Lupin Inc.

# LUPIN INC. AND SUBSIDIARIES

## Consolidated Financial Statements As of and for the Years Ended March 31, 2018 and 2017

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KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

# Independent Auditor's Report

The Board of Directors
Lupin Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Lupin Inc. and Subsidiaries, which comprise the consolidated balance sheets as of March 31, 2018 and 2017, and the related consolidated statements of operations, consolidated statements of changes in stockholder's (deficit) equity, and consolidated statements of 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lupin Inc. and Subsidiaries as of March 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 14, 2018

**LUPIN INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 57,268,542 | $ 26,602,006 |
| Restricted cash | 100,763 | 100,723 |
| Accounts receivable, net | 524,030,307 | 447,853,566 |
| Intercompany receivables | 129,700,763 | 59,441,057 |
| Inventories | 146,351,525 | 201,957,920 |
| Income taxes receivable | 146,256 | 7,573,866 |
| Prepaid expenses and other current assets | 11,266,303 | 15,216,548 |
| Total current assets | 868,864,459 | 758,745,686 |
| Property, plant and equipment, net | 81,642,821 | 84,534,750 |
| Goodwill | 95,089,259 | 95,089,259 |
| Intangible assets, net | 482,807,230 | 37,445,973 |
| Other assets | 48,400,001 | 48,400,001 |
| Total assets | $ 1,576,803,770 | $ 1,024,215,669 |
| **LIABILITIES AND STOCKHOLDER’S (DEFICIT) EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 27,098,742 | $ 22,580,654 |
| Accrued expenses | 42,112,715 | 35,859,143 |
| Intercompany payables | 671,244,207 | 483,510,442 |
| Other current liabilities | 154,210,619 | 162,095,554 |
| Total current liabilities | 894,666,283 | 704,045,793 |
| Deferred income taxes | — | 4,116,753 |
| Long term debt, net | 118,890,000 | 118,530,000 |
| Intercompany note payable - LAHSA | 675,310,588 | — |
| Long term legal accrual | 10,000,000 | 10,000,000 |
| Other liabilities | 87,363,412 | 48,610,311 |
| Total liabilities | 1,786,230,283 | 885,302,857 |
| Commitments and contingencies | | |
| Stockholder’s (deficit) equity: | | |
| Common stock | 1 | 1 |
| Additional paid-in capital | 170,050,000 | 120,050,000 |
| (Accumulated deficit) retained earnings | (380,757,745) | 17,606,626 |
| Total Lupin Inc. stockholder’s (deficit) equity | (210,707,744) | 137,656,627 |
| Noncontrolling interest | 1,281,231 | 1,256,185 |
| Total stockholder’s (deficit) equity | (209,426,513) | 138,912,812 |
| Total liabilities and stockholder’s (deficit) equity | $ 1,576,803,770 | $ 1,024,215,669 |

See accompanying notes to consolidated financial statements.

## LUPIN INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended March 31, 2018 | Year Ended March 31, 2017 |
|---|---|---|
| Product revenues | $ 928,153,982 | $ 1,236,904,586 |
| Service and other revenues | 102,216,309 | 126,976,549 |
| Profit sharing revenues | 6,096,775 | 7,273,191 |
| Total revenues | 1,036,467,066 | 1,371,154,326 |
| | | |
| Costs and expenses: | | |
| Cost of product revenues | 866,003,301 | 1,174,951,230 |
| Cost of service and other revenues | 92,515,580 | 119,907,024 |
| Selling, general and administrative | 94,998,469 | 71,061,473 |
| Research and development | 17,373,803 | 2,590,445 |
| Litigation related contingencies | — | 10,000,000 |
| Loss from operations | (34,424,087) | (7,355,846) |
| Interest expense, net | (7,856,456) | (2,717,885) |
| Other income, net | 4,438,088 | 5,429,636 |
| Loss from operations before income tax | (37,842,455) | (4,644,095) |
| Income tax benefit | (19,397,635) | (7,080,468) |
| Net (loss) income | (18,444,820) | 2,436,373 |
| Less: Net income attributable to noncontrolling interests | 25,046 | 407,067 |
| Net (loss) income attributable to Lupin Inc. | $ (18,469,866) | $ 2,029,306 |

See accompanying notes to consolidated financial statements.

**LUPIN INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S (DEFICIT) EQUITY**

| | Stockholder's (Deficit) Equity | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock, $0.001 Par Value | | | | | |
| | Shares | Amount | Additional Paid-in Capital | (Accumulated deficit) Retained Earnings | Noncontrolling Interest | Total Stockholder's (Deficit) Equity |
| Balance at April 1, 2016 | 1,000 | $ 1 | $ 40,050,000 | $ 16,027,320 | $ 849,118 | $ 56,926,439 |
| Net income attributable to Lupin Inc. | — | — | — | 2,029,306 | — | 2,029,306 |
| Net income attributable to noncontrolling interests | — | — | — | — | 407,067 | 407,067 |
| Dividends paid | — | — | — | (450,000) | — | (450,000) |
| Capital contributions | — | — | 80,000,000 | — | — | 80,000,000 |
| Balance at March 31, 2017 | 1,000 | $ 1 | $ 120,050,000 | $ 17,606,626 | $ 1,256,185 | $ 138,912,812 |
| Net loss attributable to Lupin Inc. | — | — | — | (18,469,866) | — | (18,469,866) |
| Net income attributable to noncontrolling interests | — | — | — | — | 25,046 | 25,046 |
| Dividends paid | — | — | — | (225,000) | — | (225,000) |
| Noncash distribution - LAHSA IP | — | — | — | (379,669,505) | — | (379,669,505) |
| Capital contributions | — | — | 50,000,000 | — | — | 50,000,000 |
| Balance at March 31, 2018 | 1,000 | $ 1 | $ 170,050,000 | $ (380,757,745) | $ 1,281,231 | $ (209,426,513) |

See accompanying notes to consolidated financial statements.

**LUPIN INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | | Year Ended March 31, 2018 | | Year Ended March 31, 2017 |
|---|---|---|---|---|
| Operating activities: | | | | |
| Net (loss) income | $ | (18,444,820) | $ | 2,436,373 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | | |
| Depreciation of property, plant and equipment | | 10,783,340 | | 8,705,879 |
| Amortization of intangible assets | | 7,400,303 | | 4,190,000 |
| Change in inventory provision | | 170,398 | | 4,197,756 |
| Intercompany interest | | 1,777,109 | | — |
| Amortization of debt issuance costs | | 533,260 | | 330,000 |
| Deferred income taxes | | (21,991,084) | | (11,207,529) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | | (75,694,260) | | 108,418,269 |
| Intercompany receivables | | (70,259,706) | | (10,332,434) |
| Inventory | | 55,435,997 | | (34,161,695) |
| Income taxes receivable | | 7,427,610 | | (3,279,886) |
| Prepaid expenses and other assets | | 4,143,240 | | 13,265,749 |
| Accounts payable | | 3,650,032 | | 6,260,463 |
| Accrued expenses and other liabilities | | (33,881,705) | | (59,440,318) |
| Intercompany payables | | 187,560,505 | | (29,375,669) |
| Other | | (7,725) | | 219,368 |
| Net cash provided by operating activities | | 58,602,494 | | 226,326 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | | (7,880,614) | | (22,448,803) |
| Asset acquisitions, net of cash received | | (69,830,304) | | — |
| Change in restricted cash | | (40) | | (44) |
| Net cash used in investing activities | | (77,710,958) | | (22,448,847) |
| Financing activities: | | | | |
| Proceeds from issuance of debt | | — | | 120,000,000 |
| Debt repayments | | — | | (236,630,000) |
| Payments for costs related to issuance of debt | | — | | (1,800,000) |
| Dividends paid | | (225,000) | | (450,000) |
| Capital contributions | | 50,000,000 | | 80,000,000 |
| Net cash provided by (used in) financing activities | | 49,775,000 | | (38,880,000) |
| Net increase (decrease) in cash and cash equivalents | | 30,666,536 | | (61,102,521) |
| Cash and cash equivalents—beginning of period | | 26,602,006 | | 87,704,527 |
| Cash and cash equivalents—end of period | $ | 57,268,542 | $ | 26,602,006 |
| | | | | |
| SUPPLEMENTAL INFORMATION | | | | |
| Cash paid for interest | $ | 2,673,672 | $ | 1,930,422 |
| Cash paid for taxes | $ | 2,749,607 | $ | 10,529,440 |
| Accrual for purchases of property, plant and equipment | $ | — | $ | 555,227 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES | | | | |
| Assumption of debt - intercompany asset acquisition - LAHSA IP | $ | 673,533,479 | $ | — |
| Distribution to parent - intercompany asset acquisition - LAHSA IP | $ | 379,669,505 | $ | — |

See accompanying notes to consolidated financial statements.

## Note 1. Organization and Description of the Business

Lupin Inc., including its consolidated subsidiaries, (collectively, the Company) was incorporated in the United States of America (USA) under the Laws of the State of Maryland on June 27, 2013 as a Maryland Corporation and converted to a Delaware Corporation on March 8, 2016. The Company is a consolidated subsidiary of Lupin Atlantis Holdings, S.A. (LAHSA), who is wholly owned by Lupin Limited (LL), the Company's ultimate parent company. The Company's core business as a distributor is to trade in pharmaceutical products and to render marketing and ancillary services related thereto.

## Note 2. Summary of Significant Accounting Policies

### Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB). Lupin Pharmaceuticals Inc. (LPI) is owned 97% by the Company; the remaining 3% interest is owned by LL directly and presented as a noncontrolling interest herein. The consolidated financial statements include the accounts of controlled subsidiaries after the elimination of intercompany accounts and transactions.

As discussed below in *Recent Accounting Pronouncements,* the Company adopted ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* as of the year ended March 31, 2017. This guidance requires management to perform an annual assessment of an entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued. The Company incurred losses from operations and a working capital deficit during the current year primarily attributable to start-up costs related to the Solesec™ franchise and the acquisition of certain IP assets from LAHSA in the fourth quarter of fiscal 2018, requiring capital contributions from its parent, LL. LL has committed to fund the continued operations of the Company through May 15, 2019.

### Use of Estimates

Management considers many factors in developing the estimates and assumptions that are used in the preparation of these consolidated financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. This process may result in actual results differing materially from those estimated amounts used in the preparation of the financial statements if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made.

### Revenue Recognition

*Product revenues*

The Company's net product sales consist of revenues from sales of its pharmaceutical products, less estimates for chargebacks, rebates, sales incentives and allowances, certain royalties, returns and allowances as well as fees for services. The Company recognizes revenue for product sales when title and risk of loss has passed to the customer, which is typically upon delivery to the customer, when estimated provisions for revenue reserves are reasonably determinable, and when collectibility is reasonably assured. Revenue from the launch of a new or significantly unique product, for which the Company is unable to develop the requisite historical data on which to base estimates of returns and allowances due to the uniqueness of the therapeutic area or delivery technology as compared to other products in its portfolio and in the industry, may be deferred until such time that an estimate can be determined, all of the conditions above are met and when the product has achieved market acceptance, which is typically based on dispensed prescription data and other information obtained prior to and during the period following launch.

*Service and other revenues*

Product royalties received from third-party collaboration partners and licensees of the Company's products and patents are recorded as part of total revenues. Royalties are recognized as earned in accordance with the contract terms when royalties from third parties can be reasonably estimated and collectibility is reasonably assured. If royalties cannot be reasonably estimated or collectibility of a royalty amount is not reasonably assured, royalties are recognized as revenue when the cash is received.

*Profit sharing revenues*

Profit sharing revenues are recognized as product revenues occur. Profit sharing revenues are based on contractual agreements with entities that stipulate a percentage of gross profits of product sales that will be received by the Company.

*Receivables, net*

Trade accounts receivable are recorded at the invoiced amount net of certain chargebacks, sales incentives and allowances, and do not bear interest.

**Acquisitions**

In a business combination, the acquisition method of accounting requires that the assets acquired and liabilities assumed be recorded as of the date of the acquisition at their respective fair values with limited exceptions. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of the acquired business are reflected in the Company's consolidated financial statements after the date of the acquisition. If the Company determines the assets acquired do not meet the definition of a business under the acquisition method of accounting, the transaction will be accounted for as an acquisition of assets rather than a business combination and, therefore, no goodwill will be recorded.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of all highly liquid investments with original maturities of three months or less.

**Inventories**

The cost of all work in process and finished goods inventories is determined using the first-in, first-out (FIFO) method. Raw materials are recognized through weighted average costing. Inventories consist of currently marketed products, as well as certain inventories produced in preparation for product launches that are considered to have a high probability of regulatory approval. In evaluating the recoverability of inventories produced in preparation for product launches, the Company considers the likelihood that revenue will be obtained from the future sale of the related inventory together with the status of the product within the regulatory approval process.

**Intercompany Receivables and Payables**

Intercompany receivables and payables represent balances due to and due from related parties which are within the LL organizational structure.

**Property, Plant and Equipment**

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which are generally two to forty years. Maintenance and repairs are expensed as incurred. Upon disposal, retirement, or sale, the related cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the results of operations.

**Intangible Assets**

*Goodwill*

Goodwill relates to amounts that arose in connection with the Gavis Pharmaceuticals, LLC and subsidiaries (the Gavis Group) acquisition in March 2016. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired when accounted for using the acquisition method of accounting for business combinations. Goodwill is not amortized but is evaluated for impairment on an annual basis, in the fourth quarter, or more frequently if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of the Company's reporting unit below its carrying amount.

The Company performs its annual impairment review of goodwill as of its fiscal year-end, and when a triggering event occurs between annual impairment tests. The Company utilizes a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to calculate the fair values of the reporting units under Step 1 of the goodwill impairment test.

*Intangible Assets*

Intangible assets relate to an acquired New Drug Applications (NDAs) in connection with the acquired Solosec™ franchise in October 2017 and Abbreviated New Drug Applications (ANDAs) and Currently Marketed Products (CMPs) that arose in connection with the Gavis Group acquisition in March 2016, certain IP assets acquired from LAHSA in March 2018 and the Tobi and Omega-3 products acquired from LAHSA in March 2018 (see Note 9 - *Goodwill and Other Intangibles* for further details on asset acquisitions). The Company's intangible assets include both finite lived and indefinite lived assets. Finite lived intangible assets, consisting of CMPs, NDAs and Approved ANDAs are amortized on a straight-line basis over the estimated useful life of the assets. Indefinite-lived intangible assets consist of acquired in process research and development (IPR&D) product rights and filed ANDAs not yet approved by the Food and Drug Adminsitration (FDA). IPR&D and Filed ANDA assets acquired in a business combination and those transferred in from entities under common control are recorded at fair value and at the transferring entity's historical cost basis at date of transfer, respectively. IPR&D and Filed ANDAs are considered indefinite-lived until the completion or abandonment of the associated research and development efforts. Amortization over the estimated useful life will commence at the time of the respective product's launch. If FDA approval to market the product is not obtained, the Company will immediately expense the related capitalized cost. Intangible assets are carried at cost less accumulated amortization and impairment losses, if any.

*Long-Lived Asset Impairment Testing*

Long-lived assets, including property, plant and equipment and finite-lived intangible assets, are assessed for impairment whenever events or changes in circumstances indicate the carrying amounts of the assets may not be recoverable. Recoverability of an asset that will continue to be used in our operations is measured by comparing the carrying amount of the asset to the forecasted undiscounted future cash flows related to the asset. In the event the carrying amount of the asset exceeds its undiscounted future cash flows and the carrying amount is not considered recoverable, impairment may exist. An impairment loss, if any, is measured as the excess of the asset's carrying amount over its fair value, generally based on a discounted future cash flow method, independent appraisals or preliminary offers from prospective buyers. An impairment loss would be recognized in the consolidated statements of operations in the period that the impairment occurs.

**Other Income, Net**

Other income is comprised of related party billings for reimbursements of non-research and development services.

**Income Taxes**

Income taxes are recorded in accordance with ASC Topic 740, *Income Taxes* (ASC 740), which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the consolidated financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are provided, if 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.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances.

**Contingencies**

The Company records accruals for contingencies expected to be incurred in connection with a loss contingency when it is probable that a liability has been incurred and the amount can be reasonably estimated.

**Research and Development Expenses**

Research and development costs are charged to expense as incurred. These costs include, but are not limited to, employee-related expenses, including salaries, benefits, and travel as well as expenses related to collaborations and contract research agreements; expenses incurred under agreements with contract research organizations and investigative sites that conduct preclinical and clinical studies; the cost of acquiring, developing and manufacturing clinical trial materials; facilities, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies; and costs associated with preclinical and clinical activities and regulatory operations.

Costs for certain development activities, such as preclinical and clinical studies, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, preclinical site activations, or information provided to the Company by its vendors with respect to their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the consolidated financial statements as prepaid or accrued research and development expense, as the case may be.

Under a Product Development Agreement, certain research and development costs are billed back to LL and LAHSA. These transactions are reflected in cost of service and other revenues with a 10% markup. The Company's remuneration for such services is subject to an annual transfer pricing study.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held by two financial institutions and the amounts on deposit were in excess of Federal Deposit Insurance Company insurance limits. The Company mitigates this risk by depositing its uninsured cash in major well capitalized financial institutions. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers, all of whom are creditworthy customers representing the FORTUNE 500. The Company derives the majority of its revenue from sales to U.S.-based supply chain distributors, pharmacies, etc. As of March 31, 2018, AmerisourceBergen Health Corp, McKesson Financial Center, and Cardinal Health represented more than ten percent of revenue and accounts receivable. As of March 31, 2017, AmerisourceBergen Health Corp, McKesson Financial Center, CVS, and Cardinal Health represented more than ten percent of revenue and accounts receivable.

**Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Company is currently assessing the impacts this guidance may have on its consolidated financial statements and disclosures as well as the transition method that it will use to adopt the guidance. In August 2015, the FASB issued an amendment to provide a one year deferral of the effective date to annual reporting periods beginning on or after December 15, 2018, as well as an option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Company does not plan to early adopt the standard. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15), that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued or available to be issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company's ability to continue as a going concern. ASU 2014-15 was effective for all entities for the annual period ending after December 15, 2016, and for annual and interim periods thereafter, with early adoption permitted. The Company adopted ASU 2014-15 as of the period ended March 31, 2017, and its adoption did not have a significant impact on its financial statements (see Note 13 - *Related Party Transactions* for further details).

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying of the Measurement of Inventory*. The standard requires inventory to be measured at the lower of cost or net realizable value. The new guidance defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This definition is consistent with existing authoritative guidance. Current guidance requires inventory to be measured at the lower of cost or market where market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. The guidance is effective for periods beginning after December 15, 2016 with early adoption permitted. The guidance is required to be applied prospectively. The Company adopted the ASU in fiscal 2018. There was no impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), which requires lessees to recognize assets and liabilities for the rights and obligations created by most leases on their balance sheet. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years beginning after December 15, 2020. Early application is permitted. ASU 2016-02 requires modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact the standard may have on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which amended the existing accounting standards for the statement of cash flows by providing guidance on eight classification issues related to the statement of cash flows. ASU 2016-15 will be effective in fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The amendments should be applied retrospectively to all periods presented. For issues that are impracticable to apply retrospectively, the amendments may be applied prospectively as of the earliest date practicable. The Company is currently in the process of assessing the impact of ASU 2016-15 on the Company's consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash a consensus of the FASB Emerging Issues Task Force* (ASU 2016-18). ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents on the consolidated statement of cash flows. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The ASU amends the definition of a business and provides a threshold which must be considered to determine whether a transaction is an acquisition (or disposal) of an asset or a business. The ASU is effective for annual reporting periods beginning after December 15, 2018. The ASU will be applied prospectively to any transactions occurring within the period of adoption. Early adoption is permitted for transactions for which the acquisition date occurs in a period for which financial statements have not been issued or made available. The Company adopted the ASU in fiscal 2018 and applied to the Solosec™ acquisition. See Note 8 – *Asset Acquisition* for additional information.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. For non-public entities, the standard is effective for annual or any interim impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard is not anticipated to have a significant impact on the Company's consolidated financial statements.

**Note 3. Accounts Receivable, net**

The composition of accounts receivable, net is as follows:

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Gross accounts receivable | $ 634,785,119 | $ 701,403,082 |
| Less: chargeback reserve | (85,117,711) | (101,957,557) |
| Less: indirect reserve | (7,082,924) | (45,937,536) |
| Less: price protection | (1,541,353) | (7,804,243) |
| Less: billback reserve | — | (77,498,117) |
| Less: distribution services reserve | (3,904,310) | (3,376,703) |
| Less: discount reserve | (11,628,908) | (13,787,682) |
| Less: POS couponing | (1,479,606) | (3,187,678) |
| Accounts receivable, net | $ 524,030,307 | $ 447,853,566 |

## Note 4. Inventories

Inventories consist of:

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Raw materials | $ 17,949,090 | $ 15,569,265 |
| Work in process | 6,851,977 | 1,648,764 |
| Finished goods | 141,264,765 | 204,283,800 |
| | 166,065,832 | 221,501,829 |
| Less: valuation reserve | (19,714,307) | (19,543,909) |
| Inventories | $ 146,351,525 | $ 201,957,920 |

## Note 5. Property, Plant and Equipment, net.

Property, plant and equipment, net consists of the following:

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Land | $ 3,740,000 | $ 3,740,000 |
| Buildings | 25,035,696 | 25,035,696 |
| Office equipment and computers | 7,348,088 | 6,472,658 |
| Machinery and equipment | 36,677,667 | 32,019,186 |
| Furniture and fixtures | 3,211,859 | 3,207,835 |
| Vehicles | 31,623 | 31,623 |
| Leasehold improvements | 16,080,238 | 15,676,153 |
| Software | 5,121,674 | 3,477,830 |
| Construction in process | 10,961,001 | 10,657,776 |
| | 108,207,846 | 100,318,757 |
| Less: accumulated depreciation | (26,565,025) | (15,784,007) |
| Property, plant and equipment, net | $ 81,642,821 | $ 84,534,750 |

Depreciation expense was $10,783,340 and $8,705,879 for the years ended March 31, 2018 and 2017, respectively.

## Note 6. Accrued Expenses

Accrued expenses consist of the following:

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Bonus and incentives | $ 12,584,499 | $ 11,742,930 |
| Solosec™ selling and marketing costs | 5,238,638 | — |
| Other selling, general and administrative | 9,394,845 | 6,459,328 |
| Research and development | 4,071,769 | 3,165,580 |
| Freight | 3,389,008 | 2,373,403 |
| Product costs | 1,309,499 | 1,460,220 |
| Legal costs | 1,781,232 | 1,140,376 |
| Payroll and benefits | 3,206,351 | 2,949,736 |
| Partner payouts | 632,771 | 6,190,504 |
| Accrued interest | 504,103 | 377,066 |
| Accrued expenses | $ 42,112,715 | $ 35,859,143 |

**Note 7. Prepaid Expenses and Other Current Assets and Other Current Liabilities**

Prepaid expenses and other current assets of $11,266,303 and $15,216,548 as of March 31, 2018 and 2017, respectively, consist primarily of various other prepaid expenses. Other current liabilities of $154,210,619 and $162,095,554 as of March 31, 2018 and 2017, respectively, consists primarily of accrued rebates, billback payments, returns and $30,000,000 for a milestone payment due in the quarter ended June 30, 2018 for Solosec™.

**Note 8. Asset Acquisition**

*Solosec™ Franchise*

On October 10, 2017, the Company acquired all of the outstanding equity of Symbiomix Therapeutics LLC (Symbiomix), a privately held company focused on bringing innovative therapies to market for gynecologic infections that can have serious health consequences. The acquisition of Symbiomix's Solosec™ franchise significantly expands Lupin's branded women's health specialty business. The total consideration was $124.1 million, of which the Company made a $57.5 million upfront cash payment and will pay $66.6 million of other time-based payments through 2026. Of the discounted $66.6 million of other time-based payments through 2026, $30 million has been classified as other current liabilities, and the remainder is included in other liabilities on the consolidated balance sheet. In addition to the total acquisition purchase price, the agreement also requires the Company to pay additional consideration contingent upon net sales of Solosec™ for a term not to exceed five years after the expiration of product's market exclusivity, which will be recognized when probable and estimable. Payment of additional consideration will be recorded as an adjustment to the cost of the asset.

Future undiscounted time-based payments are as follows:

| | 12 Month Period Ended March 31, |
|---|---|
| 2019 | $ 30,000,000 |
| 2020 | — |
| 2021 | 7,500,000 |
| 2022 | 10,000,000 |
| 2023 | 10,000,000 |
| Thereafter | 27,500,000 |
| Total | $ 85,000,000 |

The Company determined that the assets acquired did not meet the definition of a business under the acquisition method of accounting as substantially all of the assets acquired was related to the single identifiable asset. Accordingly, the tangible and identifiable intangible assets acquired and liabilities assumed were accounted for as an acquisition of assets rather than a business combination, and therefore, no goodwill was recognized. An intangible asset of approximately $141.3 million was recorded as a result of this acquisition, which is the difference of consideration transferred and the net amount of assets acquired and liabilities assumed.

**Consideration transferred**

| | | Fair Value |
|---|---|---|
| Cash consideration to seller | $ | 57,448,405 |
| Milestone payments | | 66,616,298 |
| **Total Consideration** | $ | 124,064,703 |

**Net amount of assets and liabilities**

| | | Fair Value |
|---|---|---|
| Cash | $ | 5,184,622 |
| Accounts receivable | | 482,481 |
| Prepaid expenses and other current assets | | 185,767 |
| Security deposit | | 7,228 |
| Property and equipment | | 8,475 |
| Intangible asset | | 141,331,066 |
| **Total assets acquired** | $ | 147,199,639 |
| | | |
| Accounts payable | $ | (868,056) |
| Accrued expenses | | (4,387,145) |
| Deferred taxes | | (17,879,735) |
| **Total liabilities assumed** | $ | (23,134,936) |
| | | |
| **Net assets acquired** | $ | 124,064,703 |

The acquired intangible asset is considered to have a useful life of 12 years from the date of the launch of the product which is expected to be during the quarter ended June 30, 2018. The asset will be amortized using the straight line-method over the useful life.

## Note 9. Goodwill and Other Intangibles

*Goodwill*

The table below provides a roll-forward of the goodwill balance:

| | | |
|---|---|---|
| Balance at April 1, 2016 | $ | 95,089,259 |
| Increases (decreases) | | — |
| Balance at March 31, 2017 | | 95,089,259 |
| Increases (decreases) | | — |
| Balance at March 31, 2018 | $ | 95,089,259 |

The Company performs the annual goodwill impairment assessment as of March 31 or when events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The Company performed its annual goodwill impairment test, performing its qualitative assessment of macroeconomic, industry and market events and circumstances; and the overall financial performance of its goodwill reporting unit. The Company determined it was not more likely than not that the fair value of goodwill attributed to the reporting unit was less than its carrying amount; as such, step one of the annual goodwill impairment test was deemed not necessary for the fiscal year ended March 31, 2018.

*Other Intangibles*

The following tables summarize the components of the Company's intangible assets subject to amortization:

| Year Ended March 31, 2018 | Currently Marketed Products | Approved NDAs | Approved ANDAs | Filed ANDAs | In-process R&D | Total |
|---|---|---|---|---|---|---|
| Balance at April 1, 2017 | $ - | $ - | $ 41,900,000 | $ - | $ - | $ 41,900,000 |
| Asset Purchase - Tobi/Omega-3 | - | - | 9,000,000 | 100,000 | - | 9,100,000 |
| Asset Purchase - LAHSA | 207,139,344 | - | 11,682,049 | 52,619,101 | 30,890,000 | 302,330,494 |
| Asset Purchase - Solosec™ | - | 141,331,066 | - | - | - | 141,331,066 |
| Balance at March 31, 2018 | 207,139,344 | 141,331,066 | 62,582,049 | 52,719,101 | 30,890,000 | 494,661,560 |
| Less: accumulated amortization | (2,191,900) | - | (9,662,430) | - | - | (11,854,330) |
| Net carrying amount | $ 204,947,444 | $ 141,331,066 | $ 52,919,619 | $ 52,719,101 | $ 30,890,000 | $ 482,807,230 |

| Year Ended March 31, 2017 | Currently Marketed Products | Approved NDAs | Approved ANDAs | Filed ANDAs | In-process R&D | Total |
|---|---|---|---|---|---|---|
| Balance at April 1, 2016 | $ - | $ - | $ 41,900,000 | $ - | $ - | $ 41,900,000 |
| Acquisitions | - | - | - | - | - | - |
| Balance at March 31, 2017 | - | - | 41,900,000 | - | - | 41,900,000 |
| Less: accumulated amortization | - | - | (4,454,027) | - | - | (4,454,027) |
| Net carrying amount | $ - | $ - | $ 37,445,973 | $ - | $ - | $ 37,445,973 |

Amortization expense was $7,400,303 and $4,190,000 for the years ended March 31, 2018 and 2017, respectively.

*Intellectual Property Assets Purchased from LAHSA*

Effective March 1, 2018, Lupin Inc. entered into an intercompany asset purchase agreement with LAHSA to acquire intellectual property rights of certain IP assets including: 124 products, 90 of which had ANDAs and 34 of which were under development, two trademarks, 39 patents and 6 marketing rights for various branded and generic products. The purchase price was $682 million consisting of the assumption of $673.5 million of third-party debt from LAHSA, net of debt issue costs of $6.5 million and $8.5 million of cash. Under U.S. GAAP, the transaction was deemed an asset acquisition between entities under common control, therefore, the IP assets were recorded by the Company (receiving entity) at the historical cost basis of LAHSA (transferring entity) at the date of transfer as disclosed in the table above. An analysis was performed by a third-party to assess the implications of the transfer pricing and it was concluded that the transfer price is substantially representative of the fair value of the assets in an arm's length transaction.

On March 21, 2018, Lupin Inc. entered into an intercompany asset purchase agreement with LAHSA, effective April 1, 2017, to acquire intellectual property rights for two products, Tobi and Omega-3. The purchase price was $9.1 million of cash. An analysis was performed by a third-party to assess the implications of the transfer pricing and it was concluded that the transfer price is substantially representative of the fair value of the assets in an arm's length transaction.

The approximate estimated future amortization expense is as follows:

| | Year ending March 31, |
|---|---|
| 2019 | $ 41,017,402 |
| 2020 | 43,961,802 |
| 2021 | 43,961,802 |
| 2022 | 43,961,802 |
| 2023 | 43,961,802 |
| Thereafter | 265,942,620 |
| | $ 482,807,230 |

## Note 10. Debt

The Company entered into a Credit Agreement dated February 29, 2016 with JPMorgan Chase Bank (JPM) to finance $201,630,000 (Bridge Loan) to fund the Gavis Group acquisition with an intention to replace the Bridge Loan with a long- term loan in the future. LL acted as a guarantor to the Agreement.

On March 31, 2016, the Company entered into a Facilities Agreement for loan assistance of $120,000,000 to replace the existing Bridge loan with an additional capital contribution of $80,000,000 from LAHSA. On May 3, 2016, the Bridge Loan was repaid. The Facilities Agreement contains a six-year term with $40,000,000 payable at March 31, 2020, $40,000,000 payable at March 31, 2021 and $40,000,000 payable at March 31, 2022. Interest is accrued on the note at the rate of 0.95% plus the three-month LIBOR rate. Interest is payable quarterly. Debt issue costs of approximately $1,800,000 were capitalized and are being amortized over the term of the loan, which approximates the effective interest method, and is recorded against long term debt, net on the consolidated balance sheets.

The Company entered into an agreement to assume $673.5 million of third-party LAHSA debt, net of $6.5 million of debt issue costs, assigned through the Novation Agreement with LL, LAHSA and a consortium of banks on May 3, 2018. The debt was assumed as consideration, in addition to $8.5 million of cash, for certain IP assets acquired from LAHSA effective March 1, 2018. The debt contains a six-year term with $226,666,667 payable at March 2, 2020, $226,666,667 payable at March 2, 2021 and $226,666,667 payable at March 2, 2022. Interest is accrued on the note at the rate of 0.95% plus the three-month LIBOR rate and is payable quarterly. The Company is responsible for interest payments after March 1, 2018, the first of which was paid on May 8, 2018. The debt issue costs of approximately $6.5 million were capitalized and are being amortized over the term of the loan, which approximates the effective interest method, and is recorded against long term debt, net on the consolidated balance sheets.

The Company recorded interest expense related to external debt of $4,937,818 and $2,497,551 during the years ended March 31, 2018 and 2017. The aggregate outstanding principal and accrued interest balance at March 31, 2018 and 2017 was $120,504,103 and $120,377,066, respectively.

## Note 11. Commitments and Contingencies

### Operating Leases

The Company leases office and facility space, office and testing equipment and furniture. As of March 31, 2018 and 2017, the Company expects to receive $2,393,840 and $2,593,860, respectively, in sublease income through 2025 that will be recorded as an offset to rent expense. Rent expense under operating leases for the years ended March 31, 2018 and 2017 was $4,225,340 and $3,712,378, respectively.

Future minimum lease payments as of March 31, 2018 are as follows:

| | | |
|---|---|---|
| Fiscal 2019 | $ | 3,348,604 |
| Fiscal 2020 | | 2,651,140 |
| Fiscal 2021 | | 1,933,050 |
| Fiscal 2022 | | 1,898,102 |
| Fiscal 2023 | | 1,994,260 |
| Thereafter | | 5,430,418 |
| Total | $ | 17,255,574 |

**Legal Proceedings**

The Texas Attorney General's office served LPI, with several Civil Investigative Demands beginning May 29, 2012 and continuing through 2016. The State of Texas filed a lawsuit against LPI, LL, Lupin Inc. and certain executives on June 14, 2016 (the Original Lawsuit) alleging violations of the Texas Medicaid Fraud Prevention Act (TMFPA). Texas voluntarily dismissed the Original Lawsuit on November 29, 2016. On December 2, 2016, a substantially similar lawsuit (the Current Lawsuit) was filed by a private party, and Texas intervened as an additional plaintiff in the Current Lawsuit. The Current Lawsuit is titled State of Texas ex rel Express Med Pharmaceuticals vs. Lupin Pharmaceuticals, Lupin Ltd., Lupin Inc., Vinita Gupta and Robert Hoffman. All defendants have filed general denials. A Third Amended Petition filed on April 12, 2017 added Gavis Pharmaceuticals, LLC as an additional defendant. On October 26, 2017, Texas filed a Fourth Amended Petition and deleted Gavis Pharmaceuticals, LLC as a defendant. Currently, the case is in the fact discovery phase, where depositions began in February 2018.

There are no active settlement discussions, and there are no open offers from either party. Texas' original demand to Lupin was $165,000,000. Their last counteroffer, on June 7, 2016 was a demand of $81,000,000 in response to the Company's June 6, 2016 offer to pay $10,000,000. A formal settlement conference was held September 20, 2016 and neither party revised their previous positions. On May 17, 2017, the Company received Texas' Responses to Defendants' Request for Disclosure. In the section for Amount and Method of Calculating Remedies, Texas stated that it is entitled to recover the entire amount that it spent reimbursing Texas pharmacies for the identified drugs in the amount of $214,000,000. The Company has a $10,000,000 loss contingency established for the claim as of March 31, 2018 and 2017.

**Note 12. Income Taxes**

The Company provides for income taxes under ASC 740. Under ASC 740, the asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company's loss before income taxes was $37,842,455 and $4,644,095 for the twelve months ended March 31, 2018 and 2017, and was generated entirely in the United States.

Income tax benefit consists of:

| | Year Ended March 31, 2018 | | Year Ended March 31, 2017 | |
|---|---|---|---|---|
| Current provision: | | | | |
| U.S. federal | $ | 507,856 | $ | 3,800,717 |
| U.S. state and local | | 780,349 | | 326,344 |
| Witholding tax | | 1,305,244 | | — |
| Total current provision | $ | 2,593,449 | $ | 4,127,061 |
| Deferred benefit: | | | | |
| U.S. federal | | (20,707,657) | | (9,472,277) |
| U.S. state and local | | (1,283,427) | | (1,735,252) |
| Total deferred benefit | | (21,991,084) | | (11,207,529) |
| Total current and deferred benefit | $ | (19,397,635) | $ | (7,080,468) |

Income tax benefit differed from the amounts computed by applying the U.S. federal income tax rate of 31.55% to pretax income as a result of the following:

| | Year Ended March 31, 2018 | Year Ended March 31, 2017 |
|---|---|---|
| Loss before income tax | $ (37,842,455) | $ (4,644,095) |
| Statutory tax rate | 31.55 % | 35 % |
| Income tax benefit at statutory rate | (11,939,295) | (1,625,433) |
| U.S. state tax benefit | (503,078) | (205,773) |
| | (12,442,373) | (1,831,206) |
| (Increase) decrease in income tax benefit resulting from: | | |
| Non-deductible expenses | 506,222 | 491,919 |
| R&D tax credits (net of reserve) | (4,588,246) | (5,219,057) |
| Income tax rate change | (5,468,640) | — |
| Valuation allowance | 2,939,980 | — |
| Foreign taxes | 1,305,244 | — |
| Other | (1,649,822) | (522,124) |
| Income tax benefit | $ (19,397,635) | $ (7,080,468) |

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. The TCJA includes a number of changes in existing tax law impacting businesses, including a permanent reduction in the U.S. federal statutory rate from 35% to 21%. Under U.S. GAAP, changes in tax rates and tax law are accounted for in the period of enactment and deferred tax assets and liabilities are re-measured at the enacted tax rate. Guidance issued by the Securities Exchange Commission (SEC) and approved by the FASB for private companies provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the Tax Cuts and Jobs Act.

The rate reduction generally takes effect on January 1, 2018. However, as a fiscal year corporate filer (March 31, 2018), the Company is required to follow Internal Revenue Code section 15 for statutory rate changes. As a result, the Company used a blended rate of 31.55% for this period. The Company recorded a $5,468,640 favorable impact from the change in tax law. After the fiscal year ended March 31, 2018, the Company will be subject to a federal statutory tax rate of 21%.

The income tax benefit for the twelve months ended March 31, 2018 and 2017 was partially driven by research and development credits. The Company performed a research and development (R&D) analysis for the current period as well as the prior periods to identify qualified research expenditures. The Company's Coral Springs, Florida office is a dedicated facility for research and development purposes, including the development of inhalation products. The Company also includes R&D activities in its Somerset, New Jersey facilities.

The Company acquired the equity interests of Symbiomix on October 10, 2017. Included in the acquisition were three corporations, which owned approximately 35% of Symbiomix. As a result of the acquisition, the Company recognized a deferred tax liability of $17,879,735 related to the intangible assets acquired with Symbiomix. The Company recognized the intangible assets at fair value for book purposes. However, the corporate ownership interest of 35% for tax purposes was not available for a step up in tax basis.

The acquisition of the three corporations related to the above transaction included an acquisition of Net Operating Losses (NOLs) of $19,176,254 with a net deferred tax asset (DTA) of $4,258,689. The Company performed an IRC Section 382 analysis and determined that the annual NOL deduction limitation will be $3.6 million.

Also related to the acquisition of Symbiomix, the Company recognized a deferred tax liability (DTL) of $2,675,430 of deferred interest payments. The Company in calculating the net present value of the Symbiomix milestone payments used a 6.7% interest rate. For tax purposes, the Company is using the mid-term applicable federal tax rate of 1.85% for October, 2017, which resulted in the DTL as set forth above.

The Company continues to amortize the tax goodwill associated with the Gavis Pharmaceuticals, LLC (Gavis) acquisition. Gavis was deemed an asset acquisition due to its flow-through nature (disregarded entity for federal income tax purposes) for income tax purposes. As a result of the acquisition, the Company recognized $66,482,512 of tax goodwill. In addition to this acquisition, the Company acquired the corporate stock of VGS Holdings, Inc., an S Corporation for federal income tax purposes. The Company filed an IRC Section 338(h)(10) election to step up the tax basis of the fixed assets of VGS Holdings, Inc., to fair value. As a result of this election, the Company recognized an additional $3,420,783 of tax goodwill. The total $69,903,295 of goodwill for tax purposes is being amortized over a fifteen year period. The Company will not amortize this goodwill for book purposes. Therefore, the deferred tax liability associated with this goodwill will continue to increase until such time the Company disposes of this asset.

The Company considered all available evidence, both positive and negative, to determine whether all or some portion of the DTA will not be realized. Based upon the Company's cumulative three-year losses, the Company has established a valuation allowance against its DTA of $87,256,984. This DTA includes of $2,939,980 normal operational deferred tax accounts, which currently impacts the Company's income tax benefit. The remaining $84,317,004 million relates to the Company's book-tax basis difference for the intellectual property acquired from LAHSA. This DTA and its associated valuation allowance do not currently impact the Company's income tax benefit. The Company will consider additional evidence in future periods to determine when it will release the valuation allowance and recognize its DTA.

| | March 31, 2018 | | March 31, 2017 | |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Accounts receivable returns and allowances | $ | 10,472,188 | $ | 14,233,038 |
| Litigation reserve | | 2,458,960 | | 3,780,067 |
| Inventory reserve | | 2,202,372 | | 1,393,790 |
| Research and development (net of reserve) | | 5,868,679 | | 1,395,918 |
| State tax credits | | 2,671,347 | | 798,931 |
| Net operating loss | | 9,140,613 | | — |
| Accrued payroll | | 1,021,891 | | 1,305,223 |
| Acquisition costs | | 1,971,822 | | 324,270 |
| LAHSA IP | | 84,317,004 | | — |
| Other | | 2,683,555 | | 1,463,673 |
| Total deferred tax assets | $ | 122,808,431 | $ | 24,694,910 |
| Valuation allowance: | | 87,256,984 | | — |
| Deferred tax liabilities: | | | | |
| Goodwill amortization | $ | 2,570,051 | $ | 1,837,936 |
| Intangible asset amortization | | 21,983,634 | | 15,583,880 |
| Depreciation | | 7,229,247 | | 10,168,009 |
| Deferred interest | | 2,675,430 | | — |
| Other | | 1,093,085 | | 1,221,838 |
| Total net deferred tax liabilities | $ | 35,551,447 | $ | 28,811,663 |
| | | | | |
| Net deferred tax liability | $ | — | $ | 4,116,753 |

ASC Topic 740 prescribes a minimum recognition threshold and measurement methodology for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company has evaluated all uncertain tax positions in accordance with ASC Topic 740. As of March 31, 2018, and March 31, 2017, the Company has unrecognized tax benefits of $3,866,132 and $1,954,328, respectively. The Company's practice is to recognize interest and penalty expense related to uncertain tax positions as part of tax expense. The Company did not recognize any interest and penalty expense related to uncertain tax positions for the years ended March 31, 2018, and March 31, 2017. The Company does not expect changes in unrecognized tax benefits, if any, within the next twelve months to have a material impact on the provision for income taxes or the effective tax rate.

The Company files income tax returns in the United States and various state jurisdictions. The federal and state income tax returns are generally subject to tax examinations for the tax year ended March 31, 2015 and succeeding tax years. To the extent the Company has tax attribute carryforwards, the tax years in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service (IRS) or state tax authorities to the extent utilized in a future period. The Company is currently under examination by the Internal Revenue Service. The examination is still in the preliminary stages, and the Company does not believe any reserves are required at this time.

**Note 13. Related Party Transactions**

The Company enters into transactions with related parties. Related parties are:

Companies where control exists:
- LL (Ultimate Parent Company)
- LAHSA (Direct Parent Company)

Other Related Parties having transactions with the Company's fellow subsidiaries:
- Lupin GmbH, Switzerland (GmbH)
- Laboratorios Grin, S.A. de C.V., Mexico
- Medquimica Industria Farmaceutica Ltda, Brazil (Medquimica)
- Lupin Pharma Canada Ltd., Canada (Canada)
- Lupin Latam, Inc., United States (Latam),
- Nanomi BV, India
- LL Research Park, India (LL Research Park)

Transactions, which take place at an arm's length between entities, range from clinical service charges, capital contributions, dividend payments, expense reimbursement, guarantee fees, management fees, research services, short term borrowings and tax sharing.

The following represents related party sales:

| | Year Ended March 31, 2018 | Year Ended March 31, 2017 |
|---|---|---|
| Sales to LAHSA | $ 112,904,235 | $ 127,016,795 |
| Sales to LL | 41,406,914 | 40,463,979 |
| Sales to Canada | 8,509 | 42,144 |
| Sales to GmbH | 89,215 | 35,199 |
| Sales to Latam | 11,901 | 16,794 |
| Sales to Nanomi BV | — | 9,977 |
| Related party sales | $ 154,420,774 | $ 167,584,888 |

In addition to the related party sales noted above, the Company earned an additional $3.5 million and $5.3 million in other income from related parties for management services for the years ended March 31, 2018 and 2017, respectively.

The following represents related party purchases:

| | Year Ended March 31, 2018 | Year Ended March 31, 2017 |
|---|---|---|
| Purchases from LL | $ 549,553,904 | $ 964,337,373 |
| Purchases from LAHSA | 154,699,943 | 166,211,018 |
| Purchases from GmbH | 2,297,039 | 2,077,880 |
| Purchases from LL Research Park | 1,013,612 | 830,005 |
| Purchases from Medquimica | — | 416,977 |
| Related party purchases | $ 707,564,498 | $ 1,133,873,253 |

The following represents due to/from balances with related parties:

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Due from LAHSA | $ 91,885,978 | $ 32,529,287 |
| Due from LL | 32,876,136 | 15,214,950 |
| Due from LL Research Park | 4,157,594 | 7,690,627 |
| Due from Nanomi BV | — | 1,143,952 |
| Due from GmbH | 331,053 | 1,377,000 |
| Due from Latam | 297,434 | 616,626 |
| Due from Medquimica | — | 459,272 |
| Due from Canada | 152,568 | 247,498 |
| Due from Laboratories Grin | — | 161,845 |
| Intercompany receivables | $ 129,700,763 | $ 59,441,057 |

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Due to LL | $ 611,923,723 | $ 456,048,527 |
| Due to LAHSA | 58,452,227 | 25,761,625 |
| Due to GmbH | 867,365 | 865,178 |
| Due to LL Research Park | — | 418,135 |
| Due to Medquimica | — | 416,977 |
| Due to Nanomi | 892 | — |
| Intercompany payables | $ 671,244,207 | $ 483,510,442 |

On March 1, 2018, the Company closed on an intercompany note payable with LAHSA for the noncash assumption of debt related to the acquisition of certain IP assets from LAHSA. The intercompany note became third-party external debt of the Company on May 3, 2018 when the novation agreement with LAHSA was executed. The aggregate outstanding principal and accrued interest balance at March 31, 2018 was $675,310,588. See Note 10 – *Debt* for further details.

The Company received capital contributions from LAHSA of $50 million and $80 million for the years ended March 31, 2018 and 2017, respectively.

**Note 14. Employee Benefit Plan**

The Company maintains a 401(k) plan, pursuant to which employees may make contributions which are not to exceed statutory limits. Employer matching contributions are equal to 100% of the first 3%, and 50% of the second 3% of employee contributions. For the years ended March 31, 2018 and 2017, the Company made matching contributions of $1,985,166 and $1,994,970, respectively.

**Note 15. Subsequent Events**

The Company evaluates events or transactions that occur after the balance sheet date but prior to the issuance of consolidated financial statements and concluded that no subsequent events have occurred through May 14, 2018 that require adjustment to or disclosure in the Company's consolidated financial statements except for the following:

On May 3, 2018, the Company executed the Novation Agreement with LL, LAHSA and a consortium of banks related to the assumption of $673 million of debt from LAHSA. As of March 31, 2018, the debt was intercompany debt due to LAHSA in the Company's consolidated balance sheet. Upon execution of the Novation Agreement, the debt became external debt of the Company. This transaction is a part of the IP asset purchase agreement effective March 1, 2018 between the Company and LAHSA. See Note 10 – *Debt* and Note 9 – *Goodwill and Other Intangibles* for further details of the transaction.