Lupin Inc.

LUPIN INC. AND SUBSIDIARIES

Consolidated Financial Statements As of and for the Years Ended March 31, 2020 and 2019

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Independent Auditor's Report

The Board of Directors
Lupin Inc. and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lupin Inc. and Subsidiaries, which comprise the consolidated balance sheets as of March 31, 2020 and 2019, 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Baltimore, Maryland
May 14, 2020

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

	March 31, 2020	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,589	$ 24,837
Accounts receivable, net	571,226	533,189
Intercompany receivables	19,541	18,184
Inventories	119,451	167,873
Income taxes receivable	8,218	199
Prepaid expenses and other current assets	11,664	9,557
Total current assets	748,689	753,839
Property, plant and equipment, net	69,453	74,679
Goodwill	95,089	95,089
Intangible assets, net	217,623	442,379
Other assets	73,405	53,900
Total assets	$ 1,204,259	$ 1,419,886
LIABILITIES AND STOCKHOLDER’S DEFICIT		
Current liabilities:		
Accounts payable	$ 28,597	$ 25,634
Accrued expenses	41,876	40,011
Intercompany payables	391,269	417,218
Income taxes payable	5,685	—
Short-term debt	565,916	174,000
Other current liabilities	126,046	131,186
Total current liabilities	1,159,389	788,049
Long term debt, net	233,274	794,537
Long term legal accruals	—	15,500
Other liabilities	110,542	92,800
Series A mandatorily redeemable preferred stock	280,000	—
Total liabilities	1,783,205	1,690,886
Commitments and contingencies		
Stockholder’s deficit:		
Common stock	310,000	—
Additional paid-in capital	230,050	240,050
Accumulated deficit	(1,121,504)	(513,033)
Total Lupin Inc. stockholder’s deficit	(581,454)	(272,983)
Noncontrolling interest	2,508	1,983
Total stockholder’s deficit	(578,946)	(271,000)
Total liabilities and stockholder’s deficit	$ 1,204,259	$ 1,419,886

See accompanying notes to consolidated financial statements.

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

	Year Ended March 31,	
	2020	**2019**
Product revenues	$ 790,072	$ 764,969
Service and other revenues	25,067	29,068
Profit sharing revenues	2,525	3,568
Total revenues	817,664	797,605
Costs and expenses:		
Cost of product revenues	705,129	680,659
Cost of service and other revenues	23,130	26,970
Selling, general and administrative	166,461	165,084
Research and development	26,003	26,504
Intangible asset impairment charges	187,951	—
Loss from operations	(291,010)	(101,612)
Interest expense, net	39,974	36,935
Other income, net	(3,428)	(7,681)
Loss from operations before income taxes	(327,556)	(130,866)
Provision for income taxes	390	707
Net loss	(327,946)	(131,573)
Less: net income attributable to noncontrolling interest	525	702
Net loss attributable to Lupin Inc.	$ (328,471)	$ (132,275)

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		Additional Paid-in Capital	Accumulated Deficit	Non-controlling Interest	Total Stockholder's Deficit
	Shares	Amount				
Balance at April 1, 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)
Change in par value of common stock	—	10,000	(10,000)	—	—	—
Common stock issued	30,000	300,000	—	—	—	300,000
Net loss attributable to Lupin Inc.	—	—	—	(328,471)	—	(328,471)
Non-cash distribution - LAHSA IP	—	—	—	(280,000)	—	(280,000)
Net income attributable to noncontrolling interests	—	—	—	—	525	525
Balance at March 31, 2020	31,000	$ 310,000	$ 230,050	$ (1,121,504)	$ 2,508	$ (578,946)

See accompanying notes to consolidated financial statements.

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

	Year Ended March 31	
	2020	**2019**
Operating activities:		
Net loss	$ (327,946)	$ (131,573)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	10,681	11,312
Amortization of intangible assets	36,805	40,428
Amortization of operating lease right-of-use assets	3,604	—
Provision for doubtful accounts	2,740	—
Loss on disposal of property and equipment	13	118
Change in inventory provision	(6,093)	2,942
Amortization of debt issuance costs	4,653	1,937
Intangible asset impairment charges	187,951	—
Changes in operating assets and liabilities:		
Restricted cash	—	101
Accounts receivable	(40,777)	(9,159)
Intercompany receivables	(1,357)	111,517
Inventory	54,515	(24,463)
Prepaid expenses and other assets	(5,237)	(3,791)
Accounts payable	2,963	(1,465)
Accrued expenses and other liabilities	(21,012)	14,209
Intercompany payables	(25,949)	(254,026)
Income taxes receivable/payable	(2,334)	(53)
Net cash used in operating activities	(126,780)	(241,966)
Investing activities:		
Purchases of property, plant and equipment	(5,468)	(4,466)
Solosec acquisition milestone payment	—	(30,000)
Net cash used in investing activities	(5,468)	(34,466)
Financing activities:		
Proceeds from issuance of short-term debt	126,000	174,000
Issuance of common stock	300,000	—
Repayments of long-term debt	(300,000)	—
Capital contributions	—	70,000
Net cash provided by financing activities	126,000	244,000
Net change in cash and cash equivalents	(6,248)	(32,432)
Cash and cash equivalents-beginning of period	24,837	57,269
Cash and cash equivalents-end of period	$ 18,589	$ 24,837
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 31,625	$ 28,610
Cash paid for taxes	$ 981	$ 758
Transfer of third-party debt from parent - intercompany asset acquisition - LAHSA IP	$ —	$ 680,000
Issuance of preferred stock for intercompany asset acquisition	$ 280,000	$ —

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 was a consolidated subsidiary of Lupin Atlantis Holdings, S.A. (LAHSA), who is wholly owned by Lupin Limited (LL), the Company's ultimate parent company. On March 31, 2020, LAHSA entered into a Stock Purchase Agreement with Nanomi B.V. (Nanomi), which is also a wholly owned subsidiary under LL, to sell 100% of its ownership interests in the Company to Nanomi. As a result, the Company became a wholly owned subsidiary of Nanomi, effective March 31, 2020.

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 during the last two years, primarily attributable to costs related to the Solosec™ 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 in fiscal 2019. As of March 31, 2020, the Company had a working capital deficit of $410.7 million, primarily due to third-party loans of $565.9 million, including $126.0 million of additional short-term loans withdrew in the fourth quarter of fiscal 2020, due within the next 12 months (see Note 10 for details). The Company's ultimate company, LL, has committed to provide financial support to the Company sufficient for it to satisfy its obligations and debt service requirements as they become due until at least May 15, 2021 and will satisfy, on a timely basis, all liabilities and obligations that the Company is unable to satisfy. Additionally, LL will not require repayment of intercompany payables or any portion thereof, including interest, or any other loans/advances, including interest, that LL or its affiliates may provide to the Company during FY2021, up to May 15, 2021.

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 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. 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 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 generally allows its customers to return products six months prior to and one year after the products' expiration dates and credits and/or refunds are issued to the customer for the value of the returned products. 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 sales return 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 consideration 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	25 - 40 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.

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.

In December 2019, following its annual five-year planning process and renewed assessment of market competition, timing of product development, filing and approvals, the Company recorded asset impairment losses of $188.0 million related to other intangible assets. See Note 9 for details.

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 or a range of amounts 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. For contingencies that may arise from a business combination, the Company generally obtains indemnification from the sellers of a business upon acquisition for various contingent liabilities related to pre-acquisition events in order to protect itself from economic losses arising from such exposures. We recognize an indemnification asset at the same time and on the same basis as the related indemnified item, subject to any contractual limitations and to the extent that collection is reasonably assured, in accordance with ASC 805. We assess the realizability of the indemnification assets each reporting period.

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, 2020 and 2019: AmerisourceBergen Health Corp, Mckesson Financial Center, CVS and Cardinal Health. The following companies represent more than 10% of accounts receivable as of March 31, 2020 and 2019, respectively: AmerisourceBergen Health Corp and Mckesson Financial Center.

Impact of Coronavirus Pandemic

As of March 2020, the vast and accelerated spread of the coronavirus (COVID-19) has resulted in significant disruptions to the global economy. The retraction and, in some instances shut-down of certain countries or regions has and will continue to have a very significant impact to both U.S. and international markets. Lupin is considered an essential business associated with the pharmaceutical industry, and thus operations (both sales functions in the U.S. and the manufacturing of the products in India) have continued throughout the pandemic mitigation actions across the globe, but additional risks and uncertainties not presently known to us or that we currently believe to be immaterial/temporary may impair our business operations.

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASC 842), 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 early adopted this ASU on April 1, 2019 using a modified retrospective method. The standard provides companies with an optional transition method that allows for a cumulative-effect adjustment in the period of adoption. The Company elected this optional transition method and did not restate prior periods. In accordance with ASC 842, the Company also elected the package of practical expedients, which permits the Company to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases and (3) any initial direct costs for any existing leases as of the effective date.

The Company recognized operating lease right-of-use assets of $15.4 million and operating lease liabilities of $16.5 million on the Company's consolidated balance sheets as of April 1, 2019. The difference between the operating lease right-of-use assets and operating lease liabilities primarily represents the existing deferred rent balance, resulting from historical straight-lining of operating leases, which were effectively reclassified upon adoption to reduce the measurement of the leased assets. There was no material impact to the consolidated statements of operations and no cumulative earnings effect adjustment upon adoption.

Recently issued accounting pronouncements, not yet adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments. Subsequently, the FASB issued certains ASUs to update ASU 2016-13. The ASUs introduce the new current expected credit loss (CECL) approach to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The ASUs are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application of and simplify GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The guidance is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impacts of the adoption of this guidance on its consolidation balance sheet, statements of operations and cash flows.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Company as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Company has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our consolidated balance sheets, statements of operations, or cash flows.

Note 3. Accounts Receivable, net

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

	March 31, 2020		March 31, 2019	
Gross accounts receivable	$	753,507	$	636,485
Less: chargeback reserve		(143,884)		(82,068)
Less: indirect reserve		(13,264)		(3,055)
Less: price protection		(3,255)		(2,265)
Less: distribution services reserve		(733)		(1,209)
Less: discount reserve		(15,733)		(12,838)
Less: POS couponing		(2,672)		(1,861)
Less: allowance for doubtful accounts		(2,740)		—
Accounts receivable, net	$	571,226	$	533,189

Note 4. Inventories

Inventories consist of (*in thousands*):

	March 31, 2020		March 31, 2019	
Raw materials	$	18,693	$	16,228
Work in process		16,983		10,878
Finished goods		100,338		163,423
		136,014		190,529
Less: valuation reserve		(16,563)		(22,656)
Inventories	$	119,451	$	167,873

Note 5. Property, Plant and Equipment, net.

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

	March 31, 2020	March 31, 2019
Land	$ 3,740	$ 3,740
Buildings	25,036	25,036
Machinery and equipment	45,867	44,477
Leasehold improvements	20,631	17,640
Office equipment and computers	7,181	7,959
Software	4,005	5,116
Construction in process	4,960	4,772
Furniture and fixtures	3,839	3,404
	115,259	112,144
Less: accumulated depreciation	(45,806)	(37,465)
Property, plant and equipment, net	$ 69,453	$ 74,679

Depreciation expense was $10.7 million and $11.3 million for the years ended March 31, 2020 and 2019, respectively.

Note 6. Accrued Expenses

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

	March 31, 2020	March 31, 2019
Selling, general and administrative	$ 6,629	$ 6,284
Bonus and incentives	11,912	10,852
Freight	4,719	5,491
Legal costs	3,546	5,629
Accrued interest	2,758	4,338
Payroll and benefits	3,445	3,499
Product costs	5,731	1,300
Research and development	2,566	1,395
Partner payouts	570	1,223
Accrued expenses	$ 41,876	$ 40,011

Note 7. Other Current Liabilities

Other current liabilities consist of the following (*in thousands*):

	March 31, 2020	March 31, 2019
Accrued rebates	$ 64,408	$ 70,319
Accrued sales returns	40,366	27,111
Accrued medicaid	9,344	21,390
Accrued billback	8,522	12,366
Current portion of operating lease liabilities	3,406	—
Other current liabilities	$ 126,046	$ 131,186

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 was accounted for as an asset acquisition. 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. As of March 31, 2020, the discounted balance of other time-based payments was $44.3 million and was 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,
2021	$ —
2022	7,500
2023	10,000
2024	10,000
2025	10,000
Thereafter	17,500
Total	$ 55,000

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, 2018	$ 95,089
Fiscal 2019 activity	—
Goodwill balance at March 31, 2019	95,089
Fiscal 2020 activity	—
Goodwill balance at March 31, 2020	$ 95,089

Other Intangibles

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

Period Ended March 31, 2020	**Currently Marketed Products**	**Approved ANDAs**	**Filed ANDAs**	**In-process R&D**	**Total**
Balance at April 1, 2019	$ 404,710	$ 6,822	$ 52,240	$ 30,890	$ 494,662
Transfers	—	—	3,319	(3,319)	—
Balance at March 31, 2020	404,710	6,822	55,559	27,571	494,662
Less: accumulated amortization	(87,523)	(1,565)	—	—	(89,088)
Less: impairment provision	(121,768)	—	(38,612)	(27,571)	(187,951)
Net carrying amount	$ 195,419	$ 5,257	$ 16,947	$ —	$ 217,623

Period 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 - SolosecTM	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

Amortization expense was $36.8 million and $40.4 million for the years ended March 31, 2020 and 2019, respectively.

During the third quarter of fiscal year 2020, following its annual five-year planning process and renewed assessment of market competition, timing of product development, filing and approvals, the Company recorded intangible asset impairment losses of $188.0 million, which are included in Intangible asset impairment charges in the Consolidated Statements of Operations. These charges relate primarily to certain CMPs, filed ANDAs and IPR&D. A summary of significant intangible asset impairment and related charges is included below.

- CMP - Methylergonovine Tablets (Methylergonovine). Methylergonovine was acquired and launched as a brand product, which went generic in 2018. Since fiscal year 2019, sales of Methylergonovine have been adversely affected by the availability of the generic alternatives to the product, which occurred earlier than previously anticipated by the Company. In light of the sooner-than-expected launch of a generic alternative and the subsequent launch of additional generics, the Company discontinued development of its previously planned life-cycle-management program for the Methergine brand. The reduction in sales led to changes in the expected cash flow assumptions for Methylergonovine. These revisions to cash flows indicated that the Methylergonovine intangible asset value was not fully recoverable on an undiscounted cash flows basis. The fair value of the intangible asset was then estimated using the discounted cash flow method, which, when compared with its carrying value, resulted in an impairment charge of $73.1 million.

- Filed ANDA - Diazepam Rectal gel (Diazepam). As a result of anticipated delay in the product launch due to delays in approval timeline with FDA and manufacturing concerns, the Company expects additional competition and lower pricing upon the product launch, which led to lower cash flow projection for the product. As such, we recorded an impairment charge of $21.1 million related to Diazepam Rectal gel. The fair value of the product was determined using the discounted cash flow method.

- IPR&D. The products under IPR&D were originally acquired from Gavis in March 2016. Due to development delays with respect to approval timelines with the FDA and manufacturing concerns, the Company has decided to terminate the original projects under the IPR&D. As a result, the Company recorded an impairment charge of $27.6 million to write off the remaining IPR&D balance.

- Other CMPs. The Company recorded impairment charges of $48.7 million related to various other CMPs due to lower revenue projections based on increased competition, lower market pricing, discontinuation of certain products or regulatory concerns (i.e. opioid products). Fair value of the intangible assets were estimated using the discounted cash flow method when the undiscounted cash flows of respective intangible asset indicated the asset value was not recoverable. If the fair value of the intangible asset was less than its carrying value, an impairment loss is recognized.

- Other Filed ANDAs. The Company recorded impairment charges of $17.5 million related to various other Filed ANDAs. The impairment of these products are primarily due to revisions to projected cash flows due to delays in expected FDA approvals, manufacturing concerns and concerns over commercial market conditions if/when these products are approved. The fair value of the product was determined using the discounted cash flow method.

On March 31, 2020, the Company acquired certain intellectual property rights regarding various pharmaceutical products from LAHSA with zero historical costs. See Note 15 for details.

The approximate estimated future amortization expense at March 31, 2020 is as follows (*in thousands*):

	12 Month Period Ended March 31,	
2021	$	22,245
2022		22,245
2023		22,245
2024		22,245
2025		22,245
Thereafter		89,451
Total	$	200,676

Note 10. Debt

A summary of outstanding debt is as follows:

	March 31, 2020		March 31, 2019	
$120 million long-term debt, net	$	74,878	$	119,250
$680 million long-term debt, net		424,312		675,287
Total long-term debt		499,190		794,537
Line of credit - SMBC		100,000		75,000
Line of credit - MUFG		200,000		99,000
Total debt		799,190		968,537
Less: short-term debt		565,916		174,000
Long-term debt, net	$	233,274	$	794,537

On March 31, 2016, the Company entered into a Facilities Agreement for loan assistance of $120.0 million, which is guaranteed by LL ("Guarantor"). 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 in proportion with the principal amount, 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 ("Novation Agreement") with LL, LAHSA and a consortium of banks signed on May 3, 2018. The debt is guaranteed by LL ("Guarantor"). 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 debt issue costs of approximately $6.5 million were capitalized and are being amortized over the term of the loan in proportion with the principal amount, which approximates the effective interest method, and is recorded as a component of long term debt, net on the consolidated balance sheets.

Pursuant to the Facility Agreement and the Novation Agreement (collectively, "Agreements") of the loans discussed above, if any member of the Borrower Group (the Company, the Guarantor and any material subsidiaries of the Guarantor) enters into a single transaction or a series of transactions to sell any assets, the proceeds of which exceed $50 million, the Company is required to prepay the loans in an amount equal to the disposal proceeds, net of any reasonable expenses related to the transactions, taxes and any reasonable amounts retained to cover indemnities and contingent liabilities in connection with the disposal ("Net Proceeds"). Any prepayment is applied to the installment payments in inverse chronological order (meaning, the prepayment is first applied to the May 2022 installment, and then the May 2021 installment, etc.). In November 2019, LL entered into a definitive agreement to sell its entire stake in Kyowa Pharmaceutical Industry Co. Ltd. ("Kyowa"), a Japanese subsidiary (material subsidiary as defined in the Agreements) to Unison Capital Partners IV, LPS and Unison Capital Partners IV (F). L.P. (collectively referred to as "Unison") for $344 million. According to the terms of the Agreements, the Company prepaid $300 million, which represented the Net Proceeds from the sale of Kyowa, for the loans in February 2020. As of March 31, 2020, the outstanding principal of the two loans discussed above was $500 million, $265.9 million of which, net of the debt issue costs to be amortized in the next 12 months, was included in the Short-term debt on the consolidated balance sheets. The payment of the $300 million in February 2020 was funded by Nanomi, the Company's parent company. See Note 14 for details.

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 was amended in March 2020 to increase the limit to $100 million. Upon the increase of the line of credit, the Company withdrew an additional loan of $25 milllion under the RLOC. Borrowings under the facility are uncommitted and the credit facility can be terminated by the Bank on written notification. Upon such termination, all outstanding amounts under the facility shall be paid to the Bank. Advances made under the amended RLOC bear interest at corresponding LIBOR plus 50 bps per annum. The revolving loans are interest-only with principal due at maturity. The outstanding balance was $100 million and $75 million as of March 31, 2020 and 2019, respectively. The current loans mature in June, 2020.

In November 2018, the Company entered into a $100 million short-term credit facility (the Facility) with MUFG Bank, Ltd., Singapore Branch. The Facility was amended in March 2020 to increase the limit to $200 million, which is guaranteed by LL. Upon the increase of the line of credit, the Company withdrew an additional loan of $101 million under the Facility. The Facility is available for drawdown during the period up to September 30, 2020. Loan advances drawn under the Facility bear interest rate of corresponding LIBOR plus 50 bps per annum. The principal, plus interest is due at maturity. The outstanding balance was $200 million and $99 million as of March 31, 2020 and 2019, respectively. The current loans mature in the first quarter of fiscal year 2021.

The Company recorded interest expense of $34.0 million and $31.6 million during the years ended March 31, 2020 and 2019, respectively. The aggregate outstanding principal and accrued interest balance at March 31, 2020 and 2019 was $802.0 million and $978.3 million, respectively.

Note 11. Leases

The Company adopted ASC 842 on April 1, 2019. Refer to the “Recent Accounting Pronouncements” section in Note 2 for further details.

The Company leases real estate, fleet, and office equipment under non-cancelable operating leases for use in our operations. Our leases generally have lease terms of 1 to 10 years, some of which include options to renew for up to 5 to 10 years or on a month-to-month basis. We do not include the options in our minimum lease terms unless they are reasonably certain to be exercised.

ROU assets and lease liabilities are established on the consolidated balance sheets for leases with an expected term greater than one year. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Our variable lease payments primarily consist of non-lease services related to the lease. We have elected the practical expedient in the new standard to not separate non-lease components from lease components in calculating the amounts of ROU assets and lease liabilities for all underlying asset classes. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. The Company generally does not provide residual value guarantees in the operating leases with the exception of the lease of a vehicle fleet. No amounts related to this residual value guarantee have been deemed probable. As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate (IBR) at the commencement date in determining the present value of lease payments. The IBR is estimated based on our parent company LL’s credit standing and is adjusted by the guarantee fees we make to LL as the Company does not have its own treasury function, and all of its borrowings are negotiated and guaranteed by LL centrally. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the lease term. On occasion, the Company subleases excess office facilities to third parties. Rental expense, net of sublease income, is included in the selling, general and administrative expense in the consolidated statements of operations.

For operating leases, the ROU assets and liabilities are presented in the consolidated balance sheet as follows:

(*in thousands*)

	Balance Sheet Classification	Balance at March 31, 2020	
Right-of-use assets	Other assets	$	15,913
Lease Liabilities - current	Other current liabilities		3,406
Lease Liabilities - noncurrent	Other liabilities		14,352

The components of operating lease costs are as follows:

(*in thousands*)

		For the Year Ended March 31, 2020
Operating lease cost	$	4,532
Variable lease cost		2,131
Sublease income		(414)
Total lease cost	$	6,249

Supplemental balance sheet information related to leases is as follows:

	March 31, 2020
Weighted average remaining lease terms (in years)	6.50
Weighted average discount rate	4.7%

Other supplemental information includes the following:

(*in thousands*)

		For the year ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	2,854
Leased assets obtained for new operating lease liabilities		4,631

The table below reconciles the undiscounted cash flows for the first five years and total of the remaining years to the operating lease liabilities recorded in the consolidated balance sheet as of March 31, 2020:

(*in thousands*)

		For the year ended March 31,
2021	$	4,130
2022		3,512
2023		3,093
2024		2,797
2025		1,653
Thereafter		5,703
Total undiscounted lease payments		20,888
Less: imputed interest		3,130
Present value of minimum lease payments	$	17,758
Less: current portion		3,406
Noncurrent portion	$	14,352

As disclosed in our fiscal 2019 financial statements, future minimum lease payments at March 31, 2019, prior to the adoption of ASC 842, by year and in the aggregate, under all noncancellable operating leases were 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

Note 12. Contingencies

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 (the "State") 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. (collectively, Lupin Group), Vinita Gupta and Robert Hoffman. On July 22, 2019, the State offered a settlement of $63.5 million to Lupin Group. Under the settlement agreement, the State and Lupin Group have agreed on all of the terms of the settlement and the State agreed to dismiss the individual defendants, Vinita Gupta and Robert Hoffman immediately. Final payment was made by Lupin Limited amounting to $53.5 million and LPI amounting to $10.0 million in the third quarter of fiscal year 2020 and the lawsuit against the remaining corporate defendants was fully dismissed. The Company had a $10 million loss contingency, included within legal accruals, established for the claim as of March 31, 2019.

Novel Indemnity Case

In March 2016, the Company acquired 100% of the equity interest in Gavis and Novel Laboratories, Inc. ("Novel") under a Share Purchase Agreement (SPA). As part of the SPA, the Company placed $48.4 million in an indemnity escrow account in case the sellers of Novel breach certain representations and warranties. Under the terms of the SPA, the Company is indemnified for the damages from such breaches under certain conditions. On March 27, 2017, AMRI Global, Inc., ("AMRI"), a pharmaceutical research and manufacturing organization filed a lawsuit against Novel for pre-acquisition behaviors. The Company recorded an accrued legal settlement and indemnification asset of $8.8 million. During the third quarter of fiscal year 2020, the Company settled the case with AMRI for $8.8 million. Lupin is currently seeking recovery of the settlement, along with other damage claims in a lawsuit in New York against the Novel sellers. No trial date has been set by the court. The Company's management and legal team believe the settlement amount would be found "reasonable" by the court. As of March 31, 2020, the Company had paid off the legal settlement amount and the indemnification asset of $8.8 million was included in Other asset on the consolidated Balance Sheet.

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.

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. On April 17, 2018, Lupin and one of its employees (David Berthold) received a non-party subpoena from the state of Connecticut Attorney General (CAG) related to an civil antitrust case they filed in 2016, requesting documents and other information. On May 10, 2019, 43 state attorneys general, led by the CAG, filed a second 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. These civil lawsuits were combined into the collection of similar cases referred to as In Re Generic Pharmaceuticals Antitrust Litigation, located in Philadelphia, Pennsylvania. As the case is still in the early stage, an estimate of the possible loss or range of loss, if any, cannot be made.

From time to time, the Company is involved in various intellectual property claims and legal proceedings, which are considered normal to its business. Some of this litigation has been resolved through settlement agreements with the plaintiffs. In September 2019, several antitrust class actions were filed in the Northern District of California against the manufacturers (including LPI and LL) of diabetes treatment Glumetza. The lawsuits allege that a 2012 settlement of a patent litigation regarding Glumetza® delayed the availability of generic alternatives to Glumetza, which caused consumers to pay supracompetitive prices for the drug. These class action cases seek various forms of injunctive and monetary relief, including damages based on the difference between the brand price and what the generic price allegedly would have been and disgorgement of profits. The alleged damages can be substantial - potentially measured in multiples of the annual product sales. The Company believes that its settlement agreement is lawful and served to increase competition, and has defended them vigorously. In Lupin's experience to date, these cases have typically settled for a fraction of the high end of the damages sought, although there can be no assurance that such outcomes will continue. As the cases are still in the early stage, an estimate of the possible loss or range of loss, if any, cannot be made.

Note 13. 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 impact on deferred assets and liabilities of a change in tax rates is recognized in the period that the rate change is enacted. Valuation allowances are recorded when it is determined that it is more likely than not that a deferred tax asset will not be realized.

The Company's loss before income taxes was $327.6 million and $130.9 million for the years ended March 31, 2020 and 2019, and was generated entirely in the United States.

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

	Year Ended March 31,	
	2020	**2019**
Current provision:		
U.S. federal	$ (5,845)	$ —
U.S. state and local	4,490	586
Foreign	1,745	121
Total current provision	$ 390	$ 707
Deferred benefit:		
U.S. federal	—	—
U.S. state and local	—	—
Total deferred benefit	—	—
Total current and deferred benefit	$ 390	$ 707

Income tax provision 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,	
	2020	**2019**
Loss before income tax	$ (327,556)	$ (130,866)
Statutory tax rate	21.00%	21.00%
Income tax benefit at statutory rate	(68,787)	(27,482)
U.S. state tax provision (benefit)	4,327	(659)
	(64,460)	(28,141)
Increase (decrease) in income tax provision resulting from:		
Non-deductible expenses	2,218	340
R&D tax credits (net of reserve)	(2,606)	(1,037)
Valuation allowance	67,810	28,905
Foreign taxes	1,745	121
Other	(4,317)	519
Income tax provision	$ 390	$ 707

The U.S. Government enacted the Coronavirus Aid, Relief and Economic Security (CARES) Act on March 27, 2020. The CARES Act includes a provision for a five-year net operating loss (NOLs) carryback for NOLs incurred during fiscal years 2019 and 2020. The CARES Act also provided for a technical correction to the TCJA that allows for a two year carryback for NOLs created during the 2018 fiscal year. The Company intends to carry back its federal NOLs to its previous taxable years and expects to recognize an income tax benefit of approximately $10 million. As discussed further below, the company will also be recording interest expense totaling approximately $4.2 million as an accrual for an income tax provision for its chargeback liabilities. As a result, the expected benefit from the carryback is to be $5.8 million.

As noted below, the Company is currently under examination for tax years 2015 and 2016. As a result of the examination and working towards completion, the Company anticipates that taxable income will be increased for the years in question as it relates to its tax treatment for chargeback liabilities. The Company has NOLs to offset this addition to federal taxable income but has included an accrual of $4.2 million for interest expense. The Company has also accrued $3.2 million in state taxes and accrued interest.

Other income tax rate items include state income taxes for the year of $1.1 million (exclusive of those noted above), non-deductible expenses such as meals and entertainment, lobbying expenses, as well as employee stock options. Other factors include foreign taxes of $1.7 million. A valuation allowance of $67.8 million largely offset the income tax benefit from the current year losses, as well as the R&D credits.

Deferred taxes arise out 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, 2020		**March 31, 2019**
Deferred tax assets:				
Accounts receivable returns and allowances	$	10,506	$	7,197
Litigation reserve		-		2,450
Inventory reserve		1,425		1,642
Research and development, net of reserve		13,999		6,487
State tax credits		3,876		3,083
Net operating loss		27,400		34,195
Accrued payroll		1,526		1,290
Acquisition costs		2,132		1,979
Chargebacks		33,089		-
LAHSA IP		187,102		84,476
Other		18,739		8,783
Total deferred tax assets	$	299,794	$	151,582
Valuation allowance:		(258,840)		(116,162)
Deferred tax liabilities:				
Goodwill amortization	$	(2,899)	$	(2,634)
Intangible asset amortization		(16,140)		(21,408)
Depreciation		(18,674)		(8,834)
Deferred interest		(1,722)		(1,599)
Other		(1,519)		(945)
Total net deferred tax liabilities	$	(40,954)	$	(35,420)
Net deferred tax liability	$	—	$	—

We have carryforward income tax NOLs related to our operations, which are available to reduce U.S. federal and/or state income taxes payable. The CARES Act allow for a five-year carryback, which the Company intends to utilize a portion of its NOL carryover balance. We expect to use approximately $184.6 million of NOLs with the carryback. In the case of NOL carryforwards, and for tax years beginning before 2021, we will be entitled to an NOL deduction of 100% of taxable income (rather than the 80 percent limitation under the 2017 TCJA). Moreover, these NOL carryforwards have an indefinite life, except for $18.9 million, which are subject to limitations under IRC Section 382. As of March 31, 2020, we have $100.9 million of NOLs available for future use.

The Company provides for a valuation allowance when it believes that deferred tax assets are not realizable based upon an assessment of future taxable income, and/or tax-planning strategies implemented to realize the deferred tax assets. Based upon the Company's cumulative losses, we established a valuation allowance on our deferred tax accounts in fiscal year ended March 31, 2018, and continues through fiscal year ended March 31, 2020.

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, 2020 and 2019, the Company has unrecognized tax benefits, inclusive of interest and penalties, of $11.8 million and $4.2 million, respectively. As explained above, the increase in unrecognized tax benefits from March 31, 2019, to the same period in 2020 largely relates to the federal and state tax accruals for anticipated changes resulting from the IRS exam of the 2015 and 2016 tax years. The Company's practice is to recognize interest and penalty expense related to uncertain tax positions as part of tax expense. The Company recognized interest and penalty expense related to uncertain tax positions for the year ended March 31, 2020 of approximately $4.6 million. The Company did not recognize any interest and penalty expense related to uncertain tax positions for the year ended March 31, 2019. 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 from 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, 2016 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 has provided an income tax provision of for its chargeback liability.

Note 14. Common Stock

On March 27, 2020, the Board of Directors (the Board) of the Company approved a resolution to amend its Certificate of Incorporation (Amendment). Pursuant to the Amendment, the Company is authorized to issue up to 100,000 shares of all classes of stock, which are divided into two classes as follow: 50,000 shares of common stock, $10,000 par value per share (Common Stock), and 50,000 shares of preferred stock, $10,000 par value per share (Preferred Stock). Before the Amendment, the par value of the Common Stock was $0.001 per share. With the change in the Common Stock's par value, Lupin's then parent company LAHSA did not make additional capital payments, which resulted in a reclassification of $10.0 million between Common stock and Additional paid-in capital in the Company's consolidated balance sheets. Subsequently, LAHSA sold 100% of its shares in the Company to Nanomi and the Company became a wholly owned subsidiary of Nanomi. See Note 1 for details. Upon the completion of the transaction on March 31, 2020, the Company issued 30,000 shares of its Common Stock at par value to Nanomi for $300 million. Lupin utilized the funds received from Nanomi to make a $300 million payment for its long-term debt. See *Note 10. Debt* for details.

Note 15. Intellectual Assets Purchase and Preferred Stock

On March 31, 2020, the Company entered into an intercompany Asset Purchase Agreement (APA) with LAHSA to acquire certain intellectual property rights regarding various pharmaceutical products (Purchased Assets) for $280 million. A valuation analysis was performed by an independent 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 Purchased Assets in an arm's length transaction.

Under US GAAP, this transaction was deemed as an asset acquisition between entities under common control, therefore, the Purchased Assets were recorded by the Company (the receiving entity) at their historical costs of the parent of the entities under common control. The Purchased Assets were either internally developed or under development by entities under LL or third parties, where the expenditures on such assets should be expensed as R&D expense as they incurred. Accordingly, the historical book basis of the Purchased Assets were zero under U.S. GAAP. As a result, the consideration for these Purchased Assets was deemed as a distribution to LAHSA. The consideration of the Purchased Assets was paid by issuing 28,000 shares of the Company's Series A Preferred Stock, with par value of $10,000 per share (Par Value) and a dividend rate of 5% of Par Value per annum, to LAHSA.

Pursuant to the Certificate of Designations of Series A Preferred Stock governing the terms of the Series A Preferred Stock, these Preferred Stocks cannot be convertible into shares of the Company's Common Stock, and have no voting rights. The term of the Preferred Stocks commenced on March 31, 2020 and ends on March 31, 2035; at the Company's option, these Preferred Stocks may be redeemed at an earlier date (collectively, Redemption Date). Cash dividends will be payable only when declared by the Board. However, the dividends will be accrued and cumulative regardless of whether the Company has earnings, whether there are funds legally available therefor and/or whether declared. Upon redemption, the Preferred Stocks will be redeemed at an amount equal to the Par Value of such Preferred Stocks plus any dividends accrued but unpaid through the Redemption Date (Redemption Price).

The Preferred Stocks are accounted for as mandatorily redeemable financial instruments under ASC 480 and are classified as liabilities. These Preferred Stocks are initially recognized at Par Value which approximate their fair value and will be subsequently measured at their Redemption Price as of each reporting date.

Note 16. Related Party Transactions

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

Companies where control exists:

- LL (Ultimate Parent Company)
- Nanomi BV, India (Nanomi BV) (Direct Parent Company)

Other Related Parties having transactions with the Company's fellow subsidiaries:

- Lupin GmbH, Switzerland (GmbH)
- Lupin Pharma Canada Ltd., Canada (Canada)
- LAHSA
- Lupin Latam, Inc., United States (Latam)
- 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, asset transfers and tax sharing.

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

	Year Ended March 31,			
	2020		2019	
Sales to LL	$	19,741	$	17,825
Sales to LAHSA		4,296		10,802
Sales to Nanomi BV		734		282
Sales to GmbH		329		168
Related party sales	$	25,100	$	29,077

In addition to the related party sales noted above, the Company earned an additional $3.4 million and $4.0 million in other income from related parties for management services for the years ended March 31, 2020 and 2019, respectively.

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

	Year Ended March 31,			
	2020		2019	
Purchases from LL	$	438,355	$	550,499
Purchases from LAHSA		100,676		47,599
Purchases from GmbH		4,231		2,690
Purchases from Japan and Asia Pacific		—		86
Related party purchases	$	543,262	$	600,874

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

	March 31, 2020		March 31, 2019	
Due from LL	$	16,750	$	15,040
Due from LAHSA		1,038		2,301
Due from Canada		156		117
Due from GmbH		262		511
Due from Nanomi BV		1,317		66
Due from Latam		18		149
Intercompany receivables	$	19,541	$	18,184

	March 31, 2020	March 31, 2019
Due to LL	$ 323,484	$ 406,235
Due to LAHSA	66,276	10,060
Due to GmbH	1,509	909
Due to Japan and Asia Pacific	—	14
Due to Latam	—	—
Intercompany payables	$ 391,269	$ 417,218

Refer to Note 14 and Note 15 for details of common stocks and preferred stocks issued during the end year ended March 31, 2020. The Company received a capital contribution from LAHSA of $70.0 million during the year ended March 31, 2019.

Note 17. 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, 2020 and 2019, the Company made matching contributions of $2.8 million and $2.6 million, respectively.

Note 18. 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, 2020 that require adjustment to or disclosure in the consolidated financial statements, except for the following:

On April 30, 2020, the Board approved a resolution under which the Company is authorized to issue up to 100,000 shares of its Common Stock. The Board also approved the issuance of additional 26,700 shares of the Company's Common Stock to Nanomi at par value for $267 million. Before this report is issued, the Company has received the full amount from Nanomi and utilized the funds for the repayment of the long-term debt of $267 million due on May 1, 2020.