Sun Pharmaceutical Industries, Inc. and Subsidiaries

(a wholly owned subsidiary of
Sun Pharmaceutical Industries Limited)

Years Ended
March 31,
2016 and 2015

Consolidated
Financial
Statements

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

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INDEPENDENT AUDITORS' REPORT

May 23, 2016

Board of Directors and Shareholders
Sun Pharmaceutical Industries, Inc.
Cranbury, New Jersey

We have audited the accompanying consolidated financial statements of ***Sun Pharmaceutical Industries, Inc. and Subsidiaries*** (the "Company"), which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of operations, shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 financial position of ***Sun Pharmaceutical Industries, Inc. and Subsidiaries*** as of March 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

ASSETS	March 31 2016	March 31 2015
Current assets		
Cash and cash equivalents	$ 35,699	$ 32,060
Accounts receivable, net	259,935	143,163
Inventories	326,556	239,933
Refundable income taxes	4,060	-
Prepaid expenses and deposits	27,336	26,008
Current portion of note receivable	5,000	-
Deferred income taxes	5,416	5,673
Total current assets	**664,002**	**446,837**
Property, plant and equipment		
Land	4,766	4,901
Buildings and improvements	79,666	83,259
Equipment	129,672	125,881
Vehicles	2	7
Furniture and fixtures	5,856	5,920
Construction in process	9,602	6,626
Total	229,564	226,594
Less accumulated depreciation	115,520	80,471
Net property, plant and equipment	**114,044**	**146,123**
Investment in affiliate and unconsolidated subsidiaries	67,474	51,326
Intangible assets, net	171,537	218,870
Goodwill	70,613	70,613
Note receivable, net of current portion	4,000	-
Deferred income taxes	21,881	7,736
Total assets	**$ 1,113,551**	**$ 941,505**

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

LIABILITIES AND SHAREHOLDER'S EQUITY	March 31 2016	March 31 2015
Current liabilities		
Accounts payable, trade	$ 8,120	$ 14,393
Accounts payable, Sun Pharma and affiliates	282,401	157,411
Accrued expenses	31,498	40,784
Short-term debt	310,000	300,000
Current portion of long-term debt	724	693
Income taxes payable	-	9,691
Contingent liability on acquisition	10,687	7,698
Total current liabilities	**643,430**	**530,670**
Advances from affiliate	274,625	174,376
Contingent liability on acquisition, net of current portion	17,191	19,739
Long-term debt, net of current portion	17,489	18,213
Total liabilities	**952,735**	**742,998**
Commitments and contingencies (Notes 11, 12, 13, 15, and 17)		
Shareholder's equity		
Common stock	213,659	213,659
Additional paid-in capital	3,873	3,873
Accumulated deficit	(56,716)	(19,025)
Total shareholder's equity	**160,816**	**198,507**
Total liabilities and shareholder's equity	**$ 1,113,551**	**$ 941,505**

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands)

	Year Ended March 31	
	2016	2015
Net sales	$ 674,229	$ 848,677
Cost of goods sold	549,902	612,746
Gross profit	**124,327**	**235,931**
Selling, general and administrative expenses	127,202	151,043
Research and development costs	36,987	42,751
Operating (loss) income	**(39,862)**	**42,137**
Other income (expense)		
Interest income	274	256
Interest expense	(10,857)	(11,350)
Gain on acquisition adjustment	-	5,000
Gain on the sale of intangible assets	5,172	-
Gain (loss) on sale of property, plant, and equipment	8,515	(761)
Loss on impairment of property, plant, and equipment	(28,043)	-
Equity in (losses) from unconsolidated subsidiaries	4,628	(1,914)
Other income	240	186
Other expense, net	**(20,071)**	**(8,583)**
(Loss) income before income taxes	**(59,933)**	**33,554**
Income tax (benefit) expense	(22,242)	12,885
Net (loss) income	**$ (37,691)**	**$ 20,669**

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

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

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(in thousands except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Shareholder's Equity
	Shares	Amount			
Balances, April 1, 2014	**42,184,294**	**$ 213,659**	**$ 3,873**	**$ (39,694)**	**$ 177,838**
Net income	-	-	-	20,669	20,669
Balances, March 31, 2015	**42,184,294**	**213,659**	**3,873**	**(19,025)**	**198,507**
Net loss	-	-	-	(37,691)	(37,691)
Balances, March 31, 2016	**42,184,294**	**$ 213,659**	**$ 3,873**	**$ (56,716)**	**$ 160,816**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended March 31	
	2016	2015
Cash flows from operating activities		
Net (loss) income	$ (37,691)	$ 20,669
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	57,252	58,843
Loss on impairment of property, plant, and equipment	28,043	-
Equity in (earnings) losses from unconsolidated subsidiaries	(4,628)	1,914
(Gain) loss on sale of property, plant, and equipment	(8,515)	761
Gain on the sale of intangible assets	(5,172)	-
Deferred income tax (benefit) expense	(13,888)	8,913
Contingent earn-out interest expense	441	257
Changes in operating assets and liabilities which provided (used) cash, net of effects of business combinations in 2015:		
Accounts receivable	(116,772)	34,042
Inventories	(86,623)	99,425
Prepaid expenses and deposits	(1,328)	(2,847)
Accounts payable	118,717	(153,932)
Refundable/accrued income taxes	(13,751)	(6,526)
Accrued expenses	(9,286)	3,157
Net cash (used in) provided by operating activities	**(93,201)**	**64,676**
Cash flows from investing activities		
Purchases of property, plant and equipment	(12,869)	(10,868)
Proceeds from sale of equipment	4,912	752
Proceeds from sale of intangible assets	6,761	-
Investment in unconsolidated entities	(18,972)	(8,331)
Distributions from unconsolidated subsidiaries	7,452	-
Acquisitions of businesses, net of cash acquired	-	(55,844)
Net cash used in investing activities	**(12,716)**	**(74,291)**
Cash flows from financing activities		
Repayments of line of credit borrowings	-	(4,500)
Proceeds from (repayment of) advances from affiliate	100,249	(283,431)
Repayment of long-term debt	(693)	(449)
Proceeds from short-term debt	10,000	300,000
Net cash provided by financing activities	**109,556**	**11,620**
Net increase in cash and cash equivalents	**3,639**	**2,005**
Cash and cash equivalents, beginning of year	32,060	30,055
Cash and cash equivalents, end of year	**$ 35,699**	**$ 32,060**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

The Company as a consolidated entity is comprised of the following:

Sun Pharmaceutical Industries, Inc. ("Sun") having its headquarters in Cranbury, New Jersey, develops, licenses, manufactures, markets and distributes generic, 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 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"). Sun distributes various products exclusively for Sun Pharmaceutical Industries Limited, a specialty pharmaceutical company organized under the laws of India ("Sun Pharma") and also Sun-owned products (those products for which Sun owns the ANDAs) manufactured in its own facilities as well as by Sun Pharma and other third parties. The products are intended to treat a variety of disorders including, but not limited to, hypertension, arthritis, epilepsy, diabetes, depression and pain management. In Fiscal 2016, the Company created a division for the distribution of various proprietary brand products in the therapeutic categories of ophthalmology, dermatology, oncology and neurology. Initial sales of brand products are expected to commence in the next fiscal year.

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, is based in Philadelphia, Pennsylvania, and is primarily engaged in the business of manufacturing generic pharmaceutical formulations. Prior to April 1, 2016, Mutual was a subsidiary of URL Pharma Inc., a wholly-owned subsidiary of the Company. Effective April 1, 2015, URL Pharma Inc. was merged into Mutual.

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. DUSA as a group includes two wholly owned subsidiaries, DUSA Pharmaceuticals New York, Inc. and Sirius Laboratories, Inc.

Pharmalucence Inc. ("Pharmalucence") was acquired on July 15, 2014, when the Company acquired all the outstanding shares of Pharmalucence (See Note 12). Pharmalucence based in Billerica, Massachusetts, 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.

Caraco Pharmaceutical Private Limited, a wholly owned subsidiary of the Company since its inception, is based in Mumbai, India and has insignificant current operating activity.

Taro Development Corporation ("TDC") 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.

The Company's manufacturing facilities are located in Cranbury, New Jersey; Detroit, Michigan; Philadelphia, Pennsylvania; Aurora, Illinois; Chattanooga, Tennessee; and Wilmington, Billerica, and Bedford, Massachusetts. The Company also has warehouses and executive offices in these locations and a distribution warehouse in Wixom, Michigan.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Sun Pharmaceutical Industries, Inc. and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Sun Pharmaceutical Industries Limited ("Sun Pharma")

Sun Pharma, along with certain of its wholly owned subsidiaries, owns all the shares of the Company.

Sun Pharma operates research and development centers in Mumbai and Vadodara in India, where the development work for products is performed.

Sun Pharma and its affiliates supply the Company with certain raw materials and formulations, assist in acquiring machinery and equipment to enhance production capacities, and have provided qualified technical professionals who work as Sun employees.

The Company has also obtained technical and scientific services, including bio-equivalency studies, from the Clinical Research Organization operated by Sun Pharma. The products on which the Company decides to work with Sun Pharma are determined on a case by case basis as mutually agreed upon by both companies.

During the fiscal years ended March 31, 2016 ("Fiscal 2016") and March 31, 2015 ("Fiscal 2015"), the Company made net sales of $416.6 million and $506.2 million, respectively, of the marketed products under various distribution agreements entered into between the Company, Sun Pharma, and its affiliates.

Sun Pharma has provided substantial support to Sun as disclosed above, and Sun continues to have significant economic dependence on Sun Pharma.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, provisions for estimated customer returns, discounts, rebates and other price adjustments, including customer chargebacks (see "Revenue Recognition" below), valuation of inventories, property and equipment and deferred income tax assets, and the carrying value of goodwill and intangible 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.

Investment in Affiliate and Unconsolidated Entities

The Company, through its subsidiary TDC, holds 2,333,802 shares of Taro Pharmaceutical Industries, Ltd. ("Taro"). Sun Pharma, 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 they were acquired as strategic investments by Sun Pharma and its subsidiaries. These securities are, therefore, not available for sale and are carried at their cost.

In addition, the Company makes investments in both corporate and non-corporate entities for the purpose of obtaining an interest in a new drug or new indications of an existing drug. These investments, although long-term, are generally focused on the development of these individual drugs and are not intended to be ongoing relationships. Investments in these corporate entities where the Company's ownership interest is between 20% and 50% and the Company does not have a significant influence are accounted for using the equity method which values the investment at cost plus undistributed earnings, less distributions. Investments in which the ownership interest is less than 20% and the Company does not have a significant influence are accounted for using the cost method. Investments in non-corporate entities where the Company's ownership interest is between 5% and 50% are accounted for using the equity method which values the investment at cost plus undistributed earnings, less distributions. Investments in which the ownership interest is less than 5% and the Company does not have a significant influence are accounted for using the cost method.

Advances from Affiliates

The Company has received funds, on various dates, from Alkaloida Chemical Company ZRT-Hungary, an affiliate, which is also a wholly owned subsidiary of Sun Pharma Global, Inc. ("Sun Global"). These advances are considered unsecured operating loans. The outstanding balance of these loans was $274,625 and $174,376 on March 31, 2016 and 2015, respectively. 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 affiliate's discretion, it is not anticipated that this will occur within the next year.

Revenue Recognition

Revenue from product sales, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, title and risk of ownership have been transferred to the buyer, the selling price is fixed or determinable, and collectability is reasonably probable. 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. Provisions for sales discounts, and estimates for sales chargebacks, customer rebates, and product returns are established as a reduction of product sales revenue at the time revenues are recognized, based on historical experience and current market trends adjusted to reflect known changes in the factors that impact these allowances. These revenue reductions are reflected as a direct reduction to accounts receivable through a sales allowance account.

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 605-45-45-1, "Reporting Revenue Gross as a Principal versus Net as an Agent." The Company 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 the Company 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 the primary obligor in the arrangement. (3) The Company is responsible for the sales process, pricing, marketing and delivery of the products; and (4) the Company is responsible for the collection of receivables and will have to absorb bad debt losses if any occur.

The Company recognizes revenues on Kerastick® and BLU-U® product sales in the U.S. and Canada when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred, and collection is reasonably assured. The Company offers programs that allow physicians and hospitals access to its BLU-U® device for a trial period. The Company does not recognize revenue on these units until the physician or hospital elects to purchase the equipment and all other revenue recognition criteria are met. Terms with customers do not provide for the right of return for sales of Kerastick® and BLU-U®, unless the product does not comply with the technical specifications.

Allowances for Sales Adjustments

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.

Such estimated amounts, in addition to certain other allowances, are deducted from the Company's gross sales to determine net revenues. The amount of actual chargebacks claimed could be either higher or lower than the amounts accrued. Changes in estimates, if any, would be recorded in the income statement in the period the change is determined. If the Company materially over or under estimates the amount that will ultimately be charged back to it by its wholesale customers, there could be a material impact on these consolidated financial statements. Approximately 79% and 82% of the total allowance for trade receivables at March 31, 2016 and 2015, respectively, have been established to provide for estimated sales chargebacks, and customer rebates (see Note 4).

Shelf Stock Adjustments

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling prices of products. These credits are customary in the industry and are intended to reduce the customers' inventory cost to better reflect current market prices. The decision to grant a shelf stock adjustment to a customer following a price decrease is made at the Company's discretion.

Factors considered when recording an allowance for shelf stock adjustments include 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.

Product Returns and Other Allowances

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.

Sales discounts (trade and prompt payment discounts) are provided for at the end of every reporting period based on the gross sales made to the customers during the period and based on their terms of trade. The Company reviews its contracts with its customers in addition to historical data and percentages to estimate the reserve for estimated discounts.

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 rebates are estimated based on the 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.

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.

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.

Inventories
Inventories, which consist of raw materials, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the specific identification method, or market. 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 written off. 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 accompanying 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.

Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and federal income tax basis of assets and liabilities as measured by the estimated tax rates that will be in effect when these differences reverse. In concluding that it is not more-likely-than-not that the Company's deferred tax assets will be realized, the Company evaluated both positive and negative evidence regarding the future utilization of these assets. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

Research and Development Costs
Research and development costs settled in cash are charged to expense as incurred. The Company has not incurred any non-cash research and development costs during the fiscal years ended March 31, 2016 and 2015, 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, that there was no impairment at March 31, 2016 or 2015.

Intangible Assets
Intangible assets with finite lives are amortized over periods ranging from three to fifteen years to their estimated residual values and are evaluated for impairment at least annually. Intangibles are included in the "Intangible assets, net" caption on the accompanying consolidated balance sheets and relate primarily to the DUSA and Mutual acquisitions during Fiscal 2013 and the Pharmalucence acquisition in Fiscal 2015.

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 to the financial statements.

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

(amounts in thousands)

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 May 23, 2016, the date these consolidated financial statements were available to be issued. Based on this evaluation, the Company found no subsequent events after March 31, 2016 for which disclosure is required.

2. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain liabilities and to determine fair value disclosures. 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, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For 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 or liabilities are classified.

Liabilities Recorded at Fair Value on a Recurring Basis

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

	Liabilities at Fair Value			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Contingent liability on acquisition	$ -	$ -	$ 27,878	$ 27,878
Total liabilities at fair value	$ -	$ -	$ 27,878	$ 27,878

	Liabilities at Fair Value			
2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Contingent liability on acquisition	$ -	$ -	$ 27,437	$ 27,437
Total liabilities at fair value	$ -	$ -	$ 27,437	$ 27,437

(amounts in thousands)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value 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. The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities measured at fair value on a recurring basis for the year ended March 31:

	2016	2015
Beginning balance of recurring Level 3 liabilities	$ 27,437	$ -
Fair value of liability recognized in acquisition of Pharmalucence and interest accrued	-	27,437
Recognition of discounted value	441	-
Ending balance of recurring Level 3 liabilities	**$ 27,878**	**$ 27,437**

3. SUPPLEMENTAL CASH FLOWS INFORMATION

The Company paid approximately $10,052 and $10,220 for interest during Fiscal 2016 and Fiscal 2015, respectively. The Company paid approximately $0 and $3,735 of federal income tax payments during Fiscal 2016 and Fiscal 2015, respectively.

4. ACCOUNTS RECEIVABLE, NET

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

	2016	2015
Accounts receivable, gross	$ 401,394	$ 257,169
Allowances		
Chargebacks, shelf stock, and rebates	112,429	94,014
Sales returns and discounts	28,667	19,951
Doubtful accounts	363	41
Total allowances	141,459	114,006
Accounts receivable, net	**$ 259,935**	**$ 143,163**

(amounts in thousands)

A summary of the activity in accounts receivable allowance is as follows:

	Total Allowances
Balance, April 1, 2014	**$ 258,190**
Additions charged to net sales	1,026,906
Deductions allowed to customers	(1,171,090)
Balance, March 31, 2015	**114,006**
Additions charged to net sales	1,138,179
Deductions allowed to customers	(1,110,726)
Balance, March 31, 2016	**$ 141,459**

5. INVENTORIES (INCLUDING INVENTORIES FROM RELATED PARTY)

Inventories consist of the following at March 31:

	2016	2015
Raw materials	$ 39,897	$ 37,490
Work in process	9,797	8,894
Goods in transit (distributed products)	42,095	34,449
Finished goods (Company-owned products)	34,686	35,742
Finished goods (distributed products)	200,081	123,358
Total inventories	**$ 326,556**	**$ 239,933**

The principal components used in the Company's business are active and inactive pharmaceutical ingredients and certain packaging materials. Some of these components are purchased from single sources; however, 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 purchase of finished goods for distribution under various marketing agreements.

During the years ended March 31, 2016 and 2015, the Company made net purchases of inventory components, consisting of raw materials and finished goods, of approximately $465.9 million and $346.3 million, respectively, from Sun Pharma and its affiliates. These amounts are net of credits issued by Sun Pharma for the cost of expired and non-saleable products or for free replacement of fresh product to Sun primarily as a result of pending expiration or stale-dating of product held by Sun and Sun's customers, without cost to Sun, which was acting in its normal distributor role for sales of such products.

(amounts in thousands)

6. PROPERTY, PLANT AND EQUIPMENT

In Fiscal 2016, the Company identified certain property and equipment that was deemed to be impaired based on the assessment of the market value and expected future cash flows of the long-lived asset. Accordingly, the Company recognized approximately $28,000 of impairment charges on three of its facilities. These facilities are not part of the Company's long-term production or distribution plans and are currently substantially under-utilized. The Company plans to reduce production further as it obtains approval to transfer product production to other Company facilities. Estimated fair value was determined using significant unobservable inputs (Level 3) based on an income approach.

During Fiscal 2015, the Company sold one of its packaging facilities in Farmington, Michigan and recorded a loss of $838 from the sale of this facility and related installed equipment. During Fiscal 2016, the Company sold its manufacturing facility in Bryan, Ohio and recorded a gain of $8,940. Total consideration was $9,000 with $6,000 payable in annual installments of $2,000 each year over three years from the date of the sale. In addition, the Company sold an idle facility for $1,924, which resulted in a loss of $438.

Depreciation expense was $14,508 and $14,943 in Fiscal 2016 and Fiscal 2015, respectively.

7. INTANGIBLE ASSETS

Intangible assets consist of the following at March 31:

	2016	2015
Patents and trademarks	$ 219,076	$ 219,076
Product rights	109,700	113,400
Other	1,800	1,800
Total	330,576	334,276
Less accumulated amortization	159,039	115,406
Intangible assets, net	**$ 171,537**	**$ 218,870**

Patents and trademarks are amortized over periods ranging from 5 to 15 years. Product rights are amortized over 3 to 10 years, which correspond with the expected periods of future economic benefit. Amortization expense was $42,744 and $43,900 for Fiscal 2016 and Fiscal 2015, respectively.

(amounts in thousands)

Estimated annual amortization expense for each of the five years succeeding March 31, 2016 and thereafter, are summarized as follows:

Year Ending March 31	Amount
2017	$ 33,740
2018	35,573
2019	35,573
2020	33,163
2021	20,498
Thereafter	12,990
Total	**$ 171,537**

In Fiscal 2016, the Company sold the rights to one product and discontinued the development and marketing of two other products. The net proceeds on the sale were $9,761, of which $3,000 is to be paid one year from the sale date. The unamortized basis of these three products was $4,589, resulting in a net gain of $5,172.

8. INVESTMENT IN AFFILIATE AND IN UNCONSOLIDATED ENTITIES

At March 31, 2016 and 2015, the Company's investment in Taro, an affiliate, which is recorded at cost was $19,853. Unrecognized holding gains as of March 31, 2016 were $315,631, based on the closing price of Taro shares as quoted on the New York Stock exchange.

At March 31, 2016, equity investments accounted for under the equity method, and the percentage interest owned, consisted of S & I Ophthalmic, LLC (50%), Frazier Healthcare VII, L.P. (6.83%), Versant Venture Capital V, L.P. (7.75%) and Medinstill LLC (19.99%).

The activity in the investment in unconsolidated subsidiaries account is as follows for the years ended March 31:

Balance, April 1, 2015	**$ 24,793**
Capital contributions	7,714
Proportionate share of net loss	(1,914)
Balance, March 31, 2015	**30,593**
Capital contributions	16,264
Proportionate share of net income	4,628
Distribution	(7,452)
Balance, March 31, 2016	**$ 44,033**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

Combined, condensed unaudited financial information for the Company's unconsolidated entities using the equity method are as follows at March 31:

	2016	2015
Current assets	$ 23,666	$ 13,524
Investments at estimated fair value	469,923	1,382
Total assets	**$ 493,589**	**$ 14,906**
Total liabilities (all current)	$ 36,356	$ 866
Total equity	457,233	14,040
Total liabilities and equity	**$ 493,589**	**$ 14,906**

Combined, condensed unaudited financial information for the Company's unconsolidated entities using the equity method is as follows for the year ended March 31:

	2016	2015
Operating income	$ 261	$ 24
Gain on investments	273,226	-
Research and development	(13,108)	(1,564)
Management fees	(6,681)	(5,742)
Professional fees	(670)	(357)
Fund organization and syndication costs	-	(16)
Other expenses	(1)	(44)
Net income (loss)	**$ 253,027**	**$ (7,699)**

At March 31, 2016, cost method investments with an ownership of less than 20%, and the percentage interest owned, consisted of 5AM Ventures IV, L.P. (3.3%) Atlas Venture Fund (3.57%) and Frazier Health Care LS VII L.P. (1.9%). The total cost method investments were $3,588 and $880 as on March 31, 2016 and 2015, respectively.

9. SHORT-TERM DEBT

The Company has an uncommitted line of credit agreement with Citibank, N.A. ("Citibank"). During Fiscal 2016, the term of the line was extended from November 16, 2015 to November 16, 2016 or upon demand by Citibank. The maximum available borrowings under the agreement are $100,000, which was the outstanding balance at March 31, 2016 and 2015. The applicable interest rate is the London Interbank Offered Rate ("LIBOR") plus 0.9%.

(amounts in thousands)

In conjunction with this credit agreement, the Company has entered into interest rate swap agreement ("SWAP") with Citibank that cover the same periods as the line of credit. The SWAP effectively fixed the interest rate on the $100,000 available borrowings, under the credit agreement at 1.68%. The fair value of the SWAP as at March 31, 2016 is not material and is short term in nature.

The Company has a committed credit facility with HSBC Bank USA, National Association ("HSBC"). During Fiscal 2016, the term of the line was extended from November 16, 2015 to November 16, 2016. The maximum available borrowings under the facility are $200,000, which was the outstanding balance at March 31, 2016 and 2015. The applicable interest rate is LIBOR plus 1.00% (effectively, 1.60% at March 31, 2016).

In Fiscal 2016, the Company entered into an uncommitted line of credit with J.P. Morgan ("Morgan"). The maximum available borrowings under the facility are $20,000 of which $10,000 was outstanding at March 31, 2016. The term of the line ends on May 31, 2017. The applicable interest rate is the higher of Morgan's prime rate, the Federal funds rate plus 0.5% or LIBOR plus 1% (effectively, 1.25% at March 31, 2016).

10. LONG-TERM DEBT

As part of acquisition of Pharmalucence, the Company assumed Pharmalucence's bond agreement with the Massachusetts Development Finance Agency. The original amount of the loan was $20,000 with a balance of $19,355 at the time of the acquisition in fiscal 2015. The loan is collateralized by substantially all of the assets of Pharmalucence. Monthly principal and interest payments are payable in varying amounts through June 2033, the bond maturity date. Interest is computed at a rate of 69% of the sum of one month LIBOR plus 2.75% (effectively, 2.19% at March 31, 2016).

Scheduled principal payments under the loan are:

Year Ending March 31	Amount
2017	$ 724
2018	755
2019	789
2020	823
2021	859
Thereafter	14,263
Total	**$ 18,213**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

11. INCOME TAXES

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

	2016	2015
Currently payable	$ (8,354)	$ 3,972
Deferred	(13,888)	8,913
Income tax (benefit) expense	**$ (22,242)**	**$ 12,885**

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

	2016	2015
Federal tax at 35% statutory rate	$ (20,977)	$ 11,744
State income taxes, net of federal benefit	(580)	647
Permanent differences	292	169
Other	(977)	325
Income tax (benefit) expense	**$ (22,242)**	**$ 12,885**

Deferred income taxes consist of the following at March 31:

	2016	2015
Deferred tax assets		
Net operating loss carryforwards	$ 12,008	$ 8,116
Deferred credits	4,362	8,992
Depreciation and amortization	4,672	-
Research and development costs	561	1,128
Accrued liabilities and other items	9,444	6,259
Total deferred tax assets	**31,047**	**24,495**
Deferred tax liabilities		
Intangibles, net	875	8,973
Investments	2,241	-
Depreciation	-	1,833
Other	634	280
Total deferred tax liabilities	**3,750**	**11,086**
Net deferred tax assets	**$ 27,297**	**$ 13,409**

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 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. As of March 31, 2016, the Company had federal net operating loss carryforwards in the amount of $63.5 million. 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 $30.4 million, will expire and are not likely to be available for future use. Accordingly, the deferred tax asset related to the NOLs has been reduced to reflect the NOLs which the Company will not be in a position to utilize as they will expire 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 2013 to 2016) in these jurisdictions. The Company has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any changes for such, to the extent they arise, as a component of its operating expenses. The Company had determined that no adjustments for unrecognized tax benefits are necessary as a result of this analysis.

The Internal Revenue Services has commenced an audit of the Company's Fiscal 2014 tax return. No material adjustments have been communicated as of the date of issuance of these consolidated financial statements.

12. PHARMALUCENCE ACQUISITION

The Company acquired all the outstanding shares of Pharmalucence, Inc. on July 15, 2014 from its existing shareholders for $57,347 in cash, plus contingent consideration, with a fair value of $27,180, based on Pharmalucence meeting certain milestones. In addition, the Company assumed Pharmalucence long-term bank debt at the time of the acquisition of $19,355.

Pharmalucence is a FDA approved manufacturer of human injectable pharmaceuticals. Pharmalucence provides contract and private label formulation development and manufacturing services of parenteral products in either liquid or lyophilized form. Pharmalucence also manufactures its own line of generic injectable radiopharmaceuticals sold to radiopharmacies and distributors. Pharmalucence has two facilities, one in Billerica, Massachusetts and the other in Bedford, Massachusetts.

The Company acquired Pharmalucence to facilitate its parent company's entry and expansion into human injectable pharmaceuticals market in the United States.

(amounts in thousands)

The following summarizes the allocation of the purchase price at fair value:

Cash and cash equivalents	$ 1,503
Accounts receivable	4,010
Inventory	3,623
Other current assets	580
Total current assets	9,716
Accounts payable and accrued	(3,442)
Net current assets	6,274
Property and equipment	38,128
Intangibles	44,100
Total net assets	88,502
Debt assumed	(19,355)
	69,147
Goodwill	15,380
Total purchase price	**$ 84,527**

The contingent consideration (which is recorded on consolidated financial statements as contingent liability on acquisition) is payable to the prior shareholders based on five milestones, the FDA approval for the manufacturing site transfer from the Bedford, Massachusetts facility to the Bellerica, Massachusetts facility, and the FDA approval of four future products. Payments are made as each milestone is met. The Company engaged a third party valuation firm which had provided the fair value of the assets and liabilities as of the acquisition date, including the estimated contingent consideration. There is no market data available to use in valuing the contingent consideration, therefore, the Company and the valuation firm developed their own assumptions related to the probability and expected timing of the payments in determining the fair value of this liability. As such, the contingent consideration is classified within Level 3 under the fair value hierarchy.

The results of Pharmalucence have been included in the consolidated financial statements since the date of acquisition.

13. LEASES (INCLUDING RELATED PARTY)

The Company leases its facilities in Wixom, Michigan, Cranbury, New Jersey, and Wilmington, Massachusetts. The leases are with third parties and are non-cancelable. The Wixom lease expires in Fiscal 2018, the Cranbury lease expires in Fiscal 2021 and the Wilmington lease expires in Fiscal 2018. The total lease expense under these leases was $2,962 and $2,940 in Fiscal 2016 and Fiscal 2015, respectively.

(amounts in thousands)

In addition, in January 2014, the Company entered into a ten-year non-cancelable lease for office space in Cranbury, New Jersey, from an affiliated company, Taro. The lease expense for this lease was $324 and $317 in Fiscal 2016 and Fiscal 2015, respectively.

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

Leased from Year Ended March 31	Affiliated Company	Third Party
2017	$ 330	$ 2,650
2018	337	2,562
2019	344	1,422
2020	350	1,422
2021	357	711
Thereafter	1,020	-
Total	**$ 2,738**	**$ 8,767**

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 $1,395 and $1,445 to the plan for the fiscal years ended March 31, 2016 and 2015, respectively.

15. CONCENTRATIONS AND COMMITMENTS

Major Customers

Shipments to four wholesale customers accounted for approximately 63% of net revenues for Fiscal 2016, and shipments to three wholesale customers accounted for approximately 43% of net revenues for Fiscal 2015. Balances due from these customers representing gross outstanding amounts represented approximately 76% and 73% of gross accounts receivable at March 31, 2016 and 2015, respectively. As is typical in the US 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 2016 or Fiscal 2015. The loss of any of these customers could have a materially adverse effect on short-term operating results.

Major Products

Shipments of two products accounted for 33% and 37% of net revenue for the fiscal years ended March 31, 2016 and 2015, respectively.

Labor Contract

A union represents fourteen hourly employees at its Wixom facility. The collective bargaining agreement with the union expires in September 2018. No other employees of the Company are represented by a union.

Contractual Commitment

At March 31, 2016, DUSA has an agreement with a clinical research organization to perform certain clinical research services for which the committed amount for future payments is approximately $3,721.

16. REIMBURSEMENT OF MISSED MILESTONES

As part of the URL acquisition agreement, the seller agreed to reimburse the Company $5,000 if the Company was unable to obtain FDA approval for a specific ANDA within eighteen months from the acquisition date. This milestone was not met and, accordingly, the seller reimbursed the Company the $5,000 in Fiscal 2015.

17. OTHER MATTERS

Employment Contracts

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

Employees

The Company had a total of 990 and 1,026 full-time equivalent and contract employees at March 31, 2016 and 2015, respectively, engaged in research and development, manufacturing, quality assurance, quality control, administration, sales and marketing, materials management, facility management and packaging. Most of the Company's scientific and engineering employees have had prior experience with pharmaceutical or medical products companies, including Sun Pharma. See "Sun Pharmaceutical Industries Limited."

Litigation

While it is not possible to determine with any degree of certainty the ultimate outcome of the following legal proceedings, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position. An adverse outcome in any of these proceedings could have a material adverse effect on the Company's financial position and results of operations.

Shareholder Litigation

1. On December 9, 2010, and subsequent thereto, several putative class action lawsuits were filed in the Wayne Court Circuit Court against the Company, Sun Pharma, Sun Global and the members of the Board of Directors of the Company, arising out of the proposal by Sun Pharma and Sun Global to take the Company private. The lawsuits were subsequently consolidated into one action. On April 8, 2011, the plaintiffs filed a consolidated class action complaint, alleging, among other things, that the defendants breached their fiduciary duties to the Company's stockholders and that the Independent Committee of the Company's Board of Directors could not ensure that minority stockholders were being treated fairly in the merger. The Consolidated Class Action Complaint seeks declaratory relief that the defendants have breached their fiduciary duties, that the merger was not procedurally and financially fair to the Company's minority stockholders, and that the Independent Committee was incapable of considering, evaluating and/or negotiating the merger on behalf of the Company's minority stockholders. The consolidated class action complaint also seeks damages and costs of the action, including reasonable attorneys' and experts' fees. The action has been dismissed by the trial court twice and is now on appeal for a third time.

Government Investigations/Litigation

2. On September 17, 2013, the State of Louisiana filed suit against numerous pharmaceutical companies, including the Company and United Research Laboratories, Inc. (since merged into Mutual Pharmaceutical Company, Inc., collectively "Mutual") in the 19th Judicial District, Parish of East Baton Rouge. The suit alleges violations of Louisiana's Unfair Trade Practices and Consumer Protection Law, Louisiana's Medical Assistance Programs Integrity Law, fraud, negligent misrepresentation, redhibition, and unjust enrichment. The State of Louisiana alleges that the numerous pharmaceutical company defendants have engaged in a scheme to trick the State into paying for drugs that have not received approval from the U.S. Food and Drug Administration, thereby causing Louisiana's Medicaid agency to pay for drugs that would have otherwise not been covered by Medicaid. The liability for Mutual is anticipated to be covered by the indemnity obligations of Takeda Pharmaceuticals U.S.A., Inc. ("Takeda"), pursuant to the terms of that certain Stock Purchase Agreement between Takeda and the Company dated December 14, 2012 (the "SPA"). The action has been dismissed by the trial court and is now on appeal.

3. In May 2014, the Company received a Civil Investigative Demand (CID) from the Office of the Attorney General of Texas ("OAG"). The CID states that the OAG is investigating the possibility of false reporting of information by the Company and

others, regarding prices for drugs dispensed as part of the Texas Medicaid Program. Further it alleges such activities may violate the Texas Medicaid Fraud Prevention Act ("TMFPA"), Tex. Hum. Res. Code sec. 36.002(1), (2), (4) and/or (9). The Company believes that most or all of any exposure in connection with this matter will be subject to indemnity by Takeda pursuant to the SPA. The Company is continuing to cooperate with the State of Texas regarding the CID.

4. On April 1, 2016, the Company received a Grand Jury Subpoena from the United States Department of Justice, Antitrust Division issued on behalf of a Grand Jury sitting in the United States District Court for the Eastern District of Pennsylvania. The Grand Jury Subpoena relates to an investigation into price fixing and/or bid rigging in the United States market for generic drugs. The Company is reviewing the Grand Jury Subpoena.

Product Liability

5. Mutual is one of approximately 30 - 40 brand and generic drug manufacturers and distributors involved in a Reglan®/metoclopramide litigation pending in the Court of Common Pleas, Philadelphia County (PA), the Superior Court, Atlantic County (NJ), the Superior Court, San Francisco County (CA), and approximately three additional courts in the United States. Plaintiffs' claims focus on failure to warn of alleged known risks associated with the use of the drug. To date, of the approximately 5,000 plaintiffs who have asserted claims against the brand and generic Reglan/metoclopramide manufacturers, only approximately 250 plaintiffs have positively identified the Company as one of the manufacturers or distributors of the drug allegedly ingested. These matters are covered both by product liability insurance, as well as a limited indemnity available for a group of cases from Takeda pursuant to the SPA.

6. The Company and/or certain affiliate of Sun Pharma are named in 93 lawsuits brought by individuals alleging personal injury from the ingestion of alendronate sodium. These cases are pending in New York (1), California (57), and New Jersey (35). "Bellweather" trials have been scheduled in the California litigation, while the New Jersey litigation remains stayed pending an appeal of a trial court ruling regarding which claims may proceed to trial. Plaintiff has agreed in principle to withdraw the single claim pending in New York. These matters are covered by product liability insurance.

7. The Company is a defendant in a lawsuit brought in the Western District of New York by an individual alleging personal injury from the ingestion of phenytoin. The Company has filed an unopposed motion for judgment on the pleadings in that matter. This matter is covered by product liability insurance.

Other Matters

8. On March 20, 2007, Tyco Healthcare Group LP and Mallinckrodt Inc. ("Tyco") filed a Complaint in the United States District Court for the District of New Jersey against Mutual for patent infringement under the Hatch-Waxman Act related to 7.5 mg temazepam capsules and tablets (generic version of Restoril®). On May 4, 2010, the

court granted the Company's motion for summary judgment of invalidity of the only remaining patent-in-suit, which also expired on May 18, 2010. Since that time, various trial court rulings have been appealed to the United States Court of Appeals for the Federal Circuit twice. The matter is now before the trial court again where Mutual is prosecuting an antitrust claim against Tyco and seeking prevailing party attorneys' fees in connection with the patent litigation.

9. On February 3, 2015, Mutual brought an action against Reckitt Benckiser, Inc. for breach of an agreement to supply guaifenesin ER products to Mutual. That matter is still pending.

10. On December 30, 2015, the Plumbers Union Local 690 filed a putative class action Complaint in the Court of Common Pleas, Philadelphia County (PA) against the Company and others alleging that the defendants had reported artificially high Average Wholesale Prices resulting in higher drug prices for purchasers and payers. The Company has removed the matter to the United States District Court for the Eastern District of Pennsylvania. On February 26, 2016, a companion action was filed in the Court of Common Pleas, Philadelphia County (PA) against the Company and others making substantially identical allegations to those made in the Plumbers Union Local 690 action.

11. On March 25, 2016, the Tulsa Firefighters Health and Welfare Trust filed a putative class action Complaint in the United States District Court for the Eastern District of Pennsylvania against the Company and others alleging that the Company had conspired with other generic drug manufacturers to fix prices in the market for generic Doxycycline. The Company has not yet responded to the Complaint.

In addition to all of the above legal matters, the Company is also currently involved, and from time to time becomes involved, in certain other legal proceedings relating to the conduct of its business, including those pertaining to patents, product liability, contract and employment matters. The Company carries product liability insurance in an amount it believes is sufficient to meet the needs related to those cases involving products that it manufactured. While the outcome of any of such proceedings cannot be accurately predicted, the Company does not believe that the ultimate resolution of any of these other existing proceedings will have a material adverse effect on its financial condition or liquidity.

Product Liability and Insurance

The Company currently maintains a product liability insurance policy with primary coverage limits of $10 million per incident and in the aggregate, and also an excess coverage of $40 million over and above the primary coverage. The Company's product liability policy 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 Detroit Facility

The Company stopped the manufacturing activities at its Detroit manufacturing facility during Fiscal 2015. Evaluating additions to current capacities related to acquisitions by the company and also by other entities within the Sun family of companies, the Company believes, at this point, it would be more efficient to continue suspension of operations at this facility.

The facility had been operating under a FDA Consent Decree. On August 27, 2012, Sun was notified by the FDA that it appears to be in compliance with the Consent Decree and it may resume operations. The FDA conducted follow-up audits in January 2013, May 2013, and January 2014. The most recent FDA Inspection was concluded with no FDA 483 observations being issued.

Following the closure of the Detroit facility, the company began discussions with the FDA concerning vacating the Consent Decree. The FDA is currently evaluating the situation and the Company is awaiting their response. Since the facility has been approved by the FDA to resume manufacturing, the company believes they will be successful in removing the Consent Decree, but there is no guarantee that they will be successful.

Sun Cranbury Facility

The Cranbury, New Jersey facility was inspected during June and July 2015. The Company is working with the FDA to resolve observations identified by the inspection.

Mutual

Mutual has two primary manufacturing facilities, one in Philadelphia, Pennsylvania and another in Aurora, Illinois. The Philadelphia facility was inspected during June and July 2015. The Company is working with the FDA to resolve observations identified by the review.

DUSA

DUSA is registered as both an FDA drug manufacturing facility and an FDA device manufacturing facility. Both licenses are for the physical facility located in Wilmington, Massachusetts.

DUSA's last FDA inspection was a combination drug and device inspection which occurred in June 2012. There were no 483 observations from that inspection and there are no 483 observations issued or pending from any previous inspection. DUSA also underwent an FDA Post Marketing Adverse Drug Experience (pharmacovigilance) inspection in May 2015 which resulted in no 483 observations.

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(amounts in thousands)

Pharmalucence

Pharmalucence has two drug establishments currently registered with FDA, one located in Bedford, Massachusetts and the other located in Billerica, Massachusetts. The FDA conducts inspections of both sites, most recently in 2014 and 2015. Both sites have been found to be compliant with cGMP standards. The Bedford site is currently FDA approved for all cGMP drug manufacturing operations. The Billerica site is currently approved by the FDA for cGMP drug labeling, packaging, warehouse, visual inspection, and testing operations. Pharmalucence drug manufacturing operations in the Billerica establishment is pending a NDA supplement FDA approval.

Chattem

Chattem has its primary manufacturing facility in Chattanooga, Tennessee. This facility has been inspected by the FDA and found to be compliant with cGMP standards.

18. SEGMENT INFORMATION

The Company operates in two reportable segments consisting of (1) Company-owned products and (2) those products distributed under various agreements with Sun Pharma and its affiliates. The sales and gross profit earned on these categories of products are as follows for the year ended March 31:

	2016		2015	
	Sales	Gross Profit	Sales	Gross Profit
Category				
Company-owned products	$ 257,670	$ 90,160	$ 342,398	$ 194,490
Distributed products	416,559	34,167	506,249	41,441
Total	$ 674,229	$ 124,327	$ 848,677	$ 235,931

The Company is primarily in the business of manufacturing, developing, selling and distributing various therapeutic classes of solid oral dosage and injectables of generic pharmaceuticals. 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. The Company's revenues are solely based on the receipt of customers' orders.