Lupin Inc.

# LUPIN INC. AND SUBSIDIARIES

## Consolidated Financial Statements As of and for the Years Ended March 31, 2019 and 2018

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KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

# 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, 2019 and 2018, and the related consolidated statements of operations, changes in stockholder's deficit, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for recognizing revenue effective April 1, 2018 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. This change was adopted using the modified retrospective method.

KPMG LLP

Baltimore, Maryland
May 14, 2019

**LUPIN INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(*in thousands*)**

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,837 | $ 57,269 |
| Restricted cash | — | 101 |
| Accounts receivable, net | 533,189 | 524,030 |
| Intercompany receivables | 18,184 | 129,701 |
| Inventories | 167,873 | 146,352 |
| Income taxes receivable | 199 | 146 |
| Prepaid expenses and other current assets | 9,557 | 11,266 |
| Total current assets | 753,839 | 868,865 |
| Property, plant and equipment, net | 74,679 | 81,643 |
| Goodwill | 95,089 | 95,089 |
| Intangible assets, net | 442,379 | 482,807 |
| Other assets | 53,900 | 48,400 |
| Total assets | $ 1,419,886 | $ 1,576,804 |
| | | |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 25,634 | $ 27,099 |
| Accrued expenses | 40,011 | 42,113 |
| Intercompany payables | 417,218 | 671,244 |
| Short-term debt | 174,000 | — |
| Other current liabilities | 131,186 | 154,211 |
| Total current liabilities | 788,049 | 894,667 |
| Long term debt, net | 794,537 | 118,890 |
| Intercompany note payable | — | 675,311 |
| Long term legal accruals | 15,500 | 10,000 |
| Other liabilities | 92,800 | 87,363 |
| Total liabilities | 1,690,886 | 1,786,231 |
| Commitments and contingencies | | |
| Stockholder's equity: | | |
| Common stock | — | — |
| Additional paid-in capital | 240,050 | 170,050 |
| Accumulated deficit | (513,033) | (380,758) |
| Total Lupin Inc. stockholder's deficit | (272,983) | (210,708) |
| Noncontrolling interest | 1,983 | 1,281 |
| Total stockholder's deficit | (271,000) | (209,427) |
| Total liabilities and stockholder's deficit | $ 1,419,886 | $ 1,576,804 |

See accompanying notes to consolidated financial statements.

**LUPIN INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(*in thousands*)**

| | Year Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Product revenues | $ 764,969 | $ 928,154 |
| Service and other revenues | 29,068 | 102,216 |
| Profit sharing revenues | 3,568 | 6,097 |
| Total revenues | 797,605 | 1,036,467 |
| Costs and expenses: | | |
| Cost of product revenues | 680,659 | 866,003 |
| Cost of service and other revenues | 26,970 | 92,516 |
| Selling, general and administrative | 165,084 | 94,998 |
| Research and development | 26,504 | 17,374 |
| Loss from operations | (101,612) | (34,424) |
| Interest expense, net | 36,935 | 7,856 |
| Other income, net | (7,681) | (4,438) |
| Loss from operations before income taxes | (130,866) | (37,842) |
| Provision for (benefit from) income taxes | 707 | (19,398) |
| Net loss | (131,573) | (18,444) |
| Less: net income attributable to noncontrolling interest | 702 | 25 |
| Net loss attributable to Lupin Inc. | $ (132,275) | $ (18,469) |

See accompanying notes to consolidated financial statements.

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

| | Stockholder's Deficit | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock, $0.001 Par Value | | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Non-controlling Interest | Total Stockholder's Equity (Deficit) |
| | Shares | Amount | | | | |
| Balance at April 1, 2017 | 1,000 | — | 120,050 | 17,606 | 1,256 | 138,912 |
| Net loss attributable to Lupin Inc. | — | — | — | (18,469) | — | (18,469) |
| Net income attributable to noncontrolling interests | — | — | — | — | 25 | 25 |
| Noncash distribution - LAHSA IP | — | — | — | (379,670) | — | (379,670) |
| Dividend paid | — | — | — | (225) | — | (225) |
| Capital contributions | — | — | 50,000 | — | — | 50,000 |
| Balance at March 31, 2018 | 1,000 | $ — | $ 170,050 | $ (380,758) | $ 1,281 | $ (209,427) |
| Net loss attributable to Lupin Inc. | — | — | — | (132,275) | — | (132,275) |
| Net income attributable to noncontrolling interests | — | — | — | — | 702 | 702 |
| Capital contributions | — | — | 70,000 | — | — | 70,000 |
| Balance at March 31, 2019 | 1,000 | $ — | $ 240,050 | $ (513,033) | $ 1,983 | $ (271,000) |

See accompanying notes to consolidated financial statements.

**LUPIN INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(*in thousands*)**

| | Year Ended March 31, 2019 | Year Ended March 31, 2018 |
|---|---|---|
| **Operating activities:** | | |
| Net loss | $ (131,573) | $ (18,444) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation of property, plant and equipment | 11,312 | 10,783 |
| Amortization of intangible assets | 40,428 | 7,400 |
| Loss on disposal of property and equipment | 118 | — |
| Change in inventory provision | 2,942 | 170 |
| Intercompany interest | — | 1,777 |
| Amortization of debt issuance costs | 1,937 | 533 |
| Deferred income taxes | — | (21,991) |
| Changes in operating assets and liabilities: | | |
| Restricted cash | 101 | — |
| Accounts receivable | (9,159) | (75,694) |
| Intercompany receivables | 111,517 | (70,260) |
| Inventory | (24,463) | 55,436 |
| Prepaid expenses and other assets | (3,791) | 4,143 |
| Accounts payable | (1,465) | 3,650 |
| Accrued expenses and other liabilities | 14,209 | (33,882) |
| Intercompany payables | (254,026) | 187,561 |
| Income taxes receivable/payable | (53) | 7,428 |
| Other | — | (7) |
| Net cash (used in) provided by operating activities | (241,966) | 58,603 |
| **Investing activities:** | | |
| Purchases of property, plant and equipment | (4,466) | (7,881) |
| Solosec acquisition milestone payment | (30,000) | (69,830) |
| Net cash used in investing activities | (34,466) | (77,711) |
| **Financing activities:** | | |
| Proceeds from issuance of short-term debt | 174,000 | — |
| Dividends paid | — | (225) |
| Capital contributions | 70,000 | 50,000 |
| Net cash provided by financing activities | 244,000 | 49,775 |
| Net change in cash and cash equivalents | (32,432) | 30,667 |
| Cash and cash equivalents-beginning of period | 57,269 | 26,602 |
| Cash and cash equivalents-end of period | $ 24,837 | $ 57,269 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 28,610 | $ 2,674 |
| Cash paid for taxes | $ 758 | $ 2,750 |
| **SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES** | | |
| Transfer of third-party debt from parent - intercompany asset acquisition - LAHSA IP | $ 680,000 | $ — |
| Non-cash intercompany asset acquisition - LAHSA IP | $ — | $ 673,533 |
| Distribution to parent - intercompany asset acquisition - LAHSA IP | $ — | $ 379,670 |

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.

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 financing expenses associated with the acquisition of certain IP assets from LAHSA in the fourth quarter of fiscal 2018, requiring capital contributions from its ultimate parent, LL. LL has committed to fund the continued operations of the Company through May 15, 2020.

### 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. The most significant estimates and assumptions relate to sales reserves and allowances, inventory valuation, valuation of goodwill and intangible assets, contingencies, and the recoverability of deferred tax assets.

### Revenue Recognition

The Company adopted Accounting Standards Codification 606 (ASC 606), *Revenue from Contracts with Customers* on April 1, 2018 using the modified retrospective method. For further discussion of the impact of adoption, refer to the "Recent Accounting Pronouncements" section below. The Company recognizes revenue pursuant to ASC 606.

The Company derives its revenue from product sales, services and profit sharing. Under ASC 606, a contract with a customer only exists when the parties to the contract have approved it and are committed to perform their respective obligations; the Company can identify each party's rights regarding the goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. We recognize revenue from the contracts meeting these criteria when we satisfy our performance obligations for such contracts by transferring control of the underlying promised goods or services to our customers. The amount of revenue we recognize reflects our estimate of the consideration we expect to be entitled to receive, excluding amounts collected on behalf of other third parties and sales taxes (if any). Payment terms of our contracts generally fall within 30 to 90 days of invoicing. The Company does not generally incur costs to obtain a contract or costs to fulfill a contract that would result in the capitalization of contract costs. The Company's revenue contracts do not generally give rise to contract liabilities as we do not generally receive consideration until the performance obligation is satisfied. Shipping and handling costs after control over a product has been transferred to a customer are accounted for as a fulfillment cost (if any).

*Product sales*

The majority of the Company's contracts related to product sales include only one performance obligation, which is to deliver products to customers based on purchase orders received. Revenue from sales of products is recognized at a point in time when control of the products is transferred to the customer, generally upon delivery, which the Company has determined is when physical possession, legal title and risks and rewards of ownership of the products transfer to the customer and the Company is entitled to payment. The amount of consideration the Company expects to be entitled includes a fixed amount of the transaction price, net of accruals for estimated variable considerations including, but not limited to, wholesaler chargebacks, distribution service fees, returns and allowances, discounts, rebates, sales incentives and other allowances. The Company utilizes the expected value method when estimating the amount of variable consideration. Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Reductions to revenue relating to amounts expected to be settled in payments to customers are recorded within other current liabilities when estimated and recorded in accounts payable when customer invoice is received and approved. Reductions to revenue that are expected to be netted against future outstanding customer accounts receivable are recorded as a reduction to accounts receivable. In addition, the Company reassesses variable consideration at each reporting period end.

The following describes the major variable consideration components and other reductions to the revenue and how they are estimated.

Chargebacks/Billbacks

Chargebacks are discounts that occur when a contracted customer purchases through an intermediary wholesaler (commonly referred to as indirect sales). In an indirect sale, the wholesalers are our customers, and the end customers who purchase products from the wholesalers are considered an extension of the customer. In the arrangement, the Company enters into a contract with its customers, establishing prices for certain products. While these arrangements are made between the Company and the customers, the customers independently select a wholesaler from which they purchase the product at their contracted prices. The wholesaler, in turn, charges the Company back for the difference between the price initially paid by the wholesaler and the contract price paid to the wholesaler by the customer. Billbacks also relate to indirect sales. The difference is the customers purchase the products from a wholesaler at the price agreed by the wholesaler, and then charge the Company back the difference between the price paid to the wholesaler and the contractual price with the Company. The provision for chargebacks/billbacks is based on expected sell-through levels by the Company's wholesale customers to contracted customers, as well as estimated wholesaler inventory levels.

Distribution Service Fees

Consistent with pharmaceutical industry practices, the Company establishes contracts with wholesalers that provide services for fees under the wholesaler Distribution Services Agreements ("DSA fees"). Settlement of DSA fees generally occur monthly or quarterly based on net sales for the period. The DSA fees are accounted for as a reduction to transaction price. DSA fee accruals are based on contractual fees to be paid to the wholesale distributor when products are sold to the customer.

Right of Return

Consistent with industry practice, the Company maintains a return policy that allows its customers to return product within a specified period of time both subsequent to and prior to the product's expiration date. The Company's return policy generally allows customers to receive credit for expired products within six months prior to expiration and within one year after expiration. The primary factors considered in estimating potential product returns include: the shelf life or expiration date of each product, historical data of expired product returns, and external data with respect to inventory levels in the wholesale distribution channel. Due to the nature of the products, the Company's returned products typically cannot be re-sold and must be destroyed, the Company recognizes the estimated refund liability when product revenues are recognized and no expected returned assets are recorded in connection with those products.

Prompt Payment Discount

Prompt pay discounts are offered to some major customers to encourage timely payment. Discounts are estimated at the time of invoice based on historical discounts in relation to sales. Prompt pay discounts are almost always utilized by customers. As a result, the actual discounts do not vary significantly from the estimated amount.

*Services and other revenues*

Service and other revenues primarily consist of marketing services and R&D services provided to the related parties under Lupin Limited, the Company's ultimate parent company. The service contracts are time and materials based. The Company elected to use the "as invoiced" practical expedient, under which the Company recognizes revenue over time in the amount to which it has a right to invoice after the services are provided. The invoice amount generally represents the costs incurred to provide the service plus a markup specified by the service contract.

*Profit sharing revenues*

Profit sharing revenue relates to product sales. Occasionally, the Company provides contract manufacturing services to the customers through its wholly owned subsidiary Novel Laboratories, Inc. ("Novel"). The manufacturing contracts generally contain profit sharing terms between the parties, which stipulate a percentage of profits of product sales that will be received by the Company. Profit sharing revenues are recognized at a point in time when related product revenues are recognized. The amount of profit sharing revenue is estimated using the expected value method based on contract terms and historical experience to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company reassesses profit sharing revenue at each reporting period end.

**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. Contingent consideration arising from the asset acquisition is recognized when probable and reasonably estimable and is recorded as an increase to the cost of the assets acquired.

**Cash and Cash Equivalents**

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

**Accounts receivable, net**

Accounts receivables represent the Company's unconditional rights to condiseration due from customers. Accounts receivables are recorded at the invoiced amount net of certain chargebacks, sales incentives and allowances, and do not bear interest.

**Inventories**

Inventories consist of raw materials, work-in-process and finished goods. The cost of inventories is determined using the weighted average method. Inventories also include certain finished goods 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 consolidated subsidiaries of LL.

**Property, Plant and Equipment**

Property and equipment includes land, buildings, machinery and equipment, leasehold improvements, office equipment and computers, software, furniture and fixture, and construction in-progress. We record property and equipment at cost less accumulated depreciation. Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets:

| | |
|---|---|
| Buildings | 30 - 50 years |
| Machinery and equipment | 3 to 10 years |
| Leasehold improvements | 5 - 7 years, not beyond the lease term |
| Office equipment and computers | 2 - 3 years |
| Software | 3 - 5 years |
| Furniture and fixtures | 3 - 5 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 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.

*Intangible assets, net*

The Company's intangible assets include both finite lived and indefinite lived assets. Finite lived intangible assets, consisting of Currently Marketing Products (CMPs), New Drug Applications (NDAs) and Approved Abbreviated New Drug Applications (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 Administration (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. Intangible assets are carried at cost less accumulated amortization and impairment losses, if any.

*Goodwill and Other Indefinite-Lived Intangible Asset Impairment Testing*

Goodwill and other indefinite-lived intangible assets are not amortized but are evaluated annually for impairment. The Company performs its evaluation of impairment for goodwill and other indefinite-lived intangible assets as of January 1, and when events or changes in circumstances indicate that the assets may be impaired. The Company may utilize a qualitative evaluation about the likelihood of impairment to determine whether it is necessary to perform the quantitative impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify impairment and measure the amount of impairment loss to be recognized (if any). As part of our assessment, we estimate the fair values of our reporting unit and our intangible assets using an income approach that utilizes a discounted cash flow model. The discounted cash flow models are dependent upon our estimates of future cash flows and other factors. These estimates of future cash flows involve assumptions concerning (i) future operating performance, including future sales, long-term growth rates, operating margins, tax rates, variations in the amount and timing of cash flows and the probability of achieving the estimated cash flows and (ii) future economic conditions. The discount rates applied to the estimated cash flows are based on the overall risk associated with the particular assets and other market factors. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized.

The Company performed its qualitative assessment of goodwill as of January 1, 2019 and has concluded that it was not more likely than not that the fair value of goodwill attributable to the reporting unit was less than its carrying amount; as such, the quantitative impairment test was deemed not necessary.

Lupin also performed its annual impairment testing of other indefinite-lived intangible assets as of January 1, 2019. As the result of the testing, we concluded that the Company's other indefinite-lived intangible assets were not impaired as of the testing date.

*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.

**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 cross charged as intercompany invoices 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.

**Other Income, Net**

Other income is comprised of related party billings for reimbursements of management fees, and other miscellaneous income (expense) from non-core businesses.

**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. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount is accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued.

C**oncentration 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 revenue from sales to US-based supply chain distributors, pharmacies, etc. The following companies represent more than 10% of revenue for the years ended March 31, 2019 and 2018: AmerisourceBergen Health Corp, Mckesson Financial Center, CVS and Cardinal Health. The following companies represent more than 10% of accounts receivable as of March 31, 2019: AmerisourceBergen Health Corp and Mckesson Financial Center. As of March 31, 2018, the following companies represent more than 10% of accounts receivable: AmerisourceBergen Health Corp, Cardinal Health and McKesson Financial Center.

**Recent Accounting Pronouncements**

*Recently adopted accounting pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Subsequently, the FASB issued a series of updates to the revenue recognition guidance in ASC 606 (collectively, the new standard). 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 Company early adopted the new standard for the annual consolidated financial statements for the year ended March 31, 2019 utilizing the modified retrospective method. The adoption of this new standard did not have a significant impact on the Company's 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. 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 Company adopted the guidance for the annual consolidated financial statements for the year ended March 31, 2019. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

*Recently issued accounting pronouncements, not yet adopted*

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. The Company plans to early adopt ASU 2016-02, effective beginning April 1, 2019 and we will adopt the new standard under a modified retrospective method. The Company has also elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Although we are still finalizing the amounts, we anticipate to record asset and liability balances in connection with the leased assets on our consolidated balance sheets. The Company does not expect a material impact to its consolidated statements of operations.

## Note 3. Accounts Receivable, net

The composition of accounts receivable, net is as follows (*in thousands*):

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Gross accounts receivable | $ 636,485 | $ 634,785 |
| Less: chargeback reserve | (82,068) | (85,118) |
| Less: indirect reserve | (3,055) | (7,083) |
| Less: price protection | (2,265) | (1,541) |
| Less: distribution services reserve | (1,209) | (3,904) |
| Less: discount reserve | (12,838) | (11,629) |
| Less: POS couponing | (1,861) | (1,480) |
| Accounts receivable, net | $ 533,189 | $ 524,030 |

## Note 4. Inventories

Inventories consist of (*in thousands*):

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Raw materials | $ 16,228 | $ 17,949 |
| Work in process | 10,878 | 6,852 |
| Finished goods | 163,423 | 141,265 |
| | 190,529 | 166,066 |
| Less: valuation reserve | (22,656) | (19,714) |
| Inventories | $ 167,873 | $ 146,352 |

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

Property, plant and equipment, net consists of the following (*in thousands*):

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Land | $ 3,740 | $ 3,740 |
| Buildings | 25,036 | 25,036 |
| Machinery and equipment | 44,477 | 36,709 |
| Leasehold improvements | 17,640 | 16,080 |
| Office equipment and computers | 7,959 | 7,348 |
| Software | 5,116 | 5,122 |
| Construction in process | 4,772 | 10,961 |
| Furniture and fixtures | 3,404 | 3,212 |
| | 112,144 | 108,208 |
| Less: accumulated depreciation | (37,465) | (26,565) |
| Property, plant and equipment, net | $ 74,679 | $ 81,643 |

Depreciation expense was $11.3 million and $10.8 million for the years ended March 31, 2019 and 2018, respectively.

## Note 6. Accrued Expenses

Accrued expenses consist of the following (*in thousands*):

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Bonus and incentives | $ 10,852 | $ 12,585 |
| Selling, general and administrative | 5,771 | 9,395 |
| Legal costs | 5,629 | 1,781 |
| Freight | 5,491 | 3,389 |
| Accrued interest | 4,338 | 504 |
| Payroll and benefits | 3,499 | 3,206 |
| Research and development | 1,395 | 4,072 |
| Product costs | 1,300 | 1,309 |
| Partner payouts | 1,223 | 633 |
| Solosec™ selling and marketing costs | 513 | 5,239 |
| Accrued expenses | $ 40,011 | $ 42,113 |

## Note 7. Other Current Liabilities

Other current liabilities of $131.2 million as of March 31, 2019 consists primarily of accrued rebates, billback payments, and returns. Other current liabilities of $154.2 million as of March 31, 2018 consists primarily of accrued rebates, billback payments, returns and $30.0 million 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. During June 2018, the Company paid $30 million in time-based payments, with the remaining discounted $36.6 million of other time-based payments through 2026 being 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 (*in thousands*):

| | 12 Month Period Ended March 31, |
|---|---|
| 2020 | $ — |
| 2021 | 7,500 |
| 2022 | 10,000 |
| 2023 | 10,000 |
| 2024 | 10,000 |
| Thereafter | 17,500 |
| Total | $ 55,000 |

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 were 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 (*in thousands*)**

| | | Fair Value |
|---|---|---|
| Cash consideration to seller | $ | 57,448 |
| Milestone payments | | 66,617 |
| **Total Consideration** | $ | 124,065 |

**Net amount of assets and liabilities**

| | | Fair Value |
|---|---|---|
| Cash | $ | 5,185 |
| Accounts receivable | | 482 |
| Prepaid expenses and other current assets | | 186 |
| Security deposit | | 7 |
| Property and equipment | | 9 |
| Intangible asset | | 141,331 |
| **Total assets acquired** | $ | 147,200 |
| | | |
| Accounts payable | $ | (868) |
| Accrued expenses | | (4,387) |
| Deferred taxes | | (17,880) |
| **Total liabilities assumed** | $ | (23,135) |
| | | |
| **Net assets acquired** | $ | 124,065 |

The acquired intangible asset is considered to have a useful life of 15 years starting from the date of the launch of the product, which was during the first quarter of fiscal 2019. 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 (*in thousands*):

| | | |
|---|---|---|
| Goodwill balance at April 1, 2017 | $ | 95,089 |
| Fiscal 2018 activity | | — |
| Goodwill balance at March 31, 2018 | | 95,089 |
| Fiscal 2019 activity | | — |
| Goodwill balance at March 31, 2019 | $ | 95,089 |

*Other Intangibles*

The following tables summarize the components of the Company's other intangible assets (*in thousands*):

| **Year Ended March 31, 2019** | **Currently Marketed Products** | **Approved NDAs** | **Approved ANDAs** | **Filed ANDAs** | **In-process R&D** | **Total** |
|---|---|---|---|---|---|---|
| Balance at April 1, 2018 | $ 207,140 | $ 141,331 | $ 62,582 | $ 52,719 | $ 30,890 | $ 494,662 |
| Asset launch- Solosec™ | 141,331 | (141,331) | — | — | — | — |
| Transfers | 56,239 | — | (55,760) | (479) | — | — |
| Balance at March 31, 2019 | 404,710 | — | 6,822 | 52,240 | 30,890 | 494,662 |
| Less: accumulated amortization | (51,476) | — | (807) | — | — | (52,283) |
| Net carrying amount | $ 353,234 | $ — | $ 6,015 | $ 52,240 | $ 30,890 | $ 442,379 |

| **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 | $ — | $ — | $ 41,900 |
| Asset Purchase - Tobi/Omega-3 | — | — | 9,000 | 100 | — | 9,100 |
| Asset Purchase - LAHSA | 207,140 | — | 11,682 | 52,619 | 30,890 | 302,331 |
| Asset Purchase - Solosec | — | 141,331 | — | — | — | 141,331 |
| Balance at March 31, 2018 | 207,140 | 141,331 | 62,582 | 52,719 | 30,890 | 494,662 |
| Less: accumulated amortization | (2,192) | — | (9,663) | — | — | (11,855) |
| Net carrying amount | $ 204,948 | $ 141,331 | $ 52,919 | $ 52,719 | $ 30,890 | $ 482,807 |

In May 2018, the Company launched Solosec™. Accordingly, we reclassified the intangible asset related to Solosec™ from approved NDA to currently marketed products.

Amortization expense was $40.4 million and $7.4 million for the years ended March 31, 2019 and 2018, respectively. The increase in amortization expense was primarily due to the IP assets transfer as discussed below.

*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 at March 31, 2019 is as follows (*in thousands*):

| | 12 Month Period Ended March 31, | |
|---|---|---|
| 2020 | $ | 41,824 |
| 2021 | | 41,824 |
| 2022 | | 41,824 |
| 2023 | | 41,824 |
| 2024 | | 41,824 |
| Thereafter | | 150,129 |
| Total | $ | 359,249 |

**Note 10. Debt**

On March 31, 2016, the Company entered into a Facilities Agreement for loan assistance of $120.0 million, which is guaranteed by LL. The Facilities Agreement contains a six-year term with $40.0 million payable at May 2, 2020, $40.0 million payable at May 2, 2021 and $40.0 million payable at May 2, 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 $1.8 million were capitalized and are being amortized over the term of the loan on a straight-line basis, which approximates the effective interest method, and is recorded as a component of long term debt, net on the consolidated balance sheets.

The Company entered into an agreement on March 1, 2018 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 signed on May 3, 2018. The debt is guaranteed by LL. The debt was assumed as consideration, in addition to $8.5 million of cash, for certain IP assets acquired from LAHSA. The debt contains a six-year term with $226.7 million payable at May 2, 2020, $226.7 million payable at May 2, 2021 and $226.7 million payable at May 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 on a straight-line basis, which approximates the effective interest method, and is recorded as a component of long term debt, net on the consolidated balance sheets.

In August 2018, the Company entered into a $75 million uncommitted short-term revolving line of credit facility (RLOC) with Sumitomo Mitsui Banking Corporation Singapore Branch (the Bank). The RLOC matures on June 30, 2019 and bears interest at LIBOR plus 50 bps per annum. The revolving loans are interest-only with principal due at maturity. Under the RLOC, the Company drew down $75 million which the Company plans to repay in June 2019. We expect to utilize the revolving loan for our working capital requirements.

In November 2018, the Company entered into a $100 million short-term credit facility (the Facility) with MUFG Bank, Ltd., Singapore Branch. The credit facility is guaranteed by Lupin Ltd (the Guarantor) for an aggregate amount of $110 million. The total disbursements of the Facility shall not exceed 90% of the total amount guaranteed by the Guarantor. The Facility is available for drawdown during the period up to August 31, 2019. Loan advances drawn under the Facility bear interest rate of corresponding LIBOR plus 45 bps per annum. The principal, plus interest is due at maturity. Under the Facility, the Company drew down $99 million on November 26, 2018. The original maturity date was February 22, 2019 and on February 22, 2019 we renewed the Facility to have a new maturity date of May 22, 2019.

The Company recorded interest expense of $31.6 million and $4.9 million during the years ended March 31, 2019 and 2018. The aggregate outstanding principal and accrued interest balance at March 31, 2019 and 2018 was $978.3 million and $120.5 million, 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, 2019, the Company expects to receive $2.9 million 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, 2019 and 2018 was $4.9 million and $4.2 million, respectively.

Future minimum lease payments as of March 31, 2019 are as follows (*in thousands*):

| | 12 Month Period Ended March 31, | |
|---|---|---|
| 2020 | $ | 3,743 |
| 2021 | | 3,110 |
| 2022 | | 2,151 |
| 2023 | | 1,914 |
| 2024 | | 1,814 |
| Thereafter | | 2,975 |
| | $ | 15,707 |

**Legal Proceedings**

*Texas Medicaid Fraud Prevention Act*

The Texas Attorney General's office served LPI, with several Civil Investigative Demands from 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 (Gavis) as an additional defendant. On October 26, 2017, Texas filed a Fourth Amended Petition and deleted Gavis Pharmaceuticals, LLC as a defendant. On April 30, 2018, Texas filed a Fifth Amended Petition. Texas may not file any more amendments without court approval. The case's fact discovery phase ended on August 31, 2018, where depositions began in February 2018. The case is set for jury trial on August 5, 2019.

The parties continue to discuss resolution through settlement. The parties met on August 27, 2018 with a mediator in Dallas, Texas to engage in formal settlement discussions. In that meeting, Texas last proposal for settlement requested Lupin to pay $140.0 million. The Company did not make any counteroffer at this August 2018 settlement discussion. Most recently, on March 7, 2019, Texas decided to drop the claim of obstruction of justice against Lupin which simplified the case. Lupin had previously offered in June 2016 to pay $10.0 million. The Company has a $10.0 million loss contingency, included within long term legal accruals, established for the claim as of March 31, 2019 and 2018, respectively.

*Other Government Investigations*

Lupin is involved in government investigations and litigation arising from the marketing and promotion of its pharmaceutical products in the United States.

On January 19, 2017, the Company and one of its employees (David Berthold) were issued subpoenas by Department of Justice (DOJ) requesting documents as part of DOJ's investigation into possible antitrust violations within the generic drug industry. The Company has been cooperating in the ongoing investigation.

On April 17, 2018, Lupin and one of its employees (David Berthold) received a non-party subpoena from the state of Connecticut Attorney General related to an civil antitrust case they filed in 2016, requesting documents and other information. The Company is negotiating the scope of documents required by the subpoena.

Starting in fiscal 2018, the Company was named in both class action and individual cases based on allegations of anticompetitive behavior related to certain products. These cases were subsequently consolidated into the Philadelphia court that was assigned all cases of this type against generic pharmaceutical manufacturers, "In RE: Generic Pharmaceutical Pricing Antitrust Litigation". The plaintiffs have requested extensive document discovery from Lupin, and negotiations are underway about the appropriate scope of such discovery. The case is still in the early stage, an estimate of the possible loss or range of loss cannot be made.

**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 $130.9 million and $37.8 million for the years ended March 31, 2019 and 2018, and was generated entirely in the United States.

Income tax provision (benefit) consists of (*in thousands*):

| | Year Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Current provision: | | |
| U.S. federal | $ — | $ 508 |
| U.S. state and local | 586 | 780 |
| Foreign | 121 | 1,305 |
| Total current provision | $ 707 | $ 2,593 |
| Deferred benefit: | | |
| U.S. federal | — | (20,708) |
| U.S. state and local | — | (1,283) |
| Total deferred benefit | — | (21,991) |
| Total current and deferred benefit | $ 707 | $ (19,398) |

Income tax provision (benefit) differed from the amounts computed by applying the U.S. federal income tax rate of 21.00% to pretax income as a result of the following (*in thousands*):

| | Year Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Loss before income tax | $ (130,866) | $ (37,842) |
| Statutory tax rate | 21.00% | 31.55% |
| Income tax benefit at statutory rate | (27,482) | (11,939) |
| U.S. state tax provision (benefit) | (659) | (503) |
| | (28,141) | (12,442) |
| Increase (decrease) in income tax provision (benefit) resulting from: | | |
| Non-deductible expenses | 340 | 506 |
| R&D tax credits (net of reserve) | (1,037) | (4,588) |
| Income tax rate change | — | (5,469) |
| Valuation allowance | 28,905 | 2,940 |
| Foreign taxes | 121 | 1,305 |
| Other | 519 | (1,650) |
| Income tax provision (benefit) | $ 707 | $ (19,398) |

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. In the third quarter of fiscal year ended March 31, 2018, the Company recorded certain tax effects of the TCJA, including the impact on deferred tax assets and liabilities from the reduction in the U.S. Federal corporate tax rate from 35% to 21%. During fiscal year ended March 31, 2019, the Company analyzed the tax impact of the TCJA on its income taxes, and concluded that there are no additional changes required to its deferred tax assets and liabilities due to the change in the statutory rate.

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 the fiscal year ended March 31, 2018. In the third quarter of fiscal year ended March 31, 2018, the Company recorded a provisional favorable adjustment of $5.5 million. The Company did not adjust the provisional amount estimated at March 31, 2018 based upon its final analysis during the year ended March 31, 2019 of the income tax effects due to the enactment of the TCJA.

During the current fiscal year ended March 31, 2019, the Company is now subject to a U.S. Federal statutory tax rate of 21%. The statutory tax rate was increased by state income taxes, non-deductible expenses such as meals and entertainment, fines and penalties, as well as employee stock options. Other income tax provision items that impacted the statutory tax rate included foreign taxes, as well as prior year provision to return adjustments. The income tax benefit from the current year losses, as well as the R&D credits, were largely offset by the valuation allowance of $28.9 million.

Deferred taxes arise as a result of basis differentials between financial statement accounting and tax amounts.

The components of our deferred tax assets and liabilities include the following (*in thousands*):

| | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Accounts receivable returns and allowances | $ | 7,197 | $ | 10,472 |
| Litigation reserve | | 2,450 | | 2,459 |
| Inventory reserve | | 1,642 | | 2,202 |
| Research and development, net of reserve | | 6,487 | | 5,869 |
| State tax credits | | 3,083 | | 2,671 |
| Net operating loss | | 34,195 | | 9,141 |
| Accrued payroll | | 1,290 | | 1,022 |
| Acquisition costs | | 1,979 | | 1,972 |
| LAHSA IP | | 84,476 | | 84,317 |
| Other | | 8,783 | | 2,683 |
| Total deferred tax assets | $ | 151,582 | $ | 122,808 |
| Valuation allowance: | | (116,162) | | (87,257) |
| Deferred tax liabilities: | | | | |
| Goodwill amortization | $ | (2,634) | $ | (2,570) |
| Intangible asset amortization | | (21,408) | | (21,984) |
| Depreciation | | (8,834) | | (7,229) |
| Deferred interest | | (1,599) | | (2,675) |
| Other | | (945) | | (1,093) |
| Total net deferred tax liabilities | $ | (35,420) | $ | (35,551) |
| Net deferred tax liability | $ | — | $ | — |

We have carryforward deferred tax assets, primarily related to net operating losses (NOLs), which are available to reduce future U.S. federal and/or state income taxes payable. These NOLs either have an indefinite life or expire at various times from 2033 to 2039. Certain of our U.S. NOLs are subject to limitations under IRC Section 382.

Valuation allowances are provided when the Company believes that deferred tax assets are not realizable based upon an assessment of future taxable income, and/or tax planning strategies that would be implemented, if necessary, to realize the deferred tax assets. We established a valuation allowance on our deferred tax accounts in fiscal year ended March 31, 2018, which is continued through fiscal year ended March 31, 2019.

ASC Topic 740 prescribes a minimum recognition threshold and measurement attribute 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, 2019, and March 31, 2018, the Company has unrecognized tax benefits of $4.2 million and $3.9 million, 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, 2019, and March 31, 2018. 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 for tax years ended March 31, 2015 and 2016. The examination is still in process, 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)
- Lupin Pharma Canada Ltd., Canada (Canada)
- Lupin Latam, Inc., United States (Latam),
- Nanomi BV, India (Nanomi BV)
- Lupin Japan & Asia Pacific KK (Japan & Asia Pacific)

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 (*in thousands*):

| | Year Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Sales to LAHSA | $ 10,802 | $ 112,904 |
| Sales to LL | 17,825 | 41,407 |
| Sales to Canada | — | 9 |
| Sales to GmbH | 168 | 89 |
| Sales to Latam | — | 12 |
| Sales to Nanomi BV | 282 | — |
| Related party sales | $ 29,077 | $ 154,421 |

In addition to the related party sales noted above, the Company earned an additional $4.0 million and $3.5 million in other income from related parties for management services for the years ended March 31, 2019 and 2018, respectively.

The following represents related party purchases (*in thousands*):

| | Year Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Purchases from LL | $ 550,499 | $ 550,568 |
| Purchases from LAHSA | 47,599 | 154,700 |
| Purchases from GmbH | 2,690 | 2,297 |
| Purchases from Japan and Asia Pacific | 86 | — |
| Related party purchases | $ 600,874 | $ 707,565 |

The following represents due to/from balances with related parties (*in thousands*):

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Due from LL | $ 15,040 | $ 37,034 |
| Due from LAHSA | 2,301 | 91,886 |
| Due from Canada | 117 | 153 |
| Due from GmbH | 511 | 331 |
| Due from Nanomi BV | 66 | — |
| Due from Latam | 149 | 297 |
| Intercompany receivables | $ 18,184 | $ 129,701 |

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Due to LL | $ 406,235 | $ 611,924 |
| Due to LAHSA | 10,060 | 58,452 |
| Due to GmbH | 909 | 867 |
| Due to Japan and Asia Pacific | 14 | — |
| Due to Nanomi BV | — | 1 |
| Intercompany payables | $ 417,218 | $ 671,244 |

The Company received capital contributions from LAHSA of $70.0 million and $50.0 million for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, the Company made matching contributions of $2.6 million and $2.0 million, respectively.

**Note 15. Subsequent Events**

The Company evaluates events or transactions that occur after the consolidated balance sheet date but prior to the issuance of consolidated financial statements and concluded that no subsequent events have occurred through May 14, 2019 that require adjustment to or disclosure in the consolidated financial statements, except for the following:

On May 10, 2019, 43 state attorney generals filed a lawsuit against 19 companies (including Lupin Pharmaceuticals, Inc.) and 15 individuals (including David Berthold) with allegations of violations of federal and state antitrust laws. The states claim to have been injured by paying supra-competitive prices for the products they purchased or reimbursed. The Company has not been served with the complaint. As the case is still in the early stage, an estimate of the possible loss or range of loss, if any, cannot be made.