ranbaxy Pharma") was a wholly owned subsidiary based in Princeton, New Jersey and was in the distribution business for generic products for Ranbaxy. Effective July 31, 2017, Ranbaxy Pharma was dissolved, and all the assets and liabilities were simultaneously transferred to Sun.

Ranbaxy Laboratories, Inc. ("Ranbaxy Labs") was a wholly owned subsidiary based in Princeton, New Jersey, and was in the business of brand product development, marketing, and distribution. Effective July 31, 2017, Ranbaxy Labs was dissolved, and all of its assets and liabilities were simultaneously transferred to Sun.

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.

Notes to Consolidated Financial Statements

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.

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 operations. Prior to Fiscal 2019, these securities were classified as available-for-sale securities and measured and recorded at fair value with unrealized changes in fair value recorded through other comprehensive 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. Prior to Fiscal 2019, this investment was carried at cost and was reflected in "Nonmarketable equity securities" at March 31, 2018 on the consolidated balance sheets.

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 ''Earnings (losses) from unconsolidated subsidiaries'' in the consolidated statements of operations. Prior to Fiscal 2019, the Company's share of unrealized gains and losses, net of income tax, was reported in other comprehensive income. The Company's carrying value in an equity method Investee is reflected in the caption "Investment 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. Prior to Fiscal 2019, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary-impairment. At March 31, 2019, the Company has outstanding capital commitments of approximately $6,164 to these investees.

Realized and unrealized gains and losses resulting from changes in fair value or the sale of equity investments are reported as "Gains on equity securities" on the consolidated statements of operations. All gains recognized in Fiscal 2019 are unrealized. Prior to Fiscal 2019, unrealized gains and losses were recorded through other comprehensive income (loss) and realized gains and losses on the sale, exchange, or impairment of these equity investments through the consolidated statements of operations.

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.

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 $4,100 was paid prior to March 31, 2019. This convertible note matures in June 2019. 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. Additionally, in Fiscal 2019, the Company received funds from 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 probably 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.

Shipping and handling costs are considered to be a fulfillment cost. These costs are included in selling, general and administrative expenses and amounted to $9,299 and $7,571 in Fiscal 2019 and Fiscal 2018, respectively.

Notes to Consolidated Financial Statements

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 only when, or as, the later of subsequent sale or the performance obligation to which some or all of the sales-based royalty has been allocated, has been satisfied. Revenues from licensing arrangements included royalty income of $498 and $684 in Fiscal 2019 and Fiscal 2018, respectively, and are included in "Other operating revenue" on the consolidated statements of operations.

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 $12,561 and $17,591 for Fiscal 2019 and Fiscal 2018, respectively, and are included in "Other operating revenue" on the consolidated statements of operations.

Contract assets are mainly comprised of trade receivables net of doubtful accounts, which includes amounts billed and currently due from customers.

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, 2019 and 2018.

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 77% and 61% of the total allowance for trade receivables at March 31, 2019 and 2018, 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.

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.

Inventory

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.

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).

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.

See Note 11 for a description of the impact of the Federal Tax Cuts and Jobs Act, which the U.S. Government enacted on December 22, 2017.

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 years ended March 31, 2019 and 2018.

Advertising and Promotion Costs

Advertising and promotion costs which are expensed as incurred and included in selling, general and administrative expenses, amounted to $21,336 and $11,771 in Fiscal 2019 and Fiscal 2018, 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. Management concluded, based on their assessment, a $413 impairment charge was necessary at March 31, 2018 for the portion of goodwill related to the Jacksonville, Florida location that was closed in Fiscal 2018 (Note 5). No such charge was considered necessary at March 31, 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, 2019 or 2018.

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).

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.

Reclassification

Certain amounts as reported in the Fiscal 2018 consolidated financial statements have been reclassified to conform with the Fiscal 2019 presentation.

Notes to Consolidated Financial Statements

Change in Accounting Principles

The Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in May 2014. The standard requires revenue to be recognized when promised goods and services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The standard also requires expanded disclosures regarding revenue and contracts with customers. On April 1, 2018, the Company adopted the standard using the modified retrospective method. There was no impact to the timing or amount of revenue recognized as a result of this adoption.

The Financial Accounting Standards Board issued ASU No. 2016-01, *Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, in January 2016. The new standard is effective for the Company in Fiscal 2019. This ASU requires (1) certain equity investments to be measured at fair value with changes in fair value to be recognized in net income. Equity investments that do not have readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer; (2) a qualitative assessment of equity investments without readily determinable fair values to identify impairment; and (3) a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the consolidated balance sheet or in these notes. On April 1, 2018, the Company adopted the standard using the modified retrospective method and, therefore, no adjustments were made to amounts previously reported in the consolidated financial statements. As a 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).

On February 14, 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from accumulated other comprehensive income ("AOCI")*. The ASU allows a reclassification from AOCI to retained earnings for deferred income taxes previously recorded in AOCI that exceed the current federal tax rate of 21% resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act (the Act). The Company elected to early adopt the ASU, which affects only the year that the effects related to Tax Reform are recognized. Refer to Note 20 for the impact of this election on the Fiscal 2018 consolidated financial statements.

Subsequent Events

In preparing these financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2019, the most consolidated recent balance sheet presented herein, through May 24, 2019, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

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.

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 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, 2019 and 2018 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, 2019 and 2018, it was determined that cost reasonably approximates the estimated fair value of the notes.

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, 2019 and 2018, it was determined that cost approximates the fair value of the liability.

Notes to Consolidated Financial Statements

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

	Assets at Fair Value			
2018	Level 1	Level 2	Level 3	Total
Marketable equity securities by industry				
Healthcare	$ 2,777	$ -	$ -	$ 2,777
Convertible note	-	-	7,000	7,000
Total assets at fair value	**$ 2,777**	**$ -**	**$ 7,000**	**$ 9,777**

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

	Liability at Fair Value			
2018	Level 1	Level 2	Level 3	Total
Contingent liability on acquisition	$ -	$ -	$ 20,208	$ 20,208

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 year ended March 31:

	2019	2018
Beginning balance of recurring Level 3 assets	$ 7,000	$ -
Investment in convertible notes	4,100	7,000
Ending balance of recurring Level 3 assets	**$ 11,100**	**$ 7,000**

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 year ended March 31:

	2019	2018
Beginning balance of recurring Level 3 liability	$ 20,208	$ 19,981
Change in estimate*	(13,958)	-
Recognition of discounted value	-	227
Ending balance of recurring Level 3 liability	**$ 6,250**	**$ 20,208**

*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 operations.

3. ACCOUNTS RECEIVABLE, NET

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

	2019	2018
Accounts receivable, gross	$ 652,174	$ 495,745
Valuation allowances		
Chargebacks and shelf stock	93,767	96,042
Direct and indirect rebates (includes administrative fees, service fees and related allowances, etc.)	14,779	27,824
Cash discounts	13,361	10,306
Allowance for doubtful accounts	84	6,824
Other concessions	417	426
Total valuation allowances	122,408	141,422
Accounts receivable, net	**$ 529,766**	**$ 354,323**

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

	2019	2018
Beginning balance	**$ 141,422**	**$ 229,245**
Additions charged to net sales	1,902,710	1,710,382
Deductions allowed to customers	(1,921,724)	(1,798,205)
Ending balance	**$ 122,408**	**$ 141,422**

4. INVENTORIES

Inventories consist of the following components at March 31:

	2019	2018
Raw materials	$ 40,641	$ 58,554
Work in process	49,423	21,386
Goods in transit (distributed products)	18,634	18,959
Finished goods (Company-owned products)	223,273	140,646
Finished goods (distributed products)	11,654	56,148
Total inventory	**$ 343,625**	**$ 295,693**

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 2019 and Fiscal 2018, the Company made net purchases of inventory components, consisting of raw materials and finished goods, of approximately $333,211 and $264,647, 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 will be closed. During Fiscal 2019, the Company recognized approximately $21,000 in costs related to this closure including severance, asset writeoffs, accelerated depreciation, remaining lease commitments, and exit cleanup costs. Of the approximate $21,000 in costs, $7,789 and $13,211 is recognized within "Loss on disposal of property, plant, and equipment" and "Selling, general, and administrative expenses," respectively, in the Fiscal 2019 consolidated statement of operations.

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 operations. 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.

During Fiscal 2018, the Company sold its dormant manufacturing facility located in Detroit, Michigan and recorded a loss of approximately $1,447 within "Loss on disposal of property, plant, and equipment" in the 2018 consolidated statement of operations. Total consideration was $5,349 which was received in full on the date of the sale.

In addition, during Fiscal 2018 the Company closed its distribution facility in Jacksonville, Florida that is subject to a long-term lease. Currently, the facility is vacant as the Company explores sub-lease options with the landlord. As a result, the facility's estimated useful life was adjusted, and the Company recognized accelerated depreciation of approximately $8,100 in Fiscal 2018 which is included in "Selling, general, and administrative expenses" in the Fiscal 2018 consolidated statements of operations.

6. OTHER INTANGIBLE ASSETS

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

	2019	2018
Patents and trademarks	$ 232,123	$ 232,910
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	395,899
Less accumulated amortization	305,752	266,602
Other intangible assets, net	**$ 89,360**	**$ 129,297**

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

Estimated annual amortization expense for each of the five years succeeding March 31, 2019 and thereafter, are summarized as follows:

Year Ended March 31	Amount
2020	$ 39,810
2021	25,727
2022	8,824
2023	6,543
2024	6,974
Thereafter	1,482
Total	**$ 89,360**

7. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

At March 31, 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%). At March 31, 2018, 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%), and scPharmaceuticals, Inc. (11.69%). 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. There was no impact on the 2018 consolidated statement of operations as a result of this change in classification.

During Fiscal 2018, S & I Ophthalmic, LLC was dissolved. As a result, the Company received a final distribution of $2,598.

Notes to Consolidated Financial Statements

Activity in the investment in unconsolidated subsidiaries account is summarized as follows for the years ended March 31:

Balance, April 1, 2017	**$ 68,571**
Capital contributions	6,047
Proportionate share of equity in net income	4,397
Distributions	(4,579)
Dissolution of S & I Ophthalmic	(2,598)
Balance, March 31, 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**

At March 31, 2019, the Company has outstanding capital commitments of approximately $3,900 to these investees.

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

	2019	2018
Current assets	$ 63,459	$ 129,806
Investments at estimated fair value	2,086,039	733,917
Property and equipment	3,711	6,393
Total assets	**$ 2,153,209**	**$ 870,116**
Current liabilities	$ 51,462	$ 50,479
Noncurrent liabilities	6,928	18,190
Total equity	2,094,819	801,447
Total liabilities and equity	**$ 2,153,209**	**$ 870,116**

Notes to Consolidated Financial Statements

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

	2019	2018
Operating income	$ 389	$ 3,145
Realized gain on investments	114,679	14,171
Research and development	(698)	(3,600)
Management fees	(17,149)	(8,702)
Professional fees	(862)	(799)
Other expenses	(2,548)	(2,296)
Net income (loss)	93,811	1,919
Other comprehensive income	495,351	185,653
Comprehensive income	**$ 589,162**	**$ 187,572**

8. ACCRUED EXPENSES

Accrued expenses consist of the following amounts at March 31:

	2019	2018
Sales returns	$ 43,546	$ 48,858
Medicaid rebates	10,965	20,508
Managed care	25,407	21,290
Employee-related benefits	36,141	16,456
Royalties and profit sharing	16,121	12,766
Patient coupons	24,464	25,373
Interest	292	1,152
Total	**$ 156,936**	**$ 146,403**

9. SHORT-TERM BANK BORROWINGS

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 is outstanding at March 31, 2019. The effective interest rate was 3.24% at March 31, 2019.

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 which is outstanding at March 31, 2019 and 2018. The agreement has no fixed termination date, and thus will terminate at such time either party chooses. The effective interest rate was 3.05% at March 31, 2019.

In addition to the $200,000 revolving credit line with JPMorgan above, the Company has an uncommitted line of credit with JP Morgan for $20,000, of which $10,000 was outstanding at March 31, 2019 and 2018. The agreement terminates on May 31, 2019. The effective interest rate was 3.25% at March 31, 2019.

The Company had an uncommitted line of credit agreement ("credit agreement") with Citibank, N.A. ("Citibank"). During Fiscal 2018, the term of the line was extended from January 2018 to January 2019 at which time it was paid in full. The maximum borrowings under the credit agreement was $50,000, which was outstanding at March 31, 2018.

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 (benefit) for income taxes consists of the following components for the year ended March 31:

	2019	2018
Current expense	$ 2,965	$ 16,475
Deferred expense (benefit)	12,891	(19,135)
Income tax expense (benefit)	**$ 15,856**	**$ (2,660)**

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, among other provisions. The Company remeasured certain deferred income tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%, resulting in an immediate income tax charge of $40,126 in Fiscal 2018.

Notes to Consolidated Financial Statements

The provision (benefit) 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 year ended March 31:

	2019	2018
Federal tax (benefit) at statutory rate (21% for Fiscal 2019, 31.5% for Fiscal 2018)	$ 23,004	$ (37,997)
State income taxes, net of federal benefit	(6,237)	(9,345)
Deemed repatriation	1,068	-
Dividend income	(1,699)	-
GILTI tax	3,316	-
Remeasurement impact of the Tax Cuts and Jobs Act	-	40,126
Research and development credit	(1,072)	(300)
Other	(2,524)	4,856
Income tax expense (benefit)	**$ 15,856**	**$ (2,660)**

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

	2019	2018
Deferred tax assets		
Net operating loss carryforwards (NOLs)	$ 22,959	$ 30,855
Receivables	13,231	21,639
Goodwill and other intangibles	15,783	8,291
Inventory	9,548	4,551
Investments	600	1,323
Research and development credit	2,593	504
Accrued expenses and other	18,891	9,984
Total deferred tax assets	**83,605**	**77,147**
Deferred tax liabilities		
Investments	64,118	-
Depreciation	1,565	329
Other	2,013	458
Total deferred tax liabilities	**67,696**	**787**
Net deferred tax assets	**$ 15,909**	**$ 76,360**

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, 2019 or 2018. 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 2017 to 2019) in these jurisdictions. The Company believes that no adjustments for unrecognized tax benefit or benefit are necessary as a result of this analysis. The Company reports interest and penalties attributable to income taxes to the extent they arise, as a component of its operating expenses.

The Internal Revenue Service has concluded an examination of Ranbaxy's Fiscal 2015 and Sun's Fiscal 2013 through 2015 tax returns. As a result, tax return adjustments resulting in approximately $82 and $3,800, respectively, of additional tax expense were made and included within the Fiscal 2018 tax provision. The IRS has also 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 not included any additional tax expense within the Fiscal 2019 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.

12. LEASES (INCLUDING RELATED PARTY)

The Company conducts a portion of its operations with leased property and equipment, including a warehouse facility in Jacksonville, Florida and related equipment, a portion of which meet capitalization criteria. As discussed in Note 5, the Company closed the leased Jacksonville, Florida facility in Fiscal 2018 and accelerated depreciation on the related asset. In Fiscal 2019, the Company and the lessor entered into a termination agreement that enabled the lessor to execute a substitute lease. Under the terms of this agreement, the Company continued to make payments on the facility until the lessor could execute the substitute lease which occurred in November 2018. The Company's contract for the lease is considered to be terminated eleven months subsequent to the execution of the substitute lease (October 2019). Additionally, the lessor is to pay the Company a daily fee for each day that the termination date extends beyond April 1, 2019. As a condition of the termination agreement, the Company's deposited $6,300 into an escrow account. At March 31, 2019, the escrow payment has been accounted for as a reduction of the related capital lease obligation.

The Company rents its facilities in Cranbury, New Jersey, and Wilmington, Massachusetts. These leases are with third parties and are noncancelable. The Company rented a facility in Wixom, Michigan which expired in Fiscal 2018. The Cranbury lease expires in Fiscal 2021 and the Wilmington lease expires in Fiscal 2020. Net rental expense for all operating leases was $6,485 and $6,076 in Fiscal 2019 and Fiscal 2018, respectively.

Notes to Consolidated Financial Statements

In addition, in January 2014, the Company entered into a ten-year noncancelable lease for the rental of office space in Cranbury, New Jersey, from an affiliated company, Taro. Rent expense for this lease was $1,129 and $1,115 in Fiscal 2019 and Fiscal 2018, respectively.

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

	2019	2018
Building	$ 24,377	$ 24,377
Vehicles	11,252	11,110
Equipment	233	233
Computers	75	75
Total	35,937	35,795
Less accumulated amortization	30,017	27,403
Net book value	**$ 5,920**	**$ 8,392**

The following is a schedule of annual future minimum lease payments required under capitalized leases with imputed interest rates ranging from 5 to 9.7%, and under operating leases with initial or remaining noncancelable lease terms in excess of one year as of March 31, 2019:

Year Ended March 31	Capitalized Leases	Noncancelable Operating Leases (including affiliates)
2020	$ 7,754	$ 2,749
2021	4,594	2,165
2022	4,151	2,158
2023	2,732	1,989
2024	942	1,639
Thereafter	4	4,679
Total minimum payments due	**20,177**	**$ 15,379**
Less amounts representing interest	2,289	
Present value of net minimum lease payments	**$ 17,888**	

Notes to Consolidated Financial Statements

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 2019 and Fiscal 2018, royalty and profit share expense was $30,549 and $60,301, respectively. Of these amounts, $26,013 and $56,237, respectively, have been included in cost of goods sold and $4,536 and $4,064, respectively, have been included in selling, general and administrative expenses in the consolidated statements of operations.

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 $6,065 and $6,322 to the plans for Fiscal 2019 and Fiscal 2018, respectively.

15. SHARE-BASED COMPENSATION

The Company's Employee Stock Option Schemes (ESOSs) provides for the grant of common stock options to eligible employees and Directors. The ESOSs are administered by the Compensation Committee (Committee) of the Board of Directors. Options are granted at the discretion of the Committee to selected employees depending upon certain criteria.

	Year Ended March 31, 2019		
	Number of Shares Under Outstanding Options	Weighted average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at the beginning of the year	59,365	$ 9.09	1.28
Forfeited and lapsed during the year	(59,365)	9.01	-
Outstanding, end of the year	-	$ -	-

Notes to Consolidated Financial Statements

	Year Ended March 31, 2018		
	Number of Shares Under Outstanding Options	Weighted average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at the beginning of the year	93,686	$ 6.99	1.19
Forfeited and lapsed during the year	(1,870)	9.10	-
Exercised during the year	(32,451)	3.04	-
Outstanding, end of the year	59,365	$ 9.09	1.28
Exercisable at the end of the year	**59,365**	**$ 9.09**	**1.28**

16. SALES CONCENTRATIONS

Major Customers

Shipments to four customers, including three wholesalers, accounted for approximately 48% and 66% of net revenues for Fiscal 2019 and Fiscal 2018, respectively. Balances due from these customers (gross outstanding amounts) represented approximately 87% and 66% of gross accounts receivable at March 31, 2019 and 2018, 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 2019 or Fiscal 2018. The loss of any of these customers would have a materially adverse effect on short-term operating results.

Major Products

Shipments of three products accounted for 33% and 37% of net sales for Fiscal 2019 and Fiscal 2018, respectively.

17. 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 is involved in various legal proceedings including product liability, contracts, employment claims, anti-trust and other regulatory matters relating to conduct of its business. The more significant matters are discussed below. Most of the legal proceedings involve complex issues, which are specific to the case and do not 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. Management makes an 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, generally 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 in a material impact on consolidated results of operations or cash flows of a given period during which the claim is settled.

Antitrust - Generic Drug Price Fixing

The Company 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 Company is in the process of responding to the subpoenas. Certain current and former officers and employees in the Company's commercial teams have also received related subpoenas. A similar subpoena was received by the Company from the Connecticut Attorney General.

The Company has separately 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 Company is in the process of responding to the subpoenas.

The Company is a defendant along with other pharmaceutical companies in a number of punitive 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. The cases have been transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings. The Court has 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. The case is proceeding in discovery.

Antitrust - Modanfinil

The Company is a defendant in a group of putative class action lawsuits and individual actions brought by purchasers and payors, as well as a generic manufacturer, 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. The Company has reached settlements with all but one plaintiff.

Antitrust - Lipitor

The Company is a defendant in a number of putative class action lawsuits and individual actions brought by purchasers and payors 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 case is proceeding in discovery.

Antitrust - Ranbaxy Generic Drug Application

Sun Limited and its subsidiaries is a defendant in a number of punitive class action lawsuits and individual actions brought by purchasers and payors alleging that the Group 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 case is 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 officer 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

Sun - Wixom Facility

The Wixom warehouse distribution activities were transferred to the TARO New Jersey Distribution Center as of June 2017 and the facility has been vacated as of November 2017. The related lease expired in January 2018 and the Company will be requesting the Court to vacate the Consent Decree.

Sun - Cranbury, DUSA, Pharmalucence, Chattem and Ohm Facilities

All facilities remain in good standing for cGMP compliance for FDA registered drug or device manufacturing operations.

Notes to Consolidated Financial Statements

18. 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 year ended March 31:

	2019		2018	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Category				
Company-owned products	$ 703,354	$ 320,348	$ 650,471	$ 207,715
Distributed products	282,124	53,803	179,823	25,118
Total	**$ 985,478**	**$ 374,151**	**$ 830,294**	**$ 232,833**

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.

19. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing Activities

The Company financed the acquisition of vehicles during by entering into capital leases totaling $7,520 and $11,110 in Fiscal 2019 and Fiscal 2018, respectively. Additionally, during Fiscal 2018 the Company received distributions in the amount of $1,565 in the form of marketable securities from an unconsolidated subsidiary.

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

	2019	2018
Interest	$ 21,535	$ 15,311
Income taxes refunded	$ -	$ (268)

Notes to Consolidated Financial Statements

20. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in the components of accumulated other comprehensive income for the years ending March 31:

	2019	2018
Unrealized gains on available-for-sale securities		
Balance at beginning of year	$ 19,276	$ 7,193
Other comprehensive income	-	13,214
Income taxes	-	(2,775)
Other comprehensive income, net of tax	-	10,439
Reclassification related to implementation of ASU 2016-01*	(19,276)	-
Reclassification related to Tax Cuts and Jobs Act **	-	1,644
Balance at end of year	**$ -**	**$ 19,276**

* In Fiscal 2019, the Company adopted ASU 2016-01, which resulted in an accounting reclassification of these amounts from accumulated other comprehensive income to retained earnings.

** In Fiscal 2018, the Company adopted ASU 2018-02, which resulted in an accounting reclassification of these amounts from accumulated other comprehensive income to retained earnings.

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