

**ALEMBIC PHARMACEUTICALS, INC.**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**MARCH 31, 2017**

# ALEMBIC PHARMACEUTICALS, INC.

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## **Independent Auditor's Report**

Board of Directors and Stockholder  
**Alembic Pharmaceuticals, Inc.**  
Bridgewater, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Alembic Pharmaceuticals, Inc. (the "Entity"), which comprise the balance sheet as of March 31, 2017, and the related statements of income, changes in stockholder's equity, and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 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 Entity'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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Alembic Pharmaceuticals, Inc. as of March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

The March 31, 2016 financial statements were reviewed by us and our report thereon, dated April 7, 2016, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

*Acquavella, Chiarelli, Hunter, LLP*

Iselin, New Jersey  
April 20, 2017

# ALEMBIC PHARMACEUTICALS, INC.

## BALANCE SHEETS

|   | March 31, 2017<br>[Audited] | March 31, 2016<br>[Reviewed] |
|---|-----------------------------|------------------------------|
| <b>ASSETS</b>   |                             |                              |
| Current assets:   |                             |                              |
| Cash  | \$ 4,143,575                | \$ 98,803                    |
| Accounts receivable   | 32,127,083                  | 4,517,300                    |
| Inventory   | 16,325,930                  | 4,339,884                    |
| Prepaid expenses  | 256,286                     | 155,867                      |
| Prepaid taxes   | 291,060                     | -                            |
| Total current assets  | 53,143,934                  | 9,111,854                    |
| Property and equipment  | 34,611                      | 38,846                       |
| Deferred taxes  | 1,056,481                   | 15,104                       |
| Other assets  | 22,243                      | 13,526                       |
| Total assets  | \$ 54,257,269               | \$ 9,179,330                 |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>   |                             |                              |
| Current liabilities:  |                             |                              |
| Accounts payable and accrued expenses   | \$ 2,512,069                | \$ 100,853                   |
| Accrued chargebacks and other sales deductions  | 29,660,124                  | 2,505,488                    |
| Due to Parent   | 20,517,196                  | 6,453,472                    |
| Total current liabilities   | 52,689,389                  | 9,059,813                    |
| Deferred lease payments   | 19,127                      | 24,592                       |
| Employee related obligations  | 760,000                     | -                            |
| Total liabilities   | 53,468,516                  | 9,084,405                    |
| Stockholder's equity  |                             |                              |
| Preferred stock, \$1.00 par value, 200,000 shares authorized,<br>0 shares issued and outstanding      | -                           | -                            |
| Common stock, \$1.00 par value, 1,000,000 shares authorized,<br>120,000 shares issued and outstanding | 120,000                     | 120,000                      |
| Retained earnings (deficit)   | 668,753                     | (25,075)                     |
| Total stockholder's equity  | 788,753                     | 94,925                       |
| Total liabilities and stockholder's equity  | \$ 54,257,269               | \$ 9,179,330                 |

The Notes to Financial Statements are an integral part of this statement.

# ALEMBIC PHARMACEUTICALS, INC.

## STATEMENTS OF OPERATIONS

|   | Year Ended                  |                              |
|---|-----------------------------|------------------------------|
|   | March 31, 2017<br>[Audited] | March 31, 2016<br>[Reviewed] |
| Net revenues                                    | \$ 60,026,378               | \$ 2,468,286                 |
| Cost of sales                                   | <u>28,037,165</u>           | <u>938,965</u>               |
| Gross profit                                    | 31,989,213                  | 1,529,321                    |
| Operating expenses                              |                             |                              |
| Selling, general and administrative             | <u>30,841,235</u>           | <u>1,569,500</u>             |
| Income (loss) from operations                   | 1,147,978                   | (40,179)                     |
| Other income (expense)                          |                             |                              |
| Interest income                                 | <u>8,703</u>                | <u>-</u>                     |
| Income (loss) before provision for income taxes | 1,156,681                   | (40,179)                     |
| Provision for (benefit from) income taxes       | <u>462,853</u>              | <u>(15,104)</u>              |
| Net income (loss)                               | <u>\$ 693,828</u>           | <u>\$ (25,075)</u>           |
| Basic and diluted earnings per share            | \$ 5.78                     | \$ (0.21)                    |
| Weighted average shares outstanding             | 120,000                     | 120,000                      |

The Notes to Financial Statements are an integral part of this statement.

# ALEMBIC PHARMACEUTICALS, INC.

## STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

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|                                | <u>Common<br/>Stock</u> | <u>Retained<br/>Earnings<br/>(Deficit)</u> | <u>Total<br/>Stockholder's<br/>Equity</u> |
|--------------------------------|-------------------------|--|---|
| <b>Balance, April 1, 2015</b>  | \$ 120,000              | \$ -                                       | \$ 120,000                                |
| Net loss                       | <u>-</u>                | <u>(25,075)</u>                            | <u>(25,075)</u>                           |
| <b>Balance, March 31, 2016</b> | <u>\$ 120,000</u>       | <u>\$ (25,075)</u>                         | <u>\$ 94,925</u>                          |
| <b>Balance, April 1, 2016</b>  | \$ 120,000              | \$ (25,075)                                | \$ 94,925                                 |
| Net income                     | <u>-</u>                | <u>693,828</u>                             | <u>693,828</u>                            |
| <b>Balance, March 31, 2017</b> | <u>\$ 120,000</u>       | <u>\$ 668,753</u>                          | <u>\$ 788,753</u>                         |

The Notes to Financial Statements are an integral part of this statement.

# ALEMBIC PHARMACEUTICALS, INC.

## STATEMENTS OF CASH FLOWS

|  | Year Ended                  |                              |
|--|-----------------------------|------------------------------|
|  | March 31, 2017<br>[Audited] | March 31, 2016<br>[Reviewed] |
| <b>Cash flows from operating activities</b>  |                             |                              |
| Net income (loss)  | \$ 693,828                  | \$ (25,075)                  |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                             |                              |
| Deferred lease payments  | (5,465)                     | 24,592                       |
| Deferred tax benefit   | (1,041,377)                 | (15,104)                     |
| Reserve for bad debts  | 205,554                     | -                            |
| Depreciation   | 7,806                       | 4,329                        |
| Changes in operating assets and liabilities:   |                             |                              |
| Increase in accounts receivable  | (27,815,337)                | (4,517,300)                  |
| Increase in inventory  | (11,986,046)                | (4,339,884)                  |
| Increase in prepaid expenses   | (100,419)                   | (155,867)                    |
| Increase in accounts payable and accrued expenses                                    | 2,411,216                   | 100,853                      |
| Increase in accrued chargebacks and other sales deductions                           | 27,154,636                  | 2,505,488                    |
| Increase in deferred compensation  | 760,000                     | -                            |
| Increase in prepaid taxes  | (291,060)                   | -                            |
| Increase in purchases payable - parent   | 15,669,560                  | 4,847,636                    |
| <b>Net cash provided by (used in) operating activities</b>                           | <b>5,662,896</b>            | <b>(1,570,332)</b>           |
| <b>Cash flows from investing activities:</b>   |                             |                              |
| Payment of security deposits   | -                           | (13,526)                     |
| Employee advances  | (8,717)                     | -                            |
| Purchase of equipment  | (3,571)                     | (43,175)                     |
| <b>Net cash used in investing activities</b>   | <b>(12,288)</b>             | <b>(56,701)</b>              |
| <b>Cash flows from financing activities:</b>   |                             |                              |
| Funds received for common stock issued in prior year                                 | -                           | 120,000                      |
| (Repayments to) advances from parent   | (1,605,836)                 | 1,605,836                    |
| <b>Net cash provided by (used in) financing activities</b>                           | <b>(1,605,836)</b>          | <b>1,725,836</b>             |
| <b>Net increase in cash</b>  | <b>4,044,772</b>            | <b>98,803</b>                |
| <b>Cash, beginning of year</b>   | <b>98,803</b>               | <b>-</b>                     |
| <b>Cash, end of year</b>   | <b>\$ 4,143,575</b>         | <b>\$ 98,803</b>             |
| <b>Supplement disclosure of cash flow information</b>                                |                             |                              |
| Cash paid during the year for:   |                             |                              |
| Taxes  | <b>\$ 1,795,744</b>         | <b>\$ 769</b>                |

The Notes to Financial Statements are an integral part of this statement.



# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations*

Alembic Pharmaceuticals, Inc. (the “Company”), a Delaware corporation, is a wholly owned subsidiary of Alembic Global Holding S.A, and is engaged in the marketing and distribution of generic pharmaceutical products for resale by others. While the Company was incorporated in 2012, operations began in 2015. The Company sells its products directly to wholesalers, retail drug store chains, drug distributors, mail order pharmacies and other direct purchasers as well as customers that purchase its products indirectly through the wholesalers, including independent pharmacies, non-warehousing retail drug store chains, managed health care providers and other indirect purchasers.

#### *Basis of Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as detailed in the Financial Accounting Standards Board’s Accounting Standards Codification. The financial statements have been prepared on the accrual basis.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates because of the uncertainty inherent in such estimates. The Company makes significant estimates in many areas of its accounting, including but not limited to the following: sales returns, chargebacks, allowances and discounts, inventory obsolescence, the useful lives of property and equipment and its impairment and accruals.

#### *Accounting Pronouncements*

Management has reviewed recent accounting pronouncements adopted or proposed that management believes will have a material impact on the Company’s financial statements. There were none that affected the financial statements for the year ended March 31, 2017.

#### *Reclassification*

The presentation of certain prior year balances have been reclassified to conform to the current year presentation.

#### *Cash and Cash Equivalents*

Cash and cash equivalents are highly liquid debt instruments with original maturities of three months or less. As of March 31, 2017 and 2016, the Company did not have any cash equivalents.

#### *Inventory Valuation*

Inventories consist of finished goods including goods in transit that are stated at the lower of cost or market, with cost being determined by the weighted average cost method. The Company considers obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

#### *Deferred Lease*

Rent of its office in Bridgewater, NJ is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent (See Note 9). The deferred lease liability at March 31, 2017 and 2016 was \$19,127 and \$24,592, respectively.

#### *Property and Equipment*

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed and recorded on a straight-line basis over the assets' estimated service lives which range from three to ten years.

#### *Impairment of Long Lived Assets*

The Company evaluates and records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired using the undiscounted cash flows estimated to be generated by those assets. Long-lived assets to be disposed of are reported at the lower of their carrying amounts or fair values less disposal costs. There were no impairment of long lived assets during the years ended March 31, 2017 and 2016.

#### *Revenue Recognition*

Revenue is recognized for product sales at the time of shipment of the product to the customer. Provisions are recorded for discounts, rebates, promotional adjustments, price adjustments, returns, chargebacks and other potential adjustments when they are reasonably determinable.

Consistent with industry practice, the company maintains a return policy that allows customers to return product within a specified period of time prior and subsequent to the expiration date. The Company's estimate of the provision for returns is based on industry experience and current evaluation.

#### *Accounts Receivable and Credit Policy*

Accounts receivable are due under the normal terms which generally range from sixty to ninety days from the invoice date. Accounts receivable are stated at amounts billed less chargebacks submitted by the customer. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice.

#### *Chargebacks*

The Company enters into contractual agreements with certain third parties such as pharmacies and group-purchasing organizations to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers that buy products from the Company and subsequently sell them to these third parties. When a wholesaler sells products to one of these third parties that are subject to a contractual price agreement, the difference between the price paid to the Company by the wholesaler and the price under the specific contract is charged back to the Company by the wholesaler. The Company tracks sales and submitted chargebacks by product number and contract for each wholesaler. Utilizing this information, the Company estimates a chargeback percentage for each product. The Company reduces gross sales and increases the chargeback allowance by the estimated chargeback amount for each product sold to a wholesaler. When an actual chargeback request is received from a wholesaler, the Company reduces the chargeback allowance when it processes the chargeback. Actual chargebacks processed by the Company can vary materially from period to period based upon actual sales volume through the wholesalers. However, the Company's expense provision for chargebacks is recorded at the time when sales revenues are recognized.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

#### *Chargebacks (Continued)*

Management obtains periodic wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. The Company evaluates the reasonableness of its chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand based on each wholesaler's inventory reports and an estimate of inventory in transit to the wholesaler at the end of the period. In accordance with its accounting policy, the Company's estimate of the percentage amount of wholesaler inventory that will ultimately be sold to a third party that is subject to a contractual price agreement is based on the trend of such sales through wholesalers. The Company uses the established percentage estimate based on industry experience and evaluation of current trends.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative (SG&A) expenses are comprised primarily of salaries, benefits and other staff-related costs associated with sales and marketing, finance, and other administrative personnel; facilities and overhead costs; outside marketing, distribution costs, advertising and legal expenses and other general and administrative costs, as well as customer shipping costs.

#### *Advertising*

Advertising costs are expensed as incurred and are included in Selling, General and Administrative Expenses. Advertising expense for the years ended March 31, 2017 and 2016 were \$303,277 and \$38,490, respectively.

#### *Distribution Fees*

The Company pays distribution fees to its parent for the right to sell merchandise in the United States of America. The distribution agreement began on April 1, 2016. The distribution fees for the period ended March 31, 2017 were \$22,416,933 and are included in Selling, General and Administrative Expenses.

#### *Freight*

Freight billed on purchases of inventory is included in the cost of sales.

#### *Income Taxes*

The Company files federal and state tax returns as a Corporation.

Deferred income taxes arise as a result of timing differences between income per books and income reported for tax purposes. The Company is liable for federal, state and local taxes as applicable. The amount of current and deferred taxes payable or receivable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more than likely not be realized. The net deferred tax benefit for the years ended March 31, 2017 and 2016 were \$1,056,481 and \$15,104, respectively (See note 6).

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

### 2. Inventory

The components of inventory consist of the following at March 31:

|                             | <u>2017</u>          | <u>2016</u>         |
|-----------------------------|----------------------|---------------------|
| Finished goods              | \$ 13,295,294        | \$ 2,799,811        |
| In transit – Finished goods | <u>3,030,636</u>     | <u>1,540,073</u>    |
|                             | <u>\$ 16,325,930</u> | <u>\$ 4,339,884</u> |

### 3. Prepaid Expenses

Prepaid expenses are comprised of the following at March 31:

|                                    | <u>2017</u>      | <u>2016</u>      |
|------------------------------------|------------------|------------------|
| Prepaid insurance                  | \$182,674        | \$ 66,899        |
| Prepaid conference expense         | 32,750           | 45,360           |
| Membership dues and other expenses | <u>40,862</u>    | <u>43,608</u>    |
|                                    | <u>\$256,286</u> | <u>\$155,867</u> |

### 4. Property and Equipment

Property and equipment consists of following at March 31:

|                                | Estimated Useful<br>Life (Years) | <u>2017</u>     | <u>2016</u>     |
|--------------------------------|----------------------------------|-----------------|-----------------|
| Office furnishing              | 10                               | \$25,291        | \$25,291        |
| Office equipment               | 5                                | 9,462           | 9,462           |
| Computer equipment             | 3-6                              | <u>11,993</u>   | <u>8,422</u>    |
|                                |                                  | 46,746          | 43,175          |
| Less: Accumulated depreciation |                                  | <u>12,135</u>   | <u>4,329</u>    |
|                                |                                  | <u>\$34,611</u> | <u>\$38,846</u> |

Depreciation expense charged to operations amounted to \$7,806 and \$4,329 for the years ended March 31, 2017 and 2016, respectively.

### 5. Capital Stock Transactions

On October 13, 2015, the Company's stockholder approved an amendment to the Company's Articles of Incorporation to increase the par value of its Common and Preferred Stock to \$1.00 per share. The March 31, 2016 shares have been restated to reflect this amendment. There were no preferred shares outstanding at March 31, 2017 and 2016.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

### 6. Income Taxes

The Company is required to file income tax returns in the federal and various state jurisdictions.

Total income tax provision (benefit) for the years ended March 31 consisted of the following:

|                                      | <u>2017</u>       | <u>2016</u>       |
|--------------------------------------|-------------------|-------------------|
| Current - federal                    | \$1,234,557       | \$ -              |
| Current - state                      | 269,673           | -                 |
| Deferred - federal                   | (854,869)         | (11,776)          |
| Deferred - state                     | (186,508)         | (3,328)           |
| Total income tax provision (benefit) | <u>\$ 462,853</u> | <u>\$(15,104)</u> |

The effective tax rates for the years ended March 31, 2017 and 2016 were 39.62% and 40.85%, respectively.

The components of the Company's deferred tax assets and (liabilities) consist of the following as at March 31:

|   | <u>2017</u>        | <u>2016</u>       |
|---|--------------------|-------------------|
| Current deferred tax assets (liabilities):      |                    |                   |
| NOL carry forward                               | \$ -               | \$ 543            |
| Accounts receivable                             | 76,125             | -                 |
| Prepaid expenses                                | -                  | (18,273)          |
| Total current deferred tax assets (liabilities) | <u>\$ 76,125</u>   | <u>\$(17,730)</u> |
| Non current deferred tax assets:                |                    |                   |
| Accrued liabilities                             | \$ 671,637         | \$22,789          |
| Deferred compensation                           | 301,140            | -                 |
| Deferred lease payments                         | 7,579              | 10,045            |
| Total non-current deferred tax assets           | <u>\$ 980,356</u>  | <u>\$ 32,834</u>  |
| Net deferred tax assets                         | <u>\$1,056,481</u> | <u>\$ 15,104</u>  |

### 7. Related Party Transactions

During the years ended March 31, 2017 and 2016, the Company entered into the following transactions with its parent:

|                                      | <u>2017</u>  | <u>2016</u> |
|--------------------------------------|--------------|-------------|
| Inventory purchases from Parent      | \$45,865,236 | \$4,847,636 |
| Distribution fees charged by Parent  | \$22,416,933 | \$ -        |
| Advances from Parent                 | \$ -         | \$1,605,836 |
| Total due to Parent (as of March 31) | \$20,517,196 | \$6,453,472 |

The outstanding balance due to the parent has specific payment terms. There was no distribution fees during the year ended March 31, 2016.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

### 8. Leased Employees and 401(K) Savings Plan

As of March 31, 2017, the Company leased all of its employees from CoAdvantage, Inc. ("CoAdvantage"), under a renewable leasing arrangement, that charges the Company for the cost of compensating leased employees plus the costs of the related taxes, benefits, vacation pay, and an administrative fee.

The Company offers its employees the opportunity to participate in a 401(K) savings plan through CoAdvantage. The eligible employees of the Company may participate in the plan, where they may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length of service requirements. The Company does not match employee contributions.

### 9. Commitments and Contingencies

#### *Lease Commitments*

The Company leases office space at 750 Highway 202, Bridgewater, New Jersey. The lease requires minimum annual rentals plus operating expenses through September 30, 2020. The Company has an option to renew the lease for an additional five year term. Rent expense, including deferred rent, for the years ended March 31, 2017 and 2016 were \$102,742 and \$60,786, respectively.

Minimum rental commitments at March 31, 2017 for the years ending through the expiration of the initial lease term are:

|                |                  |
|----------------|------------------|
|                | <u>2017</u>      |
| March 31, 2018 | \$108,207        |
| March 31, 2019 | 108,207          |
| March 31, 2020 | 108,207          |
| March 31, 2021 | <u>54,104</u>    |
| Total          | <u>\$378,725</u> |

### 10. Accounts Receivable

Accounts receivable is comprised of the following at March 31:

|  | <u>2017</u>         | <u>2016</u>        |
|--|---------------------|--------------------|
| Accounts receivable                          | \$32,332,637        | \$4,517,300        |
| Less: Reserve for bad debts                  | <u>205,554</u>      | <u>-</u>           |
| Accounts receivable, net                     | 32,127,083          | 4,517,300          |
| Less: Sales related deductions (See Note 11) | <u>23,620,769</u>   | <u>2,098,970</u>   |
| Accounts receivable, net of all deductions   | <u>\$ 8,506,314</u> | <u>\$2,418,330</u> |

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

### 11. Accrued Chargebacks and Other Sales Deductions

Accrued chargebacks and other sales deductions are comprised of the following at March 31:

|  | <u>2017</u>         | <u>2016</u>        |
|--|---------------------|--------------------|
| Accrued chargebacks                                  | \$12,349,343        | \$1,553,845        |
| Other sales deductions                               | <u>11,271,426</u>   | <u>545,125</u>     |
| Sales related deductions (See Note 10)               | 23,620,769          | 2,098,970          |
| Rebates and administration fees                      | 4,574,102           | 350,731            |
| Sales returns  | <u>1,465,253</u>    | <u>55,787</u>      |
| Total accrued chargebacks and other sales deductions | <u>\$29,660,124</u> | <u>\$2,505,488</u> |

### 12. Significant Concentrations

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable.

#### *Cash*

The Company maintains its cash in bank deposit accounts that, at times, may exceed the federally insured limit up to \$250,000 per depositor per bank. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

#### *Customers*

For the year ended March 31, 2017, sales to three major pharmaceutical wholesale customers were approximately 41%, 14% and 12% of sales, respectively. These customers represented approximately 88% of the accounts receivable at March 31, 2017.

For the year ended March 31, 2016, sales to two major pharmaceutical wholesale customers were approximately 56% and 16% of sales, respectively. These customers represented approximately 73% of the accounts receivable at March 31, 2016.

#### *Vendors*

The Company has contracted with Life Science Logistics (“LSL”) for warehousing and distribution services since October 2015. If these services were interrupted, the Company would need to engage another service provider to replace LSL. While there are a number of options available to the Company, such an interruption of services could cause a delay in processing customer orders.

The Company purchases 100% of its inventory from its parent company, Alembic Global Holdings, S.A.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### **13. Employee Related Obligations**

The Company has a deferred compensation plan for a highly compensated associate. Under the plan, a certain amount is accrued each year based on the performance of the Company. The amount deferred for each fiscal year will be paid after four years. For the year ended March 31, 2017, the total amount deferred under this plan was \$760,000 and will be paid on March 31, 2021. This accrued amount has been included in the balance sheet under Employee Related Obligations and the related expenses have been included in Selling, General and Administrative Expenses.

### **14. Subsequent Events**

For the year ended March 31, 2017, the Company has evaluated subsequent events for potential recognition and disclosure through April 20, 2017, the date the financial statements were available to be issued. The Company has determined that there were no subsequent events that would require disclosure in the financial statements.