

**ALEMBIC PHARMACEUTICALS, INC.**  
**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**  
**AND**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2016**

# ALEMBIC PHARMACEUTICALS, INC.

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## **Independent Accountant's Review Report**

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

We have reviewed the accompanying financial statements of **Alembic Pharmaceuticals, Inc.**, which comprise the balance sheet as of March 31, 2016, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### ***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.

### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*Acquavella, Chiarelli, Shuster & Co., LLP*

Iselin, New Jersey  
April 7, 2016

# ALEMBIC PHARMACEUTICALS, INC.

## BALANCE SHEET

March 31, 2016

### ASSETS

#### Current assets:

Cash	\$	98,803
Accounts receivable		4,517,300
Inventory		4,339,884
Prepaid expenses		155,867
Total current assets		9,111,854
Property and equipment, net of accumulated depreciation		38,846
Deferred tax asset		30,602
Other assets		13,526
Total assets	\$	9,194,828

### LIABILITIES AND STOCKHOLDER'S EQUITY

#### Current liabilities:

Accounts payable and accrued expenses	\$	2,606,341
Deferred tax liability		15,498
Due to Parent		6,453,472
Total current liabilities		9,075,311
Deferred lease payments		24,592
Total liabilities		9,099,903
Stockholder's equity		
Common stock, \$1.00 par value, 1,000,000 shares authorized, 120,000 shares issued and outstanding		120,000
Accumulated deficit		(25,075)
Total stockholder's equity		94,925
Total liabilities and stockholder's equity	\$	9,194,828

See independent accountants' review report.

# ALEMBIC PHARMACEUTICALS, INC.

## STATEMENT OF OPERATIONS

		Year Ended March 31, 2016
<b>Net revenues</b>		\$ 2,468,286
<b>Cost of sales</b>		<u>938,965</u>
Gross profit		<u>1,529,321</u>
<b>Operating expenses</b>		
Selling, general and administrative expenses		<u>1,569,500</u>
<b>Loss before income tax benefits</b>		(40,179)
<b>Net income tax benefit</b>		<u>15,104</u>
<b>Net loss</b>		<u>\$ (25,075)</u>
<b>Basic and diluted earnings per share</b>		\$ (0.21)
<b>Weighted average shares outstanding</b>		120,000

See independent accountants' review report.

# ALEMBIC PHARMACEUTICALS, INC.

## STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

	Year Ended March 31, 2016		
	<u>Common Stock</u>	<u>Accumulated Deficit</u>	<u>Total Stockholder's Equity</u>
Balance, April 1, 2015	\$ 120,000	\$ -	\$ 120,000
Net loss	-	(25,075)	(25,075)
Balance, March 31, 2016	<u>\$ 120,000</u>	<u>\$ (25,075)</u>	<u>\$ 94,925</u>

See independent accountants' review report.

# ALEMBIC PHARMACEUTICALS, INC.

## STATEMENT OF CASH FLOWS

Year Ended March 31, 2016

<b>Cash flows from operating activities</b>	
Net income	\$ (25,075)
Adjustments to reconcile net loss to net cash used in operating activities:	
Deferred lease payments	24,592
Deferred tax benefit	(15,104)
Depreciation	4,329
Changes in operating assets and liabilities:	
Increase in accounts receivable	(4,517,300)
Increase in inventory	(4,339,884)
Increase in prepaid expenses	(155,867)
Increase in accounts payable and accrued expenses	2,606,341
<b>Net cash used in operating activities</b>	<u>(6,417,968)</u>
<b>Cash flows from investing activities:</b>	
Payments of security deposits	(13,526)
Purchase of equipment	(43,175)
<b>Net cash used in investing activities</b>	<u>(56,701)</u>
<b>Cash flows from financing activities:</b>	
Funds received for common stock issued in prior year	120,000
Advances from Parent	6,453,472
<b>Net cash provided by financing activities</b>	<u>6,573,472</u>
<b>Net increase in cash</b>	98,803
<b>Cash, beginning of year</b>	<u>-</u>
<b>Cash, end of year</b>	<u>\$ 98,803</u>
<b>Supplement disclosure of cash flow information</b>	
Cash paid during the year for:	
Taxes	<u>\$ 769</u>

See independent accountants' review report.

# 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, a wholly owned subsidiary of Alembic Global Holding S.A, 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.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to credit risk consist primarily of cash accounts held in excess of \$250,000. The Company maintains deposit balances at times in excess of federally insured amounts.

#### *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, 2016.

#### *Inventory Valuation*

Inventories, consists of finished goods and goods in transit that are stated at the lower of cost or market, with cost being determined by first-in, first-out (“FIFO”) method. The Company also considers obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

#### *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 10). The deferred lease liability at December 31, 2015 was \$24,592.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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

#### *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.

#### *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 generally based upon historical experience.

#### *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.

Management obtains periodic wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. The Company assesses the reasonableness of its chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand per the wholesaler 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 a the trend of such sales through wholesalers. The Company uses the established percentage estimate until historical and current trends indicate that a revision should be made.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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

#### *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, advertising and legal expenses and other general and administrative costs, as well as customer shipping costs. Advertising costs are expensed as incurred. Advertising expense for the year ended March 31, 2016 amounted to \$38,490.

#### *Freight*

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

#### *Income Taxes*

The Company files federal and state tax returns.

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 year ended March 31, 2016 was \$15,104.

### 2. Inventory

The components of inventory consist of the following at March 31, 2016:

Finished goods	\$2,799,811
In transit – Finished goods	<u>1,540,073</u>
	<u>\$4,339,884</u>

### 3. Prepaid Expenses

Prepaid expenses are comprised of the following at March 31, 2016:

Prepaid insurance	\$ 66,899
Prepaid conference expense	45,360
Membership dues	<u>43,608</u>
	<u>\$155,867</u>

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

### 4. Property and equipment

Property and equipment consists of following at March 31, 2016:

	Estimated useful life (Years)	
Office furnishing	10	\$25,291
Office equipment	5	9,462
Computer equipment	3-6	<u>8,422</u>
		43,175
Less: Accumulated Depreciation		<u>4,329</u>
		<u>\$38,846</u>

Depreciation expense was \$4,329 for the year ended March 31, 2016.

### 5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expense are comprised of the following at March 31, 2016:

Accounts payable	\$ 100,853
Accrued sales allowances	2,154,758
Accrued customer service fee	<u>350,730</u>
	<u>\$2,606,341</u>

### 6. 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.

### 7. Income Taxes

The Company's total deferred tax assets and liabilities as of March 31, 2016 are as follows:

Total deferred tax assets	\$30,602
Valuation allowance	<u>-</u>
Net deferred tax assets	30,602
Net deferred tax liabilities	<u>(15,498)</u>
Net deferred income tax asset	<u>\$15,104</u>

The Company's deferred tax asset consists of benefits from carry forward of net operating losses, prepaid expenses and the deferred tax liabilities consist tax expense related to accrued sales allowances.

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 8. Related Party Transactions

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

Purchases from Parent	\$4,847,636
Advances from Parent	\$1,605,836
Total due to Parent	\$6,453,472

The outstanding balance due to the parent is non interest bearing and has no fixed repayment terms.

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

As of March 31, 2016, the Company leased all of its employees from CoAdvantage, Inc. ("CoAdvantage"), under a renewable leasing arrangement, which 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, whereby, 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.

### 10. Commitments and Contingencies

#### Lease Commitments

The Company leases office space at 750 Highway 202, Bridgewater, New Jersey. The lease requires minimum annual rental 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 year ended March 31, 2016 was \$60,786.

Minimum rental commitments at March 31, 2016 for the years ending through the expiration of the initial lease term are:

March 31, 2017	\$116,065
March 31, 2018	116,065
March 31, 2019	116,065
March 31, 2020	<u>58,028</u>
Total	<u>\$406,223</u>

# ALEMBIC PHARMACEUTICALS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 11. Significant Concentrations

#### *Customers*

For the year ended March 31, 2016, sales to two major pharmaceutical wholesale customers were approximately 56.04% and 16.45% of sales, respectively. These customers represented approximately 73.18% of the accounts receivable at March 31, 2016.

#### *Vendors*

The Company has contracted with Life Science Logistics (“LSL”) for warehousing and shipping drug order distribution services since October 2015. If those 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.

### 12. Subsequent Events

For the year ended March 31, 2016, the Company has evaluated subsequent events for potential recognition and disclosure through April 7, 2016, the date the financial statements were available to be issued. The Company has determined that there were no subsequent events which would require disclosure in the financial statements.