

**Unichem Pharmaceuticals (USA), Inc.**  
**Financial Statements**  
**March 31, 2024 and 2023**

# Unichem Pharmaceuticals (USA), Inc.

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March 31, 2024 and 2023

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## **Independent Auditors' Report**

**To the Board of Directors of**

**Unichem Pharmaceuticals (USA), Inc.**

### ***Opinion***

We have audited the accompanying financial statements of Unichem Pharmaceuticals (USA), Inc. (the "Company") which comprise the balance sheets as of March 31, 2024 and 2023 and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2024 and 2023, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.
2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
3. Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
5. Conclude whether, in our judgment, there are conditions or events considered in the aggregate that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink, appearing to read "William J. Guttenplan". The signature is written in a cursive style with a long horizontal flourish extending to the right.

East Brunswick, New Jersey

April 30, 2024

**Unichem Pharmaceuticals (USA), Inc.**  
**Balance Sheets**  
**March 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,538,086	\$ 2,536,986
Accounts receivable, net	52,301,008	54,166,597
Inventories, net	22,556,814	17,348,157
Accounts receivable, due from parent	52,402	8,171
Accounts receivable, due from affiliate	278,013	-
Other prepaid expenses	495,239	508,545
<b>Total Current Assets</b>	<u>77,221,562</u>	<u>74,568,456</u>
Property and equipment, net	359,042	285,221
Deferred tax asset	796,000	1,231,000
Operating lease right of use asset	2,183,014	457,975
<b>Total Assets</b>	<u>\$ 80,559,618</u>	<u>\$ 76,542,652</u>
<b>Liabilities and Shareholder's Equity</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 5,133,652	\$ 4,538,591
Accrued Medicaid	844,529	713,463
Income taxes payable	264,948	63,260
Line of credit, net	15,415,405	20,577,887
Due to parent	28,695,806	26,545,729
Due to affiliates	760,515	-
Operating lease liability, short term	277,943	346,433
<b>Total Current Liabilities</b>	<u>51,392,798</u>	<u>52,785,363</u>
<b>Long Term Liabilities</b>		
Operating lease liability, long term	<u>1,980,783</u>	<u>240,111</u>
<b>Total Liabilities</b>	<u>53,373,581</u>	<u>53,025,474</u>
<b>Shareholder's Equity</b>		
Common stock, \$1 par value, 6,500,000 shares authorized; 6,476,955 issued and outstanding	6,476,955	6,476,955
Additional paid-in capital	729,332	356,206
Retained earnings	19,979,750	16,684,017
<b>Shareholder's Equity</b>	<u>27,186,037</u>	<u>23,517,178</u>
<b>Total Liabilities and Shareholder's Equity</b>	<u>\$ 80,559,618</u>	<u>\$ 76,542,652</u>

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

**Unichem Pharmaceuticals (USA), Inc.**  
**Statements of Operations**  
**For the Years Ended March 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>Net Sales</b>	\$ 120,713,258	\$ 96,153,432
<b>Cost of Goods Sold</b>	<u>94,108,388</u>	<u>75,044,277</u>
<b>Gross Profit</b>	<u>26,604,870</u>	<u>21,109,155</u>
<b>Operating Expenses</b>		
Officers and office salaries	6,740,463	7,146,094
Selling and distribution	6,107,541	4,804,782
Outbound freight	2,608,187	1,851,220
Professional fees	1,776,634	1,410,098
Administrative	1,400,839	1,152,935
Payroll taxes and benefits	1,077,100	858,527
Insurance	329,986	325,985
Travel and meals	316,629	215,246
Marketing and trade shows	302,275	307,746
Rent	240,677	202,088
Market research	197,204	180,806
Depreciation	<u>127,805</u>	<u>114,070</u>
<b>Total Operating Expenses</b>	<u>21,225,340</u>	<u>18,569,597</u>
<b>Income from Operations</b>	<u>5,379,530</u>	<u>2,539,558</u>
<b>Non-Operating Income (Expenses)</b>		
Interest expense	(1,306,093)	(895,839)
Other income	<u>-</u>	<u>173</u>
<b>Total Non-Operating Expenses</b>	<u>(1,306,093)</u>	<u>(895,666)</u>
<b>Income before Provision for Income Taxes</b>	<u>4,073,437</u>	<u>1,643,892</u>
<b>Provision for Income Taxes</b>		
Current tax provision	655,704	1,129,402
Deferred tax provision	<u>122,000</u>	<u>(656,000)</u>
<b>Total Provision for Income Taxes</b>	<u>777,704</u>	<u>473,402</u>
<b>Net Income</b>	<u>\$ 3,295,733</u>	<u>\$ 1,170,490</u>

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

**Unichem Pharmaceuticals (USA), Inc.**  
**Statements of Changes in Shareholder's Equity**  
**For the Years Ended March 31, 2024 and 2023**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Shareholder's Equity
Balances at March 31, 2022	\$ 6,476,955	\$ 6,476,955	\$ 310,984	\$ 15,513,527	\$ 22,301,466
Stock Based Compensation - Stock Options	-	-	45,222	-	45,222
Net Income	-	-	-	1,170,490	1,170,490
Balances at March 31, 2023	6,476,955	6,476,955	356,206	16,684,017	23,517,178
Stock Based Compensation - Stock Options	-	-	373,126	-	373,126
Net Income	-	-	-	3,295,733	3,295,733
Balances at March 31, 2024	<u>\$ 6,476,955</u>	<u>\$ 6,476,955</u>	<u>\$ 729,332</u>	<u>\$ 19,979,750</u>	<u>\$ 27,186,037</u>

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



**Unichem Pharmaceuticals (USA), Inc.**  
**Statements of Cash Flows**  
**For the Years Ended March 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,295,733	\$ 1,170,490
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation	127,805	114,070
Amortization	60,250	60,250
Deferred tax provision	435,000	(656,000)
Costs related to issuance of stock options	373,126	45,222
Operating lease right of use asset	286,250	259,852
Changes in operating assets and liabilities		
Accounts receivable, net	1,865,589	(7,052,294)
Inventories, net	(5,208,657)	851,779
Accounts receivable, due from parent	(44,231)	5,729
Accounts receivable, due from affiliate	(278,013)	-
Other prepaid expenses	13,306	(17,796)
Accounts payable and accrued expenses	595,061	2,256,757
Accrued Medicaid	131,066	77,455
Income taxes payable	201,688	(236,914)
Due to parent	2,150,077	8,234,329
Due to affiliate	760,515	-
Operating lease liability	(339,107)	(341,414)
<b>Net Cash Provided by Operating Activities</b>	<u>4,425,458</u>	<u>4,771,515</u>
<b>Cash Flows from Investing Activities</b>		
Acquisition of property and equipment	(201,626)	(7,125)
<b>Cash Flows from Financing Activities</b>		
Repayments of line of credit, net	<u>(5,222,732)</u>	<u>(3,143,257)</u>
<b>Net Increase (Decrease) in Cash</b>	(998,900)	1,621,133
<b>Cash - Beginning of Period</b>	<u>2,536,986</u>	<u>915,853</u>
<b>Cash - End of Period</b>	<u>\$ 1,538,086</u>	<u>\$ 2,536,986</u>
<b>Cash Paid During the Period for</b>		
Interest	<u>\$ 1,287,772</u>	<u>\$ 768,789</u>
Income taxes	<u>\$ 140,542</u>	<u>\$ 1,366,316</u>
<b>Non-Cash Operating Activities</b>		
Lease assets obtained in exchange for lease obligations	<u>\$ 2,011,289</u>	<u>\$ 927,958</u>

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

**Unichem Pharmaceuticals (USA), Inc.**  
**Notes to the Financial Statements**  
**March 31, 2024 and 2023**

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**Note 1 Nature of Operations**

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 East Brunswick, New Jersey. The Company operates as the U.S. distributor of certain generic prescription pharmaceuticals developed by Unichem Laboratories, Ltd. (the "Parent"). As of March 31, 2024, the Company distributes thirty-eight (38) FDA approved generic prescription drugs.

The sole stockholder of the Company, an India-based developer and manufacturer of generic prescription drugs, is the sole provider of generic prescription drugs to the Company.

**Note 2 Summary of Significant Accounting Policies**

**Recently Adopted Accounting Pronouncements**

*Allowance for Credit Losses*

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The financial assets held by the company that are subject to guidance in FASB ASC 326 were trade accounts receivable. The FASB delayed adoption of the standard for private companies until January 1, 2023.

The Company adopted the standard effective April 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

**Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the financial statements include allowances and provisions for customer chargebacks, rebates, and cash discounts. These estimates are based on historical experience and on various assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from those estimates.

**Cash**

Cash is held in bank accounts which are insured by the Federal Deposit Insurance Corporation subject to certain limitations. At times, the Company's bank balances exceed federally insured limits.

**Note 2      Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable**

Accounts receivables are stated at the amount management expects to collect from outstanding balances. On a periodic basis, management evaluates its methodologies for estimating credit losses in consideration of actual experience, trends, and changes in the overall economic environment. Management evaluates its accounts receivable and establishes an allowance for credit losses, based on upon historical collection rates by age of receivable and adjusted for reasonable expectations of future collection performance, net of estimated recoveries. A receivable is considered past due if payments have not been received by the invoice due date. Accounts are written off as uncollectible upon management's discretion. Management has determined that no allowance for doubtful accounts is necessary at March 31, 2024 and 2023.

**Inventories**

Inventories consist of raw materials and finished goods and are valued at the lower of cost or net realizable value. Cost is primarily determined by using the moving average method. The customers are permitted to return purchased products for credit when they are within six months of the expiration date, additionally, once the product has expired, the Company will take returned goods for an additional twelve months. Returned products are generally not resold by the Company. The Company regularly reviews the inventory quantities on hand, and when appropriate, records a provision for obsolete, damaged, excess, and expired/short-dated inventory.

**Operating Leases**

Right of Use ("ROU") asset represents the right to use an underlying asset for the lease term, and the lease liability represents the obligation to make lease payments. The operating lease ROU asset and liability is recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses their incremental borrowing rate based on the information available at lease commencement. The operating lease ROU asset also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option.

The Company elected the practical expedients not to apply the lease standard to leases of 12 months or less, to define major part as 75% for all classes of underlying assets and to define substantially all as 90% for all classes of underlying assets as their classification criteria to present ROU assets and lease liabilities on the balance sheet; to not reassess whether any expired or existing contracts are or contain leases, the leases classification for any existing or expired leases, or the initial indirect cost for any existing leases. As the interest rate implicit in the Company's leases are not readily determinable, the Company utilizes the U.S Treasury rates as of the leases' commencement dates to discount the lease payments to present value for leases. For leases that started prior to January 1, 2022, the Company utilized the January 1, 2022 U.S Treasury rate to discount the lease payments.

**Note 2      Summary of Significant Accounting Policies (Continued)**

**Revenue Recognition**

**Product Sales**

The Company's primary customers consist of major pharmacies, wholesalers, and distributors. The wholesalers and distributors in turn sell the products directly to pharmacies, clinics, hospitals, and private medical practices. Revenue from product sales is recognized when substantially all the risks and rewards of ownership have transferred to customers, when estimates of their selling price and discounts, rebates, and promotional adjustments, price adjustments, returns, chargebacks, and other potential adjustments are reasonably determinable, collection is reasonably assured, and persuasive evidence of an arrangement exists.

The Company establishes allowances for chargebacks, discounts, returns, rebates, and other adjustments at the time of the sale. In determining the amount of pricing allowances to be established, the Company considers its own business experience and knowledge of industry and competitive practices, as well as its assessment of the impact on price adjustments due to external market forces, if any. The factors considered include, but are not limited to, actual pricing allowance experience by product by customer, the Company's contractual arrangements with its customers, inventory reports, estimates of products in the distribution channel, customers' right of return, applicable marketing and pricing regulations and current and projected economic conditions.

The data used by the Company in establishing pricing allowances is based on information developed internally and obtained from external sources. Pricing allowances are presented as a reduction of revenue in the statements of operations and retained earnings. The principal allowances are as follows:

**Chargebacks**

The provision for chargebacks is a significant estimate used in the recognition of revenue. As part of the contracts with the wholesale customers, the Company agrees to reimburse wholesalers for the difference between the gross sales price at which the Company sells its products to the wholesalers and the actual prices of the products at the time of resale to the end user. The Company estimates chargeback at the time of the sale to wholesalers based on wholesaler inventory, historical chargeback rates and current pricing.

**Note 2      Summary of Significant Accounting Policies (Continued)**

**Revenue Recognition (Continued)**

**Product Sales (Continued)**

**Wholesaler Rebates**

Current accounting standards related to consideration given by a vendor to a customer, including a reseller of a vendor's products, specify that cash consideration given by a vendor to a customer is presumed to be a reduction of the selling price of the vendor's products or services and therefore should be characterized as a reduction of product sales. Consideration should be characterized as a cost incurred, if the Company received, or will receive, an indefinable benefit (goods or services) in exchange for the consideration and the Company can reasonably estimate the fair value of the benefit received.

The Company has provided an estimate for pending customer rebates. Certain wholesaler customers submit for reimbursement throughout the course of business. The estimated allowance is based on various customer agreements in place with the Company for which the customer has not yet submitted for reimbursement.

Certain fees paid to wholesalers do not meet the foregoing conditions to be characterized as a cost, as such, the Company characterized these fees as a reduction of product sales and have included them in wholesaler rebates in the table in Note 8.

**Administrative Fees**

As the wholesalers sell the product through to the end users, they hold back a portion of funds due to the Company as an administrative fee. This fee does not meet the foregoing conditions to be characterized as a cost, as such, the Company characterized these fees as a reduction of product sales.

**Prompt Payment Discounts**

Discounts for prompt payment is established based on the eligible customers' payment history, the contractual discount percentage, and the ending accounts receivable balance.

**Medicaid Rebates**

Federal law requires all pharmaceutical manufacturers, as a condition of having their products receive federal reimbursement under Medicaid and Medicare Part B, to pay rebates to state Medicaid programs on units of their pharmaceuticals that re-dispensed to Medicaid beneficiaries. For the years ended March 31, 2024 and 2023, the Company had accrued a liability related to the rebates totaling approximately \$845,000 and \$713,000, respectively, which is included in wholesaler rebates in Note 8.

**Note 2      Summary of Significant Accounting Policies (Continued)**

**Advertising**

The Company's policy is to expense advertising costs as the costs are incurred. Advertising costs incurred during the years ended March 31, 2024 and 2023 total approximately \$4,000 and \$19,000, respectively, and are included in marketing and trade shows expense on the accompanying statements of operations and retained earnings.

**Shipping and Handling Costs**

Shipping and handling costs of approximately \$2,608,000 and \$1,851,000 for the years ended March 31, 2024 and 2023, respectively, are included in operating expenses on the accompanying statements of operations.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation and amortization are provided using straight-line method over the estimated useful lives of the assets: five years for equipment, seven years for furniture and fixtures, and five years for software. Expenditures for maintenance and repairs are charged to expense as incurred.

**Financing Costs**

Financing costs incurred to obtain the line of credit (Note 7) are amortized using the straight-line method (which approximates the yield method) over the term of the related loan and are included as a component of interest expense.

**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 basis 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 the income in the periods that include 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.

The statute of limitations for the examination of the Company's income tax returns by the Internal Revenue Service and states is generally three years from the filing date of the tax returns.

**Unichem Pharmaceuticals (USA), Inc.**  
**Notes to the Financial Statements**  
**March 31, 2024 and 2023**

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**Note 2 Summary of Significant Accounting Policies (Continued)**

**Stock-Based Compensation**

The Company records compensation expenses for share-based compensation in accordance with ASC Topic 718, Compensation – Stock Compensation. For share options to certain officers, the Company used the Black-Scholes pricing model to determine the fair value of stock options on the grant dates for stock option awards issued. The Black-Scholes valuation model requires the Company to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the fair value of the common stock; expected term, the expected volatility, and certain present values. Forfeitures are recognized as they occur.

**Subsequent Events**

The Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued, see Note 14.

**Note 3 Accounts Receivable, Net**

Accounts receivable with customers are reflected at net of allowances for pending chargebacks, rebates, fees, and cash discount. The receivables are generally due within 30 to 90 days, depending on the customer, from the invoice date. Accounts receivable consists of:

	March 31,	
	2024	2023
Accounts receivable	\$ 100,192,011	\$ 96,894,732
Allowance for debtors adjustment	(35,880,922)	(33,086,063)
Allowance for wholesaler and pending rebates	(7,063,509)	(4,830,378)
Allowance for prompt payment discount	(2,473,309)	(3,054,731)
Allowance for other reductions	<u>(2,473,263)</u>	<u>(1,756,963)</u>
Accounts receivable, net	<u>\$ 52,301,008</u>	<u>\$ 54,166,597</u>

**Note 4 Inventories, Net**

Inventories consist of the following:

	March 31,	
	2024	2023
Finished goods	\$ 22,061,470	\$ 17,886,665
Raw materials	760,515	-
Less: Inventories reserve	<u>(265,171)</u>	<u>(538,508)</u>
Total	<u>\$ 22,556,814</u>	<u>\$ 17,348,157</u>

**Unichem Pharmaceuticals (USA), Inc.**  
**Notes to the Financial Statements**  
**March 31, 2024 and 2023**

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**Note 5 Property and Equipment**

Property and equipment consist of the following:

	March 31,	
	2024	2023
Equipment	\$ 89,369	\$ 89,369
Furniture and fixtures	371,998	285,938
Computers	164,731	119,915
Computer software	<u>855,795</u>	<u>785,045</u>
Total	1,481,893	1,280,267
Less: Accumulated depreciation	<u>(1,122,851)</u>	<u>(995,046)</u>
Total	<u>\$ 359,042</u>	<u>\$ 285,221</u>

**Note 6 Stock Compensation**

As of June 30, 2018, as part of the president of the Company's employment agreement, the president was granted stock options of 352,000 shares of the Parent's common stock.

The option exercise price generally may not be less than the underlying stock's fair market value at the date of grant. Certain options and share awards provide for accelerated vesting if there is a change in control, as defined in the Plan.

Employee stock awards under the Company's compensation plans are accounted for in accordance with ASC 718 Compensation – Stock Compensation. This statement defines a fair value-based method of accounting for employee restricted stock awards. Under the fair value method, compensation cost is measured at the grant date of the option based on the value of the award and is recognized over the service period, which is the vesting period.

The Parent-issued options vests 50% at the end of the fourth year following the date of issuance of the grant of options and 50% at the end of the fifth year following the date of issuance of the grant of options. The values attributable to these options are amortized over the vesting period. The Company believes that the fair value of the options is more reliably measurable than the fair value of the services received. Included in officer and office salaries expense is approximately \$45,200 of costs related to options as of March 31, 2023.



**Unichem Pharmaceuticals (USA), Inc.**  
**Notes to the Financial Statements**  
**March 31, 2024 and 2023**

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**Note 6 Stock Compensation (Continued)**

The weighted average assumptions utilized for option grants during the year ended March 31, 2023 is as follows:

Expected volatility	32%
Expected option life (years)	5.00
Risk-free interest rate	2.68%
Expected dividend yield	1.74%

As of March 31, 2023 there was \$6,353 of total unrecognized compensation cost related to non-vested, share-based compensation arrangements, which is expected to be recognized over a weighted average period of approximately 0.25 years as of March 31, 2023.

A summary of stock option activity as of March 31, 2023 and changes during the year ended is as follows:

	Stock Options	Weighted Average Exercise Price
Balance April 1, 2022	352,000	\$3.71
Granted	-	-
Vested	-	-
Cancelled	-	-
Balance at March 31, 2023	<u>352,000</u>	<u>\$ 3.71</u>

In April 2023, the stock options for all 352,000 shares were surrendered back to the Parent.

During the year ended March 31, 2024, as part of the President of the Company's updated employment agreement, the President was granted stock options of 500,000 shares of the Parent's common stock. The Parent-issued options vests 50% after one year, 25% by May 1, 2025, and the remaining 25% by May 1, 2026. The values attributable to these options are amortized over the vesting period. The Company believes that the fair value of the options is more reliably measurable than the fair value of the services received. Included in officer and office salaries expense is approximately \$373,100 of costs related to options as of March 31, 2024.

The weighted average assumptions utilized for option grants during the current year ended March 31, 2024 are as follows:

Expected volatility	48%
Expected option life (years)	2.83
Risk-free interest rate	7.11%
Expected dividend yield	1.38%

**Unichem Pharmaceuticals (USA), Inc.**  
**Notes to the Financial Statements**  
**March 31, 2024 and 2023**

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**Note 6 Stock Compensation (Continued)**

As of March 31, 2024, there was \$368,483 of total unrecognized compensation cost related to non-vested, share-based compensation arrangements, which is expected to be recognized over a weighted average period of approximately 2.08 years as of March 31, 2024.

A summary of stock option activity as of March 31, 2024, and changes during the year ended is as follows:

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Balance at April 1, 2023	-	\$ -
Granted	500,000	4.51
Vested	-	-
Cancelled	-	-
	<u>500,000</u>	<u>\$ 4.51</u>
Balance at March 31, 2024	<u>500,000</u>	<u>\$ 4.51</u>

**Note 7 Line of Credit**

On June 27, 2019, the Company secured a line of credit with Citibank, N.A. in the amount of \$35,000,000 which has been extended to June 2025. The line of credit's interest rate in March 2024 and 2023 was equal to the 30-day SOFR rate plus 1.50%. The 30-day SOFR on March 31, 2024 and 2023 was 5.34% and 4.87%, respectively, which equated to an effective interest rate of 6.84% and 6.37%, respectively.

The borrowing base of the line of credit consisted of 85% of the eligible receivables, and 65% of eligible inventory, net of certain caps as defined in the credit agreement. The line of credit was also collateralized by substantially all of the assets of the Company.

In August 2020, the Company amended the line of credit with Citibank, N.A. to stipulate the trade payable with Unichem Laboratories, LTD to not be less than \$15,000,000 at any point in time.

The line of credit requires the Company meet to certain negative covenants. The Company was in compliance with all such covenants at March 31, 2024 and 2023. If the Company fails to meet these covenants, the commitments under the Revolving Credit Facility could be terminated and any outstanding borrowings, together with accrued interest, under the line of credit could be declared immediately due and payable.

**Unichem Pharmaceuticals (USA), Inc.**  
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**Note 7 Line of Credit (Continued)**

The schedule below presents the amount drawn on the line of credit and the unamortized financing costs associated with the debt acquisition:

	<u>March 31,</u>	
	<u>2024</u>	<u>2023</u>
Outstanding balance of the line of credit	\$ 15,449,988	\$ 20,638,137
Unamortized financing costs	<u>(34,583)</u>	<u>(60,250)</u>
Net line of credit balance	<u>\$ 15,415,405</u>	<u>\$ 20,577,887</u>

Amortization of the debt issuance costs is reported as interest expense in the statement of operations. Interest expense related to the amortization of financing costs was \$35,667 and \$46,388 for the years ended March 31, 2024 and 2023.

**Note 8 Gross-to-Net Product Sales**

The schedule below presents the Gross-to-Net product sales reconciliation for the years ended:

	<u>March 31,</u>	
	<u>2024</u>	<u>2023</u>
Gross sales	\$475,490,960	\$ 358,286,033
Chargebacks	(308,260,361)	(224,656,363)
Wholesaler rebates	(20,980,089)	(15,333,729)
Administrative fees	(11,187,136)	(10,803,237)
Prompt payment discount	(11,096,306)	(8,165,678)
Other reductions	(2,634,965)	(2,632,457)
Off invoice discounts	<u>(618,845)</u>	<u>(541,137)</u>
Net Sales	<u>\$120,713,258</u>	<u>\$ 96,153,432</u>

**Note 9 Income Taxes**

The Company periodically evaluates whether there are any uncertain tax positions requiring accounting recognition in the financial statements. Based on this evaluation, the Company has determined that there are no material uncertain tax positions requiring recognition or disclosure.

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**Note 9 Income Taxes (Continued)**

For the years ended March 31, 2024 and 2023, federal and state income taxes have been provided as follows:

	<u>March 31,</u>	
	<u>2024</u>	<u>2023</u>
<b>Current Tax</b>		
<b>Current</b>		
Federal income tax expense	\$ 591,704	\$ 1,036,402
State income tax expense	<u>64,000</u>	<u>93,000</u>
Total Current	655,704	1,129,402
<b>Deferred tax and other</b>		
Federal income tax benefit	107,000	(578,000)
State income tax benefit	<u>15,000</u>	<u>(78,000)</u>
Total Deferred	<u>122,000</u>	<u>(656,000)</u>
Total	<u>\$ 777,704</u>	<u>\$ 473,402</u>

The tax effect of temporary differences that gave rise to significant components of deferred tax assets and liabilities consisted of the following at March 31, 2024 and 2023:

	<u>March 31,</u>	
	<u>2024</u>	<u>2023</u>
<b>Deferred tax assets</b>		
Start-up cost	\$ 39,000	\$ 50,000
Inventory capitalization	67,000	74,000
Inventory allowance	-	331,000
Stock compensation	88,000	-
Accrued bonus	-	486,000
Accrued Medicaid	198,000	170,000
Donated product	466,000	171,000
Loss to lease	<u>18,000</u>	<u>12,000</u>
Deferred Tax Assets	876,000	1,294,000
Less: deferred tax liability: property plant and equipment	<u>(80,000)</u>	<u>(63,000)</u>
Total	<u>\$ 796,000</u>	<u>\$1,231,000</u>

Management determined that no valuation allowance is needed for the deferred tax asset at March 31, 2024 and 2023. 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.

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**Note 10 Related Party Transactions**

**Unichem Laboratories, LTD**

The Company purchases substantially all of its finished good inventory 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, 2024 and 2023 were \$98,598,636 and \$73,438,346, respectively.

At March 31, 2024 and 2023, the Company owed the Parent approximately \$28,696,000 and \$26,546,000, respectively, for purchases of inventory, which is included on the accompanying balance sheets. At March 31, 2024 and 2023, the Company had receivables from the Parent of approximately \$52,000 and \$8,000 respectively, which is included on the accompanying balance sheets.

**IPCA Laboratories**

IPCA Laboratories LTD ("IPCA") is the parent company of Unichem Laboratories, LTD. The Company purchased approximately \$260,000 of API from IPCA during the year ended March 31, 2024. At March 31, 2024 the Company owed IPCA approximately \$260,000 and is included in due to affiliates on the accompanying balance sheet.

**Bayshore Pharmaceutical**

Bayshore Pharmaceutical ("Bayshore") is an ultimate subsidiary of IPCA. The Company purchased approximately \$501,000 of API during the year ended March 31, 2024. At March 31, 2024, the Company owed Bayshore approximately \$501,000, which is included in due to affiliates on the accompanying balance sheets. At March 31, 2024, the Company had receivables from Bayshore of approximately \$278,000, for expense reimbursements, which is included on the accompanying balance sheet as accounts receivable, due from affiliates.

**SJD Group, L.L.C. ("SJD")**

During the years ended March 31, 2024 and 2023, the Company incurred legal fees for contract review to a law firm, SJD, that is owned by the spouse of the president of the Company. Amounts paid to SJD for the years ended March 31, 2024 and 2023 were approximately \$153,000 and \$157,000, respectively. As of March 31, 2024 and 2023, approximately \$6,100 and \$5,500, respectively, was owed to SJD and is included in accounts payable and accrued expenses.

**Unichem Pharmaceuticals (USA), Inc.**  
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**Note 11 Major Customers/Concentrations**

For the year ended March 31, 2024, three customers accounted for approximately 24%, 18% and 15% of net sales, respectively. In addition, two customers accounted for approximately 53% and 26%, respectively, of gross accounts receivable at March 31, 2024.

For the year ended March 31, 2023, three customers accounted for approximately 23%, 16%, and 15% of net sales, respectively. In addition, two customers accounted for approximately 57% and 25%, respectively, of gross accounts receivable at March 31, 2023.

**Note 12 Defined Contribution Plan**

The Company participates in a qualified retirement plan under Section 401(k) of the Internal Revenue Code (the "Code") that permits nonunion employees over the age of 21 to voluntarily contribute up to the maximum allowed under the Code. The Company matches 100% of employee contributions up to the first 3% of compensation and 50% of employee contributions between 3% and 5% of compensation (4% in total). Employer contributions for the years ended March 31, 2024 and 2023 were approximately \$135,000 and \$119,000, respectively and are included in payroll taxes and benefits on the accompanying statement of operations.

**Note 13 Commitments and Contingencies**

**Leases**

The Company leases office space in East Brunswick, NJ and Hasbrouck Heights, NJ, which expire March 2025 and May 2024, respectively. The Company also leases a copier, which will expire January 2027.

During the year ended March 31, 2023, the East Brunswick office lease was amended. The monthly rental payments based upon the initial lease were extended to August 2025. Additionally, the Company signed an agreement to lease additional floor space starting in November 2023. From the period November 2023 through August 2025, the Company will pay its landlord for their original office space, under the initial extension of the lease and the additional floor space as outlined in the second lease signed. After the initial lease expires in August 2025, the Company's original space will then be leased under the agreement which began in November 2023. The second lease will expire in November 2030.

On March 31, 2023, the Company adopted ASC 842 (see Note 2). The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Operating leases are included in operating lease right-of-use ("ROU") assets, short term operating lease liability and long-term operating lease liability in the accompanying balance sheet.

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**Note 13 Commitments and Contingencies (Continued)**

**Leases (Continued)**

The Company's lease agreements contain lease and variable components such as the Company's share of utility costs, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices.

Management only reassesses its determination if the terms and conditions of the contract are changed.

The following summarizes the weighted average remaining lease terms and discount rate for the years ended March 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
<b>Weighted Average Remaining Lease Term</b>		
Operating leases	6.60 years	1.77 years
<b>Weighted Average Discount Rate</b>		
Operating leases	4.18%	2.56%

The maturities of lease liabilities as of March 31, 2024 are as follows:

Years Ending March 31,

2025	\$ 366,245
2026	375,434
2027	382,450
2028	390,100
2029	397,901
Thereafter	<u>680,471</u>
Total lease payments	2,592,601
Less: interest	<u>(333,875)</u>
Present value of lease liabilities	<u>\$ 2,258,726</u>

As of January 1, 2022, the Company entered into an agreement to sublease their Hasbrouck Heights, NJ office space. The sublease expires when the lease terminates on May 31, 2024. The future lease payments are at a rate less than the required expenses for the same period, and as a result, the Company will be responsible for the shortfall and therefore impairing the ROU asset. The value of the shortfall as of March 31, 2024 was approximately \$7,300 which is included as part of the ROU asset on the accompanying balance sheet.

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**Note 13 Commitments and Contingencies (Continued)**

**Leases (Continued)**

The future aggregate minimum rental payments under the operating leases applicable to the subleased space are as follows:

Year Ending March 31, 2025	\$ <u>23,422</u>
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The approximate future rental income from the sublease are as follows:

Year Ending March 31, 2025	\$ <u>16,116</u>
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The following summarizes the components of lease expense, which is reflected as rent, on the statement of operations for the year ended March 31, 2024:

Operating lease expense	\$ 313,328
Variable lease expense	24,042
Sublease income	<u>(96,693)</u>
Total	<u>\$ 240,677</u>

**Letters of Credit**

At March 31, 2024 and 2023, the Company was contingently liable under an outstanding letter of credit totaling \$50,000 which was issued as a security deposit for the Hasbrouck Heights space.

**Additional Executive Compensation**

One aspect of the employment agreement signed with the president of the Company on May 31, 2018, indicated that they were entitled to additional compensation of no less than \$2,000,000 at the end of the five-year employment agreement or on the date the Parent accelerates the vesting schedule. At inception of the agreement, it was anticipated that this additional compensation would be paid to the executive via stock options in the stock of the Parent. However, with the surrender of the stock options, see Note 6, the executive was paid the entire additional compensation in cash. By March 31, 2023, the entire \$2,000,000 of additional compensation has been expensed through officers and office salaries within the statement of operations.

**Note 14 Subsequent Events**

Subsequent to the end of the year, a related entity has begun to temporarily occupy a limited number of desks in the Company's office. The related entity is paying approximately \$800 per desk per month, on a month-to-month basis, and either party is able to terminate the agreement without notice.