

UNICHEM PHARMACEUTICALS (USA), INC.

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

YEARS ENDED MARCH 31, 2016 AND 2015

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP[®]

ACCOUNTANTS AND ADVISORS

UNICHEM PHARMACEUTICALS (USA), INC.

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INDEPENDENT AUDITORS' REPORT

To the Stockholder
Unichem Pharmaceuticals (USA), Inc.

We have audited the accompanying financial statements of Unichem Pharmaceuticals (USA), Inc., which comprise the balance sheets as of March 31, 2016 and 2015, and the related statements of income, changes in stockholder's equity (deficiency) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

(Continued)

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 financial statements referred to above present fairly, in all material respects, the financial position of Unichem Pharmaceuticals (USA), Inc. as of March 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, flowing style.

May 12, 2016

UNICHEM PHARMACEUTICALS (USA), INC.

BALANCE SHEETS

	March 31,	
	2016	2015
ASSETS		
Current assets		
Cash	\$ 424,547	\$ 577,671
Accounts receivable, net	13,434,987	7,263,919
Inventories, net	5,029,281	3,195,125
Deferred tax asset	560,000	890,000
Other prepaid expenses	276,876	174,741
Total current assets	19,725,691	12,101,456
Property and equipment - at cost, less accumulated depreciation and amortization	507,009	31,299
Deferred tax asset	977,000	1,538,000
Restricted cash	76,465	76,273
	\$ 21,286,165	\$ 13,747,028
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,441,913	\$ 1,154,480
Line of credit	760,000	260,000
Due to stockholder, net	14,027,853	8,483,471
Total current liabilities	16,229,766	9,897,951
Commitments		
Stockholder's equity (deficiency)		
Common stock, \$1 par value; 6,500,000 shares authorized, 6,476,955 shares issued and outstanding	6,476,955	6,476,955
Accumulated deficit	(1,420,556)	(2,627,878)
	5,056,399	3,849,077
	\$ 21,286,165	\$ 13,747,028

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF INCOME

	Year Ended March 31,	
	2016	2015
Net sales	\$ 32,963,290	\$ 24,912,497
Cost of goods sold	23,115,071	16,614,584
Gross profit	9,848,219	8,297,913
Operating expenses		
Officer's and office salaries	1,278,651	899,611
Payroll taxes and benefits	276,874	197,506
Professional fees	274,220	116,802
Distributor fees	2,146,181	1,972,044
Administrative	262,708	157,443
Rent	70,746	69,584
Travel and entertainment	97,045	64,520
Market research	40,314	506
Marketing and trade shows	429,627	934,023
Insurance	270,272	148,772
Logistics fees	2,562,600	1,885,047
Franchise taxes	3,759	3,000
Depreciation and amortization	53,527	10,605
	7,766,524	6,459,463
Operating income	2,081,695	1,838,450
Other income (expense)		
Income tax benefit (expense)	(862,000)	2,393,000
Interest income	191	216
Interest expense	(12,564)	(5,320)
	(874,373)	2,387,896
Net income	\$ 1,207,322	\$ 4,226,346

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIENCY)

	Total	Common Stock	Accumulated Deficit
Balance, April 1, 2014	\$ (377,269)	\$ 6,476,955	\$ (6,854,224)
Net income	4,226,346	-	4,226,346
Balance, March 31, 2015	3,849,077	6,476,955	(2,627,878)
Net income	1,207,322	-	1,207,322
Balance, March 31, 2016	\$ 5,056,399	\$ 6,476,955	\$ (1,420,556)

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF CASH FLOWS

	Year Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 1,207,322	\$ 4,226,346
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	53,527	10,605
Obsolete inventory reserve	244,805	-
Deferred tax (benefit) expense	891,000	(2,428,000)
Changes in assets and liabilities		
Restricted cash	(192)	(215)
Accounts receivable	(6,171,068)	(4,106,709)
Due from affiliate	(1,374,978)	16,172
Inventories	(2,078,961)	(1,468,851)
Other prepaid expenses	(102,135)	(49,903)
Accounts payable and accrued expenses	287,433	715,873
Net cash used in operating activities	(7,043,247)	(3,084,682)
Cash flows from investing activities		
Acquisition of property and equipment	(529,237)	(14,653)
Cash flows from financing activities		
Proceeds from line of credit	500,000	500,000
Repayment of line of credit	-	(240,000)
Net proceeds from due to stockholder	6,919,360	3,020,759
Net cash provided by financing activities	7,419,360	3,280,759
Net increase (decrease) in cash	(153,124)	181,424
Cash, beginning of year	577,671	396,247
Cash, end of year	\$ 424,547	\$ 577,671
Supplemental cash flow disclosures		
Income taxes paid	\$ 24,100	\$ 24,100
Interest paid	12,335	5,091

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

1 - NATURE OF BUSINESS

Unichem Pharmaceuticals (USA), Inc. (the “Company”) was incorporated on March 9, 2004 under the laws of the State of New Jersey and is headquartered in Hasbrouck Heights, New Jersey. The Company was organized to distribute certain generic prescription drugs throughout the United States upon obtaining approvals from the U.S. Food and Drug Administration (the “FDA”). In April 2009, the Company started to receive shipments of generic prescription drugs from India, approved by the FDA, to be distributed throughout the United States. Also in 2009, the Company received approval to distribute these generic prescription drugs in Puerto Rico. As of March 31, 2016, the Company distributes fourteen FDA approved generic prescription drugs, each with a different strength.

The sole stockholder of the Company is Unichem Laboratories, Ltd. (the “Parent”), an India-based developer and manufacturer of generic prescription drugs and sole provider of generic prescription drugs to the Company.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Cash

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations.

Inventories

Inventories consist principally of finished goods and are valued at the lower of cost (first-in, first-out) or market. The Company establishes reserves for inventory expected to become non-saleable due to age and specifically identifies and provides for slow-moving or obsolete products.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. An allowance for doubtful accounts is recorded based on a combination of historical experience, aging analysis and information on specific accounts. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. Management has determined that no allowance is necessary at March 31, 2016 and 2015.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue from sales of generic prescription drugs is recognized at the time the product is received by the customer. Provisions for Medicaid rebates, chargebacks and cash discounts are established in the same period the related sales are recorded.

Advertising

Advertising costs are expensed as incurred. Advertising and trade show expenses were \$79,003 and \$55,604 for the years ended March 31, 2016 and 2015, respectively, and are included in marketing and trade shows expenses.

Shipping and Handling

Shipping and handling costs of approximately \$1,041,789 and \$734,000 for the years ended March 31, 2016 and 2015, respectively, are included in logistics fees in the statements of income.

Depreciation and Amortization

Depreciation and amortization are computed using the straight-line method over estimated useful asset lives, which range from five to ten years.

Income Taxes

The Company is a C Corporation and provisions, if applicable, are made for federal and state income taxes.

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Company recognizes deferred tax assets to the extent that management believes these assets are more likely than not to be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income and results of recent operations. If management determines that the Company would be able to realize its deferred tax assets in the future in excess of their net recorded amount, management would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements Not Yet Effective

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards update 2016-02, *Leases* ("ASU 2016-02") which requires a lessee to recognize a lease asset, representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to the lessor on its balance sheet for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company has not yet adopted ASU 2016-02 nor assessed its potential impact on the financial statements.

In July 2015, the FASB issued ASU No 2015-011, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11") which requires inventory measured using any method other than last-in, first-out or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. ASU 2015-11 is effective for annual reporting periods after December 15, 2016 and for interim periods within such annual period. Early application is permitted. The Company is currently evaluating the potential effects of adopting the provisions of ASU No 2015-11.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09") which supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification as well as some cost guidance included in *Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts*. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2018 and for interim periods within such annual period, with early application permitted for annual reporting periods beginning after December 15, 2016. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

Subsequent Events

These financial statements were approved by management and available for issuance on May 12, 2016. Management has evaluated subsequent events through this date.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

3 - RESTRICTED CASH

Restricted cash at March 31, 2016 and 2015 collateralizes letters of credit required for bonds to two states for the purpose of selling pharmaceuticals in those states.

4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	March 31,	
	2016	2015
Equipment	\$ 36,655	\$ 18,940
Furniture and fixtures	118,236	69,930
Computers	40,425	21,209
Computer software	480,380	36,380
	675,696	146,459
Less - Accumulated depreciation and amortization	168,687	115,160
	\$ 507,009	\$ 31,299

5 - LINE OF CREDIT

On April 16, 2014, the Company obtained a \$500,000 line of credit from Citibank. The loan matured on March 25, 2016 and required monthly interest only payments at LIBOR plus 1.75% (2.93% at March 31, 2016). On May 12, 2015, the Company amended the line of credit to increase the line balance to \$1,000,000, and extended the maturity date to January 11, 2016, with all other terms remaining the same. On January 22, 2016, the Company amended the terms of the agreement to extend the maturity date to November 26, 2017 with all other terms remaining the same. The principal balance at March 31, 2016 is \$760,000.

The line is collateralized by a \$1,000,000 standby letter of credit from the Company's Parent in India. The principal is due at maturity.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

6 - INCOME TAXES

The Company's tax provisions (benefit) have been calculated using the statutory rates in effect considering permanent and temporary differences. The Company's effective tax rate differed from the federal statutory rate principally due to the components of the deferred tax asset shown in the second table below.

Components for the Company's income tax provision (benefit) for the years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Current		
Federal	\$ 30,000	\$ 30,000
State	8,000	5,000
	<u>38,000</u>	<u>35,000</u>
Deferred		
Federal	700,000	(1,636,000)
State	124,000	(792,000)
	<u>824,000</u>	<u>(2,428,000)</u>
	<u>\$ 862,000</u>	<u>\$ (2,393,000)</u>

The components of the deferred tax asset at March 31, 2016 and 2015 consist of the following:

	2016	2015
Current		
Net operating loss carryforwards	\$ 560,000	\$ 890,000
Noncurrent		
Capitalized development stage costs	655,000	861,000
Depreciation	(154,000)	-
Net operating loss carryforwards	476,000	677,000
	<u>977,000</u>	<u>1,538,000</u>
	<u>\$ 1,537,000</u>	<u>\$ 2,428,000</u>

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

6 - INCOME TAXES (Continued)

At March 31, 2016 and 2015, the Company's deferred tax assets were primarily the result of capitalized development stage costs, differences in depreciation methods and net operating losses ("NOL"). Management determined that no valuation allowance is needed for the deferred tax asset at March 31, 2016 and 2015. For the year ended March 31, 2015, the Company recorded a net valuation allowance release of \$2,428,000 (comprised of a full-year valuation release of \$3,584,000 related to net operating losses partially offset by the use of the net operating losses and other timing differences of \$1,156,000) on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. At March 31, 2015, in part because the Company had achieved a pre-tax income in the U.S. federal and state jurisdictions, management determined that sufficient positive evidence existed to conclude that it is more likely than not that additional deferred taxes of \$2,428,000 are realizable, and therefore, no valuation allowance was recorded. As of March 31, 2016 and 2015, the Company has NOL carryforwards of approximately \$2,680,000 and \$3,166,000, respectively, which, if unused, will expire in years 2027 through 2033.

7 - PRODUCT RECALL

On July 30, 2015, the Company initiated a voluntary recall of one lot of Hydrochlorothiazide 25 mg. tablet (the "Product Recall"). The Product Recall was a precautionary measure due to an isolated incident whereby a pharmacist noticed one single Clopidrogrel tablet in a bottle of Hydrochlorothiazide 25 mg. prior to dispensing the medication. In November 2015, the Company completed its examination of the Product Recall and determined it was an isolated incident. Nonetheless, 26 individuals have asserted claims, alleging that they ingested foreign tablets in their Hydrochlorothiazide 25 mg. prescriptions. The Company has denied each claim and has refused to make any offer of settlement. The Company believes the claims are unfounded as the Company did not find any foreign tablets in the recalled lot examined. None of the claimants have filed litigation against the Company and the Company intends to vigorously defend any litigation that may be filed.

In connection with the Product Recall, the Parent has contractually agreed to reimburse the Company for all costs associated with the Product Recall. Accordingly, the Company has recorded a receivable in the amount of \$1,374,978, which includes returns of product from customers, inventory on-hand, recall fees paid to customers and other administrative costs. The Company's results of operations do not reflect any costs associated with the Product Recall. The Company does not anticipate any further material charges to be incurred and anticipates that the matter will be closed with the FDA during the fiscal year ending March 31, 2017.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

8 - RELATED PARTY TRANSACTIONS

In the normal course of business, the Company purchases inventory from its Parent. Until fiscal 2015, the Company received commissions on direct import sales from the Parent. The Company also purchases testing supplies, for which it is reimbursed by the Parent. Purchases and reimbursements for the years ended March 31, 2016 and 2015 were \$24,847,459 and \$18,005,922, respectively.

At March 31, 2016 and 2015, the Company owed the Parent \$15,452,095 and \$8,492,432, respectively, for purchases of inventory. At March 31, 2016, the Company was owed \$1,405,812 by the Parent for the Product Recall receivable discussed in Note 7 and purchases of testing supplies. At March 31, 2015, the Company was owed \$8,961 by the Parent for direct import sales and purchases of testing supplies.

9 - MARKETING AGREEMENT

The Company had engaged a pharmaceutical marketing agent to serve as the Company's exclusive sales and marketing agent through April 1, 2016. In January 2015, the Company provided the pharmaceutical marketing agent a termination of service letter effective July 18, 2015. The Company paid a monthly fee to the agent pursuant to the terms and conditions of the contract. Fees paid or accrued to the agent were \$316,692 and \$853,455 for the years ended March 31, 2016 and 2015, respectively, and are included in marketing and trade show expenses.

10 - LOGISTICS AGREEMENT

On April 17, 2008, the Company engaged a third-party logistics provider to provide warehousing, shipping and other services to be performed at its warehouse. The agreement term was initially three years, with an automatic yearly extension. The Company agreed to pay one-time management and implementation fees and, thereafter, monthly account management and service fees beginning May 1, 2008. In May 2013, the Company entered into an amended agreement with the same provider, with an initial term of three years and an automatic yearly extension. For the years ended March 31, 2016 and 2015, such expenses were \$2,389,101 and \$1,766,657, respectively, and are included in logistics fees.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

11 - MAJOR CUSTOMERS

Sales to two customers were approximately 25% (14% and 11%) of net sales for the year ended March 31, 2016. Amounts due from the one customer and two other customers represent approximately 75% (36%, 29% and 10%) of total accounts receivable at March 31, 2016. Sales to one customer were approximately 13% of net sales for the year ended March 31, 2015. Amounts due from this customer and another customer represented approximately 21% and 11% of total accounts receivable at March 31, 2015.

12 - 401(k) PLAN

The Company participates in a qualified retirement plan under Section 401(k) of the Internal Revenue Code (the "Code") and permits nonunion employees over the age of 21 to voluntarily contribute up to the maximum allowed under the Code. Effective January 2008, the Company began matching 100% of employee contributions up to the first 3% of compensation and 50% of employee contributions between 3% and 5% of compensation. Employer contributions for the years ended March 31, 2016 and 2015 were approximately \$31,000 and \$21,000, respectively.

13 - LEASE COMMITMENTS

The Company leases office space and certain office equipment under noncancelable operating leases which require approximate future minimum rental payments as follows:

Year Ending March 31,	
2017	\$ 113,000
2018	129,000
2019	135,000
2020	138,000
2021	140,000
Thereafter	445,000
	<u>\$ 1,100,000</u>

Rent expense, including equipment rental, for the years ended March 31, 2016 and 2015 was \$72,850 and \$74,632, respectively.

SUPPLEMENTARY INFORMATION

UNICHEM PHARMACEUTICALS (USA), INC.

SCHEDULES OF COST OF GOODS SOLD

	Year Ended March 31,	
	2016	2015
Inventories, beginning of year	\$ 3,195,125	\$ 1,726,274
Purchases	24,847,459	18,005,922
Other	101,768	77,513
	28,144,352	19,809,709
Less - Inventories, end of year	5,029,281	3,195,125
	\$ 23,115,071	\$ 16,614,584

See Independent Auditors' Report.