Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries

(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

Years Ended March 31, 2017 and 2016

Consolidated Financial Statements

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SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES

(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

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INDEPENDENT AUDITORS' REPORT

June 9, 2017

Board of Directors and Shareholders
Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries
Princeton, New Jersey

We have audited the accompanying consolidated financial statements of *Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries* (the "Company"), which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Sun Pharmaceutical Holdings USA, Inc. and Subsidiaries*** as of March 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Corporate Reorganization

As described in Note 1, the entities included in these consolidated financial statements have been changed to give comparative effect to a change in organization resulting from the formation of a holding company by the Company's ultimate parent and a simultaneous transaction involving the transfer of businesses under common ownership and control. Our opinion is not modified with respect to this matter.

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

ASSETS	March 31 2017	March 31 2016
Current assets		
Cash and cash equivalents	$ 85,335	$ 155,101
Accounts receivable, net	368,702	422,011
Due from related parties	359,001	276,039
Inventories	288,458	439,821
Refundable income taxes	21,404	-
Prepaid expenses and deposits	41,226	45,540
Current portion of note receivable	14,763	5,000
Deferred income taxes	35,665	63,099
Total current assets	**1,214,554**	**1,406,611**
Property, plant and equipment		
Land	3,204	6,324
Buildings and improvements	167,622	177,807
Equipment	186,229	223,682
Furniture and fixtures	6,477	8,843
Construction in process	24,501	15,879
Total	388,033	432,535
Less accumulated depreciation	199,193	220,360
Net property, plant and equipment	**188,840**	**212,175**
Investment in affiliate and unconsolidated subsidiaries	97,805	67,474
Goodwill	80,992	80,992
Other intangible assets, net	168,260	206,691
Note receivable, net of current portion	14,888	4,000
Deferred income taxes	23,752	24,659
Total assets	**$ 1,789,091**	**$ 2,002,602**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31	
	2017	2016
Current liabilities		
Accounts payable, trade	$ 80,094	$ 46,655
Accounts payable, Sun Limited and affiliates	281,596	559,905
Accrued expenses	175,924	158,222
Short-term borrowings	310,000	310,000
Contingent liability on acquisition	11,625	10,687
Current portion of long-term debt	755	724
Income taxes payable	5,013	26,525
Current portion of capital lease obligation	604	489
Total current liabilities	**865,611**	**1,113,207**
Advances from affiliate	174,376	174,376
Contingent liability on acquisition, net of current portion	8,356	17,191
Long-term debt, net of current portion	16,734	17,489
Capital lease obligation, net of current portion	10,187	10,790
Total liabilities	**1,075,264**	**1,333,053**
Commitments and contingencies (Notes 11, 13, 15, 17, and 18)		
Shareholders' equity		
Controlling interest		
Common stock	-	-
Additional paid-in capital	683,207	671,744
Retained earnings	62,694	28,360
Accumulated other comprehensive income	7,193	-
Total controlling interest	753,094	700,104
Affiliated interest	(39,267)	(30,555)
Total shareholders' equity	**713,827**	**669,549**
Total liabilities and shareholder's equity	**$ 1,789,091**	**$ 2,002,602**

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands)

	Year Ended March 31	
	2017	**2016**
Net sales	$ 1,346,639	$ 1,208,011
Other operating revenue	20,646	9,051
Total revenue	**1,367,285**	**1,217,062**
Cost of goods sold	958,190	878,812
Selling, general and administrative expenses	300,143	258,769
Research and development costs	48,160	49,066
Operating income	**60,792**	**30,415**
Other (expense) income		
Interest expense	(12,817)	(11,941)
Interest income	449	274
(Losses) earnings from unconsolidated subsidiaries	(3,380)	4,628
Other income	541	308
(Loss) gain on sale of property, plant, and equipment	(1,745)	8,448
Gain on sale of intangible assets	-	7,148
Loss on impairment of property, plant, and equipment	-	(34,232)
Other expense, net	**(16,952)**	**(25,367)**
Income before income taxes	**43,840**	**5,048**
Income taxes (benefit)	18,218	(12,536)
Net income	**25,622**	**17,584**
Net loss attributable to affiliated interest	(8,712)	(10,776)
Net income attributable to controlling interest	**$ 34,334**	**$ 28,360**

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

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands)

	Year Ended March 31	
	2017	2016
Net income	$ 25,622	$ 17,584
Other comprehensive income, net of tax (Note 21)	7,193	-
Comprehensive income	**$ 32,815**	**$ 17,584**

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

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands except share data)

	Controlling Interest						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Affiliated Interest in Subsidiary	Total Shareholders' Equity
	Shares	Amount					
Balances, April 1, 2015 (Note 1)	**1**	**$ -**	**$ 671,044**	**$ -**	**$ -**	**$ (19,779)**	**$ 651,265**
Net income	-	-	-	28,360	-	(10,776)	17,584
Share-based compensation	-	-	700	-	-	-	700
Balances, March 31, 2016	**1**	**-**	**671,744**	**28,360**	**-**	**(30,555)**	**669,549**
Capital contribution	-	-	11,000	-	-	-	11,000
Comprehensive income	-	-	-	34,334	7,193	(8,712)	32,815
Share-based compensation	-	-	463	-	-	-	463
Balances, March 31, 2017	**1**	**$ -**	**$ 683,207**	**$ 62,694**	**$ 7,193**	**$ (39,267)**	**$ 713,827**

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

SUN PHARMACEUTICAL HOLDINGS USA, INC. AND SUBSIDIARIES
(a wholly owned subsidiary of Sun Pharmaceutical Industries Limited)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended March 31	
	2017	2016
Cash flows from operating activities		
Net income	$ 25,622	$ 17,584
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	64,547	75,329
Equity in losses (earnings) from unconsolidated subsidiaries	3,380	(4,628)
Loss (gain) sale of property, plant, and equipment	1,745	(8,448)
Deferred income tax expense (benefit)	24,348	(53,631)
Contingent earn-out interest expense	228	441
Share based compensation expense	463	700
Gain on sale of intangible assets	-	(7,148)
Loss on impairment of property, plant, and equipment	-	34,232
Changes in operating assets and liabilities which provided (used) cash, net of effects in 2016 of business combination:		
Accounts receivable	53,309	(188,458)
Due from related parties	(82,962)	170,542
Inventories	151,363	(128,882)
Prepaid expenses and deposits	4,314	(7,870)
Accounts payable	(244,870)	115,940
Refundable/accrued income taxes	(42,916)	9,816
Accrued expenses	17,702	(2,501)
Net cash (used in) provided by operating activities	**(23,727)**	**23,018**
Cash flows from investing activities		
Purchases of property, plant and equipment	(27,817)	(17,619)
Proceeds from sale of property, plant, and equipment	6,640	4,912
Purchases of intangible assets	-	(6,661)
Proceeds from sale of intangible assets	3,000	73,411
Investment in unconsolidated entities	(28,806)	(18,972)
Distributions from unconsolidated subsidiaries	6,281	7,452
Advance to unconsolidated entity	(7,000)	-
Milestone payment of contingent earn-out	(8,125)	-
Acquisitions of businesses, net of cash acquired	-	(68,250)
Net cash used in investing activities	**(55,827)**	**(25,727)**
Cash flows from financing activities		
Repayment of long-term debt	(724)	(693)
Proceeds from short-term borrowings	-	10,000
Repayment of capital lease obligations	(488)	(668)
Advances from affiliate	-	249
Capital contribution	11,000	-
Net cash provided by financing activities	**9,788**	**8,888**
Net (decrease) increase in cash and cash equivalents	**(69,766)**	**6,179**
Cash and cash equivalents, beginning of year	155,101	148,922
Cash and cash equivalents, end of year	**$ 85,335**	**$ 155,101**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Basis of Presentation, and Nature of Business

Sun Pharmaceutical Holdings USA, Inc. ("the Company"), with headquarters in Princeton, New Jersey, was established on December 1, 2016 and is a wholly-owned subsidiary of Sun Pharmaceutical Industries Limited ("Sun Limited"), a specialty pharmaceutical company organized under the laws of, and based in, India. As of December 1, 2016, 81% of the issued and outstanding common stock of Sun Pharmaceutical Industries, Inc. ("Sun") and 100% of the issued and outstanding common stock of Ranbaxy, Inc. ("Ranbaxy"), both headquartered in Princeton, NJ, were transferred to the Company in a corporate reorganization. The remaining 19% of Sun is owned by Sun Limited. Sun and Ranbaxy were previously owned 100% by affiliates of Sun Limited. Sun Holding has no operating activities. All operating activities are within Sun and Ranbaxy. In order to give effect to this change in organization, the Company has presented in these consolidated financial statements the results of operations of the previously separate entities from April 1, 2015 to November 30, 2016 and then of the consolidated operations from December 1, 2016 (date of Company creation) through March 31, 2017. Since these entities operate under ultimate ownership and common control, the assets and liabilities transferred retained their net carrying value at the time of reorganization. Net assets at the time of the restructuring totaled $160,816 and $508,733 for Sun and Ranbaxy, respectively, and for comparative purposes are reflected in the consolidated statement of shareholders' equity as if these corporate actions had taken place on the first day of the previous year.

Sun and Ranbaxy develop, license, manufacture, market and distribute generic and brand prescription and over-the-counter pharmaceuticals to the nation's largest wholesalers, distributors, warehousing and non-warehousing chain drugstores and managed care providers, throughout the United States, Canada and Puerto Rico. The process of developing a line of proprietary drugs requires approvals by the United States Food and Drug Administration ("FDA") of Abbreviated New Drug Applications ("ANDAs") for generic drugs and New Drug Applications ("NDAs") for brand drugs. The Company distributes various products exclusively for Sun Limited and also Company-owned products (those products for which the Company owns the ANDAs) manufactured in its own facilities as well as by Sun Limited and other third parties. Generic products are intended to treat a variety of disorders including, but not limited to, hypertension, arthritis, epilepsy, diabetes, depression and pain management. The Company has brand products which currently are primarily intended to treat patients related to dermatology. In Fiscal 2016, the Company created new divisions for the distribution of various proprietary brand products in the therapeutic categories of ophthalmology, dermatology (biologics), oncology and neurology. Most products from these divisions are in the development stage except for one product related to ophthalmology which was launched during Fiscal 2017.

Subsidiaries of Sun, in turn, include:

Chattem Chemicals, Inc. ("Chattem"), a wholly owned subsidiary, is based in Chattanooga, Tennessee. Chattem is primarily engaged in the business of manufacturing Active Pharmaceutical Ingredients ("APIs"), surfactants and aluminum performance additives.

Mutual Pharmaceutical Company Inc. ("Mutual"), a wholly owned subsidiary that was based in Philadelphia, Pennsylvania. In June 2016, Mutual sold its real property and operating assets. At the same time, Mutual entered into a manufacturing contract agreement with the new owners to manufacture certain of the drugs previously manufactured by the company. The term of the agreement is two years with provisions for extensions. Prior to April 1, 2016, Mutual was a subsidiary of URL Pharma Inc., a wholly-owned subsidiary of the Company. Effective April 1, 2015, URL Pharma Inc. was merged into Mutual.

DUSA Pharmaceuticals Inc. ("DUSA"), a wholly owned subsidiary, is based in Wilmington, Massachusetts, and is primarily engaged in the business of manufacturing and marketing branded dermatology formulations and medical devices used for treatment of dermatological conditions.

Pharmalucence Inc. ("Pharmalucence") a wholly owned subsidiary is based in Billerica, Massachusetts. Pharmalucence manufactures its own line of generic injectable radiopharmaceuticals, and sells to radiopharmacies and distributors. It also provides contract and private label formulation development and manufacturing services of parenteral products in either liquid or lyophilized form.

Caraco Pharmaceutical Private Limited, a wholly owned subsidiary is based in Mumbai, India and has no current operating activity.

Taro Development Corporation ("TDC"), a wholly owned subsidiary, is based in New York and has a wholly owned subsidiary, Morley & Company, also based in New York. Neither of these entities have any current operating activities.

Sun's manufacturing facilities are located in Cranbury, New Jersey; Chattanooga, Tennessee; and Wilmington, Billerica, and Bedford, Massachusetts. The Company also has warehouses and executive offices in these locations and a distribution warehouse in Wixom, Michigan.

Subsidiaries of Ranbaxy, in turn, include:

Ranbaxy Pharmaceuticals, Inc. ("Ranbaxy Pharma") a wholly owned subsidiary is based in Princeton, New Jersey and is in the distribution business for generic products for Ranbaxy.

Ohm Laboratories, Inc. ("Ohm") a wholly owned subsidiary is based in New Brunswick, New Jersey, and has two manufacturing locations in New Jersey and one warehouse in New Brunswick.

Ranbaxy Laboratories, Inc. ("Ranbaxy Labs") a wholly owned subsidiary is based in Princeton, New Jersey, and is in the business of for brand product development, marketing, and distribution.

InSite Vision Incorporated ("InSite") a wholly owned subsidiary is based in Alameda, California and develops products to treat eye problems: ocular infection, pain and inflammation in ocular surgery and glaucoma.

Ranbaxy Signature L.L.C. ("Signature") is a 67.5% owned joint venture. Signature has the rights to a diabetic product that is marketed and distributed through Ranbaxy Labs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands)

Principles of Consolidation

The accompanying consolidated financial statements, which are the responsibility of management, have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP). The consolidated financial statements are prepared in the functional currency of US dollars and include the accounts of consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates. Significant estimates include, but are not limited to, realization of deferred tax assets, provisions for estimated customer returns, discounts, rebates, coupons and other price adjustments, including customer chargebacks (see "Revenue Recognition" below), valuation of inventories, determination of useful lives and potential impairment of property, plant and equipment and intangible assets and other long lived assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Company invests its excess cash primarily in deposits with major banks and in other high quality short-term liquid money market investments. During the normal course of business, the Company may maintain cash on deposit in excess of federally insured limits with financial institutions. The Company maintains a policy of making investments only with institutions with at least an investment grade credit rating.

Investment in Affiliate and Unconsolidated Entities

Sun, through its subsidiary TDC, holds 2,333,802 shares of Taro Pharmaceutical Industries, Ltd. ("Taro"). Sun Limited, along with several of its subsidiaries, holds the majority of the common shares of Taro. The American Depository Shares of Taro are traded on the New York Stock Exchange. Management does not intend to sell the securities of this affiliate in the near future since they were acquired as strategic investments by Sun Limited and its subsidiaries. These securities are, therefore, not available for sale and are carried at their cost.

In addition, the Company makes investments in both corporate and non-corporate entities for the purpose of obtaining an interest in a new drug or new indications of an existing drug. These investments, although long-term, are generally focused on the development of these individual drugs and are not intended to be ongoing relationships.

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an Investee depends on an evaluation of several factors including, among others, representation on the Investee company's board of directors and ownership level, which is generally a 20% to 50% interest in

the voting securities for corporate entities and between 5% and 50% interest in the voting securities for non-corporate entities. Under the equity method of accounting, an Investee company's accounts are not reflected within the Company's consolidated balance sheets and consolidated income statements; however, the Company's share of the earnings or losses of the Investee company is reflected in the caption ''(Losses) earnings from unconsolidated subsidiaries'' in the consolidated income statements. The Company's share of unrealized gains and losses, net of income tax, are reported in other comprehensive income. The Company's carrying value in an equity method Investee company is reflected in the caption "Investment in affiliate and unconsolidated subsidiaries" on the Company's consolidated balance sheets.

Investments not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such Investee companies is not included in the consolidated balance sheets or consolidated income statements. However, when necessary, impairment charges are recognized in the consolidated income statements. If circumstances suggest that the value of the Investee Company has subsequently recovered, such recovery is not recorded. Management has concluded that no such impairment losses were required to be recognized during Fiscal years 2017 or 2016. The Company's carrying value in a cost method Investee company is reflected in the caption ''Investment in affiliate and unconsolidated subsidiaries" in the Company's consolidated balance sheets.

Advances from Affiliates

The Company has received funds, on various dates, from Alkaloida Chemical Company ZRT-Hungary, an affiliate, which is also a wholly owned subsidiary of Sun Pharma Global, Inc. ("Sun Global"). These advances are considered unsecured operating loans. The outstanding balance of these loans was $174,376 on March 31, 2017 ("Fiscal 2017") and 2016 ("Fiscal 2016"). On an annual basis, any unpaid accrued interest is rolled into the principal balance. There are no formal repayment terms for either principal or interest. While these loans can be called on demand at the affiliate's discretion, it is not anticipated that this will occur within the next year.

Revenue Recognition

Revenue from product sales, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, title and risk of ownership have been transferred to the buyer, the selling price is fixed or determinable, and collectability is reasonably probable. The Company's customers consist primarily of large pharmaceutical wholesalers who sell directly into the retail channel, chain drug stores, distributors, and managed care customers. For the products being sold from DUSA the primary customers are physicians and hospitals. Pharmalucence's primary customers are radiopharmaceutical pharmacies. Provisions for sales discounts, and estimates for sales chargebacks, customer rebates, and product returns are established as a reduction of product sales revenue at the time revenues are recognized, based on historical experience and current market trends adjusted to reflect known changes in the factors that impact these allowances. These revenue reductions are reflected as a direct reduction to accounts receivable through a sales allowance account.

The Company makes sales of products under various marketing and distribution agreements. The Company recognizes revenue from such sales in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 605-45-45-1, "Reporting Revenue Gross as a Principal versus Net as an Agent." The Company has evaluated the various indicators described under this guidance and has determined that such revenues should be considered on a gross reporting basis. The factors include the following, which led the Company to make such determination: (1) the title of the goods have been transferred to the Company and the Company assumes all general inventory risks; (2) the Company is the primary obligor in the arrangement. (3) The Company is responsible for the sales process, pricing, marketing and delivery of the products; and (4) the Company is responsible for the collection of receivables and will have to absorb bad debt losses if any occur.

The Company recognizes revenues on Kerastick® and BLU-U® product sales in the United States and Canada when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred, and collection is reasonably assured. The Company offers programs that allow physicians and hospitals access to its BLU-U® device for a trial period. The Company does not recognize revenue on these units until the physician or hospital elects to purchase the equipment and all other revenue recognition criteria are met. Terms with customers do not provide for the right of return for sales of Kerastick® and BLU-U®, unless the product does not comply with the technical specifications.

When the Company receives advance payments from customers for the sale of products, such payments are deferred and reported as advances from customers until all conditions for revenue recognition are met.

The Company manufactures exhibit batches for Sun Limited and also provides business support services to Sun Limited and Ranbaxy Canada (a party related through ultimate common ownership). The Company recovers the cost of manufacturing exhibit batches and the cost of services plus an agreed-upon markup pursuant to the terms of the respective agreements.

Royalty income is recognized in accordance with the terms of the respective contractual agreements when collectability is reasonably assured and revenue can be reliably measured.

Allowances for Sales Adjustments

Chargebacks

Chargebacks represent the Company's most significant provision against gross accounts receivable and related reduction to gross sales revenue. Chargebacks are retroactive credits given to wholesale customers that represent the difference between the lower price they sell (contractual price) to retail, chain stores, and managed care organizations and what the Company charges the wholesaler. The Company estimates chargebacks at the time of sale to their wholesale customers. The Company is currently unable to specifically determine whether the amounts provided in specific prior periods for chargeback allowances have been over or understated. Wholesaler customers who submit chargebacks to the Company do not reference a specific invoice that the chargeback is related to when the chargeback is

submitted to the Company. Thus, the Company cannot determine the specific period to which the wholesaler's chargeback relates.

The Company considers the following factors in the determination of the estimates of sales chargebacks:

1. The historical data of chargebacks as a percentage of sales, as well as actual chargeback reports received from primary wholesaler customers.
2. Volume of all products sold to wholesaler customers and the average chargeback rates for the current quarter as compared to the previous quarter and compared to the last six month period.
3. The sales trends and future estimated prices of products, wholesale acquisition cost ("WAC"), the contract prices with the retailers, chain stores, managed care organizations (end-users), and wholesaler customer's contract prices.
4. The Company utilizes data on remaining inventories on hand at primary wholesaler customers at the end of each reporting period in the calculation of estimates.

Such estimated amounts, in addition to certain other allowances, are deducted from the Company's gross sales to determine net revenues. The amount of actual chargebacks claimed could be either higher or lower than the amounts accrued. Changes in estimates, if any, would be recorded in the income statement in the period the change is determined. If the Company materially over or under estimates the amount that will ultimately be charged back to it by its wholesale customers, there could be a material impact on these consolidated financial statements. Approximately 55% and 47% of the total allowance for trade receivables at March 31, 2017 and 2016, respectively, have been established to provide for estimated sales chargebacks (see Note 3).

Shelf Stock Adjustments

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling prices of products. These credits are customary in the industry and are intended to reduce the customers' inventory cost to better reflect current market prices. The decision to grant a shelf stock adjustment to a customer following a price decrease is made at the Company's discretion.

Factors considered when recording an allowance for shelf stock adjustments include estimated launch dates of competing products based on market intelligence, estimated decline in market price of products based on historical experience and input from customers, and levels of inventory held by customers at the date of the pricing adjustments.

Product Returns and Other Allowances

In the pharmaceutical industry, customers are normally granted the right to return product for credit, or replacement with fresh product, if the product has not been used prior to its expiration date. The Company's return policy typically allows product returns for products within a 12-month window from six months prior to the expiration date and up to six months after the expiration date. The Company estimates the level of sales that will ultimately be returned, pursuant to its return policy, and records a related allowance at the time of sale.

These amounts are deducted from its gross sales to determine net sales. These estimates take into consideration historical returns of the products and the Company's future expectations. The Company periodically reviews the allowances established for returns and adjusts them based on actual experience, as necessary. The primary factors considered in estimating its potential product returns include shelf life of expiration date of each product and historical levels of expired product returns. If the Company becomes aware of any returns due to product quality related issues, this information is used to estimate an additional allowance. The Company provides for an allowance related to returns resulting from product recalls, in the period that such recalls occur. The amount of actual product return could be either higher or lower than the amounts provided. Changes in these estimates, if any, would be recorded in the income statement in the period the change is determined. If the Company over or under estimates the quantity of product that will ultimately be returned, there may be a material impact to its financial statements.

Sales discounts (trade and prompt payment discounts) are provided for at the end of every reporting period based on the gross sales made to the customers during the period and based on their terms of trade. The Company reviews its contracts with its customers in addition to historical data and percentages to estimate the reserve for estimated discounts.

Customer rebates are estimated at the end of every reporting period, based on direct or indirect purchases. If the purchases are direct (purchases made by end use customers directly from the Company), the rebates are recognized when products are purchased and a periodic credit is given. For indirect purchases (purchases by end use customers through wholesale customers), the rebates are recognized based on the terms with such customer. Medicaid rebates are estimated based on the historical data the Company receives from the public sector benefit providers, which is based on the final dispensing of the products by a pharmacy to a benefit plan participant.

Medicaid rebates are earned by states based on the amount of our products dispensed under the Medicaid plan. Medicaid rebates are principally comprised of amounts due under U.S. Government pricing programs such as Medicaid, Medicare and Tricare (Department of Veteran Affairs). These rebates have been estimated as per the stipulated regulations and prescribed guidelines, which consider the calculation of the average manufacturers' price. Billbacks are special promotions or discounts provided over a specific time period to a defined customer base, and for a defined product group. Distribution allowances are a fixed percentage of gross purchases for inventory shipped to a national distribution facility that we pay to our top wholesalers on a monthly basis. Administration fees are paid to certain wholesalers, buying groups, and other customers for stocking our products and managing contracts and servicing other customers.

The Company has a patient coupon program in relation to certain products. These patient coupons enable eligible customers to a discount at the time of dispensing of prescriptions and the related cost of such patient coupons is borne by the Company. The accrual related to patient coupons is estimated based on historical experience regarding the usage of coupons by the eligible customers.

Doubtful Accounts
Doubtful accounts are estimated based on the data available from external sources, including information obtained related to the financial condition of customers. Delinquent accounts are reviewed by management on a quarterly basis, to identify and record allowances, as considered necessary, for accounts receivable not expected to be recoverable.

Accounts Receivable
The Company sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Company has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Inventories
Inventories, which consist of raw materials, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the moving average method, or market. The Company analyzes its inventory levels quarterly and writes down any inventory that has become obsolete and inventory that has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are expensed when incurred. Materials acquired for research and development on products yet to be launched are written off in the year of acquisition. Inventory includes material purchased related to products for which the Company has filed ANDAs with the FDA, and the commercial launch of such products will commence once the approvals are received. The determination of whether or not inventory costs will be realizable requires estimates by management. A critical estimate in this determination is the estimate of the future expected inventory requirements, whereby the Company compares its internal sales forecasts to inventory on hand. Actual results may differ from those estimates and additional inventory write-offs may be required. The Company must also make estimates about the amount of manufacturing overhead to allocate to its finished goods and work in process inventories. Although the manufacturing process is generally similar for its products, the Company must make judgments as to the portion of costs to allocate to purchased product, work in process and finished goods, and such allocations can vary based upon the composition of these components and the fact that each product produced does not necessarily require the same amount of time or effort for the same production step. Accordingly, the assumptions made can impact the value of reported inventories and cost of sales. For inventories related to distributed products, the Company absorbs losses of obsolesce or expiries, however if mutually agreed upon and in specific circumstances (like inventory built up on launch of new products), the Company recovers the cost from suppliers. The Company incurs costs related to non-supply of products it has committed to sell to its customers as per the contracts it has entered with these customers. As mutually agreed, the Company recovers certain of these costs from its suppliers.

BLU-U® commercial light sources placed in physicians' offices for an initial evaluation period are included in inventory in the accompanying consolidated balance sheets and amortized over a three-year period or until sold to the physician's office evidenced by the fact that all revenue recognition criteria have been met.

Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost less accumulated depreciation, which for property and equipment acquired in business acquisitions approximates the fair value determined at the acquisition date. Land is carried at cost. Construction in process is carried at cost until such time the associated asset(s) is placed into service. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment (Note 5).

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and federal income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. In concluding that it is not more-likely-than-not that the Company's deferred tax assets will be realized, the Company evaluates both positive and negative evidence regarding the future utilization of these assets. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

The Company analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Company reports interest and penalties attributable to income taxes, to the extent they arise, as a component of income tax expenses.

Research and Development Costs

Research and development costs settled in cash are charged to expense as incurred. Capital expenditures incurred on equipment and facilities that are acquired or constructed for research and development activities and having alternative future uses are capitalized as tangible assets when acquired or constructed. The Company has not incurred any non-cash research and development costs during the Fiscal years ended March 31, 2017 and 2016, respectively.

Shipping and Handling Costs

Shipping and handling costs incurred to transport products to customers are included in selling, general and administrative expenses. Such costs amounted to $5,901 and $7,806 in 2017 and 2016, respectively.

Goodwill
Goodwill represents the cost in excess of the fair value of net assets acquired in business combinations. Goodwill is tested annually for impairment or more frequently if events or circumstances indicate that the asset might be impaired. Management concluded, based on their assessment, that there was no impairment at March 31, 2017 or 2016.

Other intangible Assets
Intangible assets with finite lives are amortized over periods ranging from three to fifteen years to their estimated residual values and are evaluated for impairment at least annually. Intangibles are included in the "Other intangible assets, net" caption on the accompanying consolidated balance sheets. Management concluded, based on their assessment, that there was no impairment at March 31, 2017 or 2016.

Employee Stock Options
The Company recognizes all employee share-based compensation as a cost in the consolidated financial statements. Common stock options are measured at grant date fair value of the award, estimated using the Black-Scholes option pricing model.

Fair Value Measurements
Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurements, refer to Note 2 to the financial statements.

Reclassification
Certain amounts as reported in the Fiscal 2016 consolidated financial statements have been reclassified to conform with the Fiscal 2017 presentation.

(amounts in thousands)

Subsequent Events
In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2017, the most recent consolidated balance sheet presented herein, through June 9, 2017, the date these consolidated financial statements were available to be issued. Based on this evaluation, the Company has identified no subsequent events after March 31, 2017 for which disclosure is required.

2. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain liabilities and to determine fair value disclosures. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as inventory, non-marketable equity securities, goodwill and other long-lived assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Liabilities Recorded at Fair Value on a Recurring Basis
The following table sets forth by level, within the fair value hierarchy, the recorded amount of liabilities measured at fair value on a recurring basis at March 31:

	Liabilities at Fair Value			
2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Contingent liability on acquisition	$ -	$ -	$ 19,981	$ 19,981
Total liabilities at fair value	**$ -**	**$ -**	**$ 19,981**	**$ 19,981**

	Liabilities at Fair Value			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Contingent liability on acquisition	$ -	$ -	$ 27,878	$ 27,878
Total liabilities at fair value	**$ -**	**$ -**	**$ 27,878**	**$ 27,878**

(amounts in thousands)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities measured at fair value on a recurring basis for the year ended March 31:

	2017	2016
Beginning balance of recurring Level 3 liabilities	$ 27,878	$ 27,437
Milestone payment	(8,125)	-
Recognition of discounted value	228	441
Ending balance of recurring Level 3 liabilities	**$ 19,981**	**$ 27,878**

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable and related allowances are summarized as follows at March 31:

	2017	2016
Accounts receivable, gross	$ 614,191	$ 719,060
Valuation allowances		
Chargebacks and shelf stock	160,263	216,505
Direct and indirect rebates (including administrative fees, service fees and related allowances, etc.)	66,611	60,606
Cash discounts	15,881	16,156
Other	2,734	3,782
Total valuation allowances	245,489	297,049
Accounts receivable, net	**$ 368,702**	**$ 422,011**

(amounts in thousands)

A summary of the activity in the accounts receivable allowances are as follows:

	Total Allowances
Balance, April 1, 2015	**$ 162,922**
Additions charged to net sales	1,229,109
Deductions allowed to customers	(1,094,982)
Balance, March 31, 2016	**297,049**
Additions charged to net sales	2,055,200
Deductions allowed to customers	(2,106,760)
Balance, March 31, 2017	**$ 245,489**

4. INVENTORIES

Inventories consist of the following components at March 31:

	2017	2016
Raw materials	$ 40,623	$ 56,247
Work in process	7,270	17,875
Goods in transit (distributed products)	20,166	42,095
Finished goods (Company-owned products)	93,320	123,522
Finished goods (distributed products)	127,079	200,082
Inventory	**$ 288,458**	**$ 439,821**

The principal components used in the Company's business are active and inactive pharmaceutical ingredients and certain packaging materials. Some of these components are purchased from single sources; however, the majority of the components have an alternate source of supply available. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers. Also, a major component of the Company's inventory includes purchase of finished goods for distribution under various marketing agreements.

During the years ended March 31, 2017 and 2016, the Company made net purchases of inventory components, consisting of raw materials and finished goods, of approximately $419.4 million and $645.0 million, respectively, from Sun Limited and its affiliates. These amounts are net of credits issued by the Company for the cost of expired and non-saleable products or for free replacement of fresh product to the Company primarily as a result of pending expiration or stale-dating of product held by the Company and its customers, without cost to the Company, which was acting in its normal distributor role for sales of such products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

5. PROPERTY, PLANT AND EQUIPMENT

During Fiscal 2017, the Company sold one of its manufacturing facilities in Philadelphia, Pennsylvania and recorded a loss of approximately $1,738 from the sale of this facility and related installed equipment. Total consideration was $22,062, with $16,240 payable in annual installments of $8,120 each year over two years from the date of the sale. In addition, the Company sold equipment at its Detroit, Michigan facility for $1,000 which resulted in a gain of $9. These facilities are part of the facilities that were deemed to be impaired in Fiscal 2016.

During Fiscal 2016, the Company sold its manufacturing facility in Bryan, Ohio and recorded a gain of $8,940. Total consideration was $9,000 with $6,000 payable in annual installments of $2,000 each year over three years from the date of the sale. In addition, the Company sold an idle facility for $1,924, which resulted in a loss of $438.

In Fiscal 2016, the Company identified certain property and equipment that was deemed to be impaired based on the assessment of the market value and expected future cash flows of the long-lived asset. Accordingly, the Company recognized approximately $34,200 of impairment charges on its facilities. These facilities are not part of the Company's long-term production or distribution plans and are currently substantially under-utilized. The Company plans to reduce production further as it obtains approval to transfer product production to other Company facilities. Estimated fair value was determined using significant unobservable inputs (Level 3) based on an income approach.

Depreciation expense was $26,116 and $24,971 in Fiscal 2017 and Fiscal 2016, respectively.

6. OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following amounts at March 31:

	2017	2016
Patents and trademarks	$ 232,910	$ 232,910
Product rights and licenses	138,728	138,728
Technical know-how	17,161	17,161
Intellectual property	5,300	5,300
Other	1,800	1,800
Total	395,899	395,899
Less accumulated amortization	227,639	189,208
Intangible assets, net	**$ 168,260**	**$ 206,691**

Intangible assets are amortized over periods ranging from 3 to 15 years, which correspond with the expected periods of future economic benefit. Amortization expense was $38,431 and $50,358 for Fiscal 2017 and Fiscal 2016, respectively.

(amounts in thousands)

Estimated annual amortization expense for each of the five years succeeding March 31, 2017 and thereafter, are summarized as follows:

Year Ending March 31	Amount
2018	$ 39,367
2019	41,001
2020	40,735
2021	26,581
2022	8,179
Thereafter	12,397
Total	**$ 168,260**

In Fiscal 2016, the Company sold the rights to certain products and discontinued the development and marketing of two other products. The total consideration on the sales was $73,411, of which $3,000 was paid in Fiscal year 2017. The unamortized basis of these products was $66,263, resulting in a net gain of $7,148.

7. INVESTMENT IN AFFILIATE AND IN UNCONSOLIDATED ENTITIES

At March 31, 2017 and 2016, the Company's investment in Taro, an affiliate, which is recorded at cost was $19,853.

At March 31, 2017, equity investments accounted for under the equity method, and the percentage interest owned, consisted of S & I Ophthalmic, LLC (50%), Frazier Healthcare VII, L.P. (6.83%), Versant Venture Capital V, L.P. (7.46%), Medinstill LLC (19.99%), and scPharmaceuticals, Inc. (14.58%). At March 31, 20176, equity investments accounted for under the equity method, and the percentage interest owned, consisted of S & I Ophthalmic, LLC (50%), Frazier Healthcare VII, L.P. (6.83%), Versant Venture Capital V, L.P. (7.46%), and Medinstill LLC (19.99%).

The activity in the investment in unconsolidated subsidiaries account is summarized as follows for the years ended March 31:

Balance, April 1, 2015	**$ 30,593**
Capital contributions	16,264
Proportionate share of net income	4,628
Distributions	(7,452)
Balance, March 31, 2016	**44,033**
Capital contributions	23,013
Proportionate share of net income	1,525
Balance, March 31, 2017	**$ 68,571**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands)

Combined, condensed financial information for the Company's unconsolidated entities using the equity method are as follows at March 31:

	2017	2016
Current assets	$ 142,323	$ 23,666
Investments at estimated fair value	445,026	469,923
Fixed assets	4,724	-
Total assets	**$ 592,073**	**$ 493,589**
Total liabilities (all current)	$ 118,213	$ 36,356
Total equity	473,860	457,233
Total liabilities and equity	**$ 592,073**	**$ 493,589**

Combined, condensed financial information for the Company's unconsolidated entities using the equity method is summarized as follows for the year ended March 31:

	2017	2016
Operating income	$ 3,387	$ 261
Gain on investments	72,988	273,226
Research and development	(17,755)	(13,108)
Management fees	(8,152)	(6,681)
Professional fees	(3,102)	(670)
Selling, general, and administrative	(13,690)	-
Other expenses	(9,908)	(1)
Net income	**$ 23,768**	**$ 253,027**

At March 31, 2017 and 2016, cost method investments and the percentage interest owned, consisted of 5AM Ventures IV, L.P. (3.3%) Atlas Venture Fund (3.57%), Frazier Health Care LS VII L.P. (1.9%), and 5AM Ventures V (1.25%). The total interests in cost method investments were $9,381 and $3,588 as on March 31, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following amounts at March 31:

	2017	2016
Returns	$ 44,829	$ 30,201
Medicaid rebates	29,977	24,989
Managed care	27,227	20,362
Employee-related liabilities	23,789	17,608
Accrued royalties and profit share	19,621	23,458
Patient coupons	16,142	3,671
Other accrued expenses	10,366	21,545
Accrued interest	1,626	1,964
Advances from customers	1,340	7,108
Other current liabilities	1,007	7,316
Total current liabilities	**$ 175,924**	**$ 158,222**

Medicaid rebates are principally comprised of amounts due under U.S. Government pricing programs such as Medicaid, Medicare and Tricare (Department of Veteran Affairs). These rebates have been estimated as per the stipulated regulations and prescribed guidelines, which consider the calculation of the average manufacturers' price.

9. SHORT-TERM BORROWINGS

The Company has a line of credit agreement ("credit agreement") with Citibank, N.A. ("Citibank"). During Fiscal 2017, the term of the line was extended from November 16, 2016 to November 14, 2017. The maximum available borrowings under the credit agreement are $100,000, which was the outstanding balance at March 31, 2017 and 2016. The applicable interest rate is the London Interbank Offered Rate ("LIBOR") plus 0.82% (effectively 1.542% at March 31, 2017).

In conjunction with this credit agreement, the Company has entered into an interest rate swap agreement ("SWAP") for a notional amount of $100,000 with Citibank that covers the same periods as the line of credit. The fixed rate under the SWAP is 1.65% and the variable rate is LIBOR plus 0.82%, the same as the rate charged under the credit agreement. Accordingly, the SWAP effectively fixes the interest rate on the $100,000 available borrowings, under the credit agreement at 1.65%. The fair value of the SWAP at March 31, 2017 and 2016 is not material and is short term in nature.

In December, 2016, the Company entered into an uncommitted revolving line of credit agreement (revolving agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan") for $200,000. The term has no fixed termination date, and thus will terminate at such time either party chooses. The applicable interest rate is the higher of a JPMorgan's internal rate, the Federal funds rate plus 0.5% or LIBOR plus 1% (effectively, 1.73% at March 31, 2017).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

In conjunction with this revolving line, the Company entered into a one year SWAP for a notional amount of $200,000 with JPMorgan with a fixed rate of 1.7025% and a variable rate of LIBOR plus 0.75%. Effectively, assuming the borrowings under the revolving agreement are at the LIBOR plus 1%, this fixes the rate at 1.7025% plus 0.25% or 1.9525%. If the interest rate used is different than the LIBOR rate, the effective rate will be different by the rate used versus the LIBOR plus 1% rate. The fair value of the SWAP at March 31, 2017 and 2016 is not material and is short term in nature.

In addition to the $200,000 revolving line with JPMorgan above, the Company has an uncommitted line of credit with JP Morgan for $20,000 of which $10,000 was outstanding at March 31, 2017. The term of the line ends on May 31, 2018. The applicable interest rate is the higher of a JPMorgan's internal rate, the Federal funds rate plus 0.5% or LIBOR plus 1% (effectively, 1.75% at March 31, 2017).

The Company had a $200,000 committed credit facility with HSBC Bank USA, National Association through November 16, 2016 at an interest rate of LIBOR plus 1%. The parties elected to not extend the loan and the outstanding balance at the termination date, $200,000, was repaid.

10. LONG-TERM DEBT

As part of acquisition of Pharmalucence, the Company assumed Pharmalucence's obligation under its bond agreement with the Massachusetts Development Finance Agency. The original amount of the loan was $20,000 with a balance of $19,355 at the time of the acquisition in Fiscal 2015. The loan is collateralized by substantially all of the assets of Pharmalucence. Monthly principal and interest payments are payable in varying amounts through June 2033, the bond maturity date. Interest is computed at a rate of 69% of the sum of one month LIBOR plus 2.75% (effectively, 2.44% at March 31, 2017).

Scheduled principal payments under the loan are:

Year Ending March 31	Amount
2018	$ 755
2019	788
2020	823
2021	859
2022	897
Thereafter	13,367
Total	**$ 17,489**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

11. INCOME TAXES

The provision (benefit) for income taxes consists of the following for the year ended March 31:

	2017	2016
Current (refundable)	$ (6,130)	$ 41,095
Deferred (benefit)	24,348	(53,631)
Income tax (benefit)	**$ 18,218**	**$ (12,536)**

The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to net income before income taxes. The items causing the difference are as follows for the year ended March 31:

	2017	2016
Federal tax at 35% statutory rate	$ 15,344	$ 1,767
State income taxes, net of federal benefit	1,582	(423)
Recognition of tax benefit of InSite net operating loss carryforward	-	(13,553)
Research and development credit	(833)	(242)
Other	2,125	(85)
Income tax expense (benefit)	**$ 18,218**	**$ (12,536)**

Deferred income taxes consist of the following at March 31:

	2017	2016
Deferred tax assets		
Net operating loss carryforwards (NOLs)	$ 22,871	$ 31,174
Receivables	4,249	41,594
Intangibles/Goodwill	8,351	3,657
Inventory	1,360	8,164
Accrued liabilities and other items	31,199	8,452
Total deferred tax assets	**68,030**	**93,041**
Deferred tax liabilities		
Investments	7,048	2,241
Depreciation	1,338	1,692
Other	227	1,350
Total deferred tax liabilities	**8,613**	**5,283**
Net deferred tax assets	**$ 59,417**	**$ 87,758**

(amounts in thousands)

Valuation allowances against deferred income tax assets are provided when, based upon the weight of available evidence, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. There were no such valuation allowances as of March 31, 2017 or 2016. Based upon the level of projected future taxable incomes over the periods in which deferred assets are deductible, the Company expects that it is more likely than not that it will realize the benefit of these temporary differences. Some of the Company's NOLs are subject to annual limitations under income tax rules. As a result of such restrictions, certain of such NOLs, amounting to approximately $30.4 million, will expire and are not likely to be available for future benefit. Accordingly, the deferred tax asset related to the NOLs has been reduced to reflect the NOLs which the Company will not be in a position to utilize as they will expire between 2021 and 2033.

The Company analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years (Fiscal 2015 to 2017) in these jurisdictions. The Company has also elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes, and continues to reflect any changes for such, to the extent they arise, as a component of its operating expenses. The Company had determined that no adjustments for unrecognized tax benefit or benefit are necessary as a result of this analysis.

The Internal Revenue Services has commenced an audit of the Ranbaxy's Fiscal 2015 and Sun's Fiscal 2014 and 2015 tax returns. No final audit adjustments have been communicated and management believes that any adjustments will not have a material impact on the consolidated financial statements.

12. BUSINESS COMBINATION

On November 2, 2015, the Company acquired certain assets and assumed certain liabilities of InSite Vision Incorporated (InSite). Accordingly, the results of operations for InSite have been included in these consolidated financial statements from that date forward. The Company acquired InSite to facilitate its parent company's entry and expansion into the ophthalmic market in the United States. The acquisition price of $71,482 was funded by cash.

The following assets and liabilities were recognized in the acquisition (at fair value):

Cash acquired	$	3,232
Accounts receivable		158
Other current assets		196
Property and equipment		1,332
Identifiable intangibles		67,900
Goodwill		6,712
Accounts payable		(3,883)
Accrued expenses and other current liabilities		(4,165)
Total identifiable net assets	**$**	**71,482**

(amounts in thousands)

InSite had net sales of $775 during the five months of Fiscal 2016 after acquisition and net sales of $1,221 in Fiscal 2017.

Subsequent to the acquisition of InSite, the Company entered into an agreement with Sun Pharma Global FZE (a related party) to sell two of the acquired intangible assets for $66,650. The gain on sale of these intangible assets and related goodwill of $4,160, was $1,976 for Fiscal 2016, which is included in other income, net in the 2016 consolidated statement of income.

13. LEASES (INCLUDING RELATED PARTY)

The Company conducts a portion of its operations with leased property and equipment, including warehouse facilities and related equipment, a portion of which meet capitalization criteria specified by generally accepted accounting principles.

The Company leases its facilities in Wixom, Michigan, Cranbury, New Jersey, and Wilmington, Massachusetts. The leases are with third parties and are non-cancelable. The Wixom lease expires in Fiscal 2018, the Cranbury lease expires in Fiscal 2021 and the Wilmington lease expires in Fiscal 2018. Net rental expense for all operating leases was $3,460 and $4,821 in Fiscal 2017 and Fiscal 2016, respectively.

In addition, in January 2014, the Company entered into a ten-year non-cancelable lease for office space in Cranbury, New Jersey, from an affiliated company, Taro. The lease expense for this lease was $524 and $324 in Fiscal 2017 and Fiscal 2016, respectively.

Property and equipment held under capitalized leases and included with owned properties on the consolidated balance sheets are summarized as follows at March 31:

	2017	2016
Building	$ 24,377	$ 24,377
Equipment	233	233
Computers	75	75
Total	24,685	24,685
Less accumulated amortization	14,892	13,634
Net book value	**$ 9,793**	**$ 11,050**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

The following is a schedule of annual future minimum lease payments required under capitalized leases and under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2017:

Year Ended March 31	Capitalized Leases	Non-Cancelable Operating Leases (including affiliates)
2018	$ 2,069	$ 3,777
2019	2,117	2,892
2020	2,170	2,443
2021	2,224	1,681
2022	2,280	824
Thereafter	7,598	1,431
Total minimum payments due	**18,458**	**$ 13,048**
Less amounts representing interest of 5%	7,667	
Present value of net minimum lease payments	**$ 10,791**	

14. RETIREMENT PLAN

Each entity within the Company maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under these plans, eligible employees are permitted to contribute up to the maximum allowable amount determined by the Internal Revenue Code. The Company may make discretionary matching and profit sharing contributions under the provisions of these plans. The Company made contributions in the amounts of $3,320 and $2,502 to the plans for Fiscal 2017 and 2016, respectively.

15. ROYALTY AND PROFIT SHARE AGREEMENTS

The Company has entered into several distribution and profit share arrangements wherein a specified percentage of the profit earned is paid by the Company to unrelated third parties as royalty or profit share expense. During 2017 and 2016, royalty and profit share expense was $44,544 and $50,613, respectively. Of these amounts, $41,880 and $48,069, respectively, have been included in cost of goods sold and $2,664 and $2,544, respectively, have been included in selling, general and administrative expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands)

16. SHARE-BASED COMPENSATION

The Company's Employee Stock Option Schemes (ESOSs) provides for the grant of common stock options to eligible employees and Directors. The ESOSs are administered by the Compensation Committee (Committee) of the Board of Directors. Options are granted at the discretion of the Committee to selected employees depending upon certain criteria.

	Year Ended March 31, 2017		
	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at the beginning of the year	176,897	$ 5.03	2.28
Forfeited and lapsed during the year	(34,965)	6.62	-
Exercised during the year	(48,246)	0.09	-
Outstanding, end of the year	93,686	$ 6.99	0.16
Exercisable at the end of the year	**93,686**	**$ 6.99**	**1.19**

	Year Ended March 31, 2016		
	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at the beginning of the year	338,249	$ 4.45	2.84
Granted during the year	75,548	0.09	0.09
Forfeited and lapsed during the year	(179,904)	2.69	-
Exercised during the year	(56,996)	2.41	-
Outstanding, end of the year	176,897	$ 5.03	2.28
Exercisable at the end of the year	**148,253**	**$ 5.99**	**2.47**

17. CONCENTRATIONS AND COMMITMENTS

Major Customers

Shipments to four customers, including three wholesalers, accounted for approximately 68% and 67% of net revenues for Fiscal 2017 and Fiscal 2016, respectively. Balances due from these customers (gross outstanding amounts) represented approximately 81% and 79% of gross accounts receivable at March 31, 2017 and 2016, respectively. As is typical in the U.S. retail

sector, many of the Company's customers are serviced through their designated wholesalers. Of the net sales made to wholesalers, the majority include sales for various customers of the Company that have underlying direct contracts with the Company that are facilitated through such wholesale customers. No other single customer accounted for more than 10% of net sales for Fiscal 2017 or Fiscal 2016. The loss of any of these customers could have a materially adverse effect on short-term operating results.

Major Products

Shipments of three products accounted for 47% of net revenue for the Fiscal 2017. Shipments of four products accounted for 50% of net revenue for the Fiscal 2016.

Labor Contract

A union represents nine hourly employees at its Wixom facility. The collective bargaining agreement with the union expires in September 2018. No other employees of the Company are represented by a union.

18. OTHER MATTERS

Employment Contracts

The Company has employment agreements with three of its executive officers that provide for annual salaries that include merit increases and at least a six-month continuance, including insurance benefits, upon termination without cause.

Litigation

While it is not possible to determine with any degree of certainty the ultimate outcome of the following legal proceedings, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position. An adverse outcome in any of these proceedings could have a material adverse effect on the Company's financial position and results of operations.

Shareholder Litigation

1. On December 9, 2010, and subsequent thereto, several putative class action lawsuits were filed in the Wayne Court Circuit Court against the Company, its affiliates, and the members of the Board of Directors of the Company, arising out of the proposal by Sun Pharma and Sun Global to take the Company private. The action has been dismissed by the trial court twice and is now on appeal.

Government Investigations/Litigation

2. On September 17, 2013, the State of Louisiana filed suit against numerous pharmaceutical companies, including the Company in the 19th Judicial District, Parish of East Baton Rouge. The suit alleges violations of Louisiana's Unfair Trade Practices and Consumer Protection Law, Louisiana's Medical Assistance Programs

Integrity Law, fraud, negligent misrepresentation, redhibition, and unjust enrichment. The State of Louisiana alleges that the numerous pharmaceutical company defendants have engaged in a scheme to trick the State into paying for drugs that have not received approval from the U.S. Food and Drug Administration, thereby causing Louisiana's Medicaid agency to pay for drugs that would have otherwise not been covered by Medicaid. The liability for Mutual is anticipated to be covered by the indemnity obligations of Takeda Pharmaceuticals U.S.A., Inc. ("Takeda"), pursuant to the terms of that certain Stock Purchase Agreement between Takeda and the Company dated December 14, 2012 (the "SPA"). On March 10, 2017, the State of Mississippi filed a similar complaint against the Company.

3. On April 1, 2016, the Company received a Grand Jury Subpoena from the United States Department of Justice, Antitrust Division issued on behalf of a Grand Jury sitting in the United States District Court for the Eastern District of Pennsylvania. The Grand Jury Subpoena relates to an investigation into price fixing and/or bid rigging in the United States market for generic drugs. The Company is responding to the Grand Jury Subpoena. The Company is also in receipt of a related subpoena from the Connecticut Attorney General.

Antitrust

4. The Company is a defendant in a group of putative class and individual actions in the United States District Court for the Eastern District of Pennsylvania alleging that the Company and its affiliates violated antitrust laws in connection with a 2005 patent settlement agreement concerning Modafinil. That matter is set to go to trial on June 5, 2017.

5. The Company is a defendant in a putative class action in the United States District Court for the Southern District of New York alleging that the Company and its affiliates violated antitrust laws in connection with a 2010 patent settlement agreement concerning pioglitazone. A motion to dismiss that matter is currently pending.

6. The Company is a defendant in a putative class action in the United States District Court for the District of New Jersey alleging that the Company and its affiliates violated antitrust laws in connection with a 2008 patent settlement agreement concerning atorvastatin. That matter has been dismissed and the dismissal is currently being appealed to the United States Court of Appeals for the Third Circuit.

7. The Company is a defendant in a putative class action in the United States District Court for the District of Massachusetts alleging that the Company and its affiliates violated antitrust laws and the RICO Act as with respect to its ANDAs for Valganciclovir and Valsartan. That matter is currently in discovery.

8. The Company is a defendant in two actions pending in the Court of Common Pleas, Philadelphia County (PA) brought by a group of health insurance companies alleging that the Company and its affiliates violated antitrust laws in connection with a 2008 patent settlement agreement concerning esomeprazole. No substantive proceedings have taken place in that matter.

9. The Company is a defendant in a number of putative class action lawsuits alleging that the Company conspired with competitors to fix prices or rig bids in the markets for Doxycycline, Fluocinonide, and Albuterol. These actions have been consolidated into a Multi District Litigation in the United States District Court for the Eastern District of Pennsylvania.

Product Liability

10. The Company and/or certain of its affiliates are named in 106 lawsuits brought by individuals alleging personal injury from the ingestion of Alendronate Sodium. These cases are pending in California and New Jersey and are covered by product liability insurance.

11. The Company is a defendant in numerous actions brought by individuals alleging that they have suffered from alopecia as a consequence of ingesting Docefreze. These actions have been consolidated into a Multi District Litigation in the United States District Court for the Eastern District of Pennsylvania. These actions are covered by product liability insurance.

12. The Company is a defendant in a putative class action lawsuit brought by a group of consumers who seek a refund for atorvastatin which they allegedly purchased and which subsequently was the subject of a Class 2 (retail level) recall. This action is currently pending in the United States District Court for the District of New Jersey.

Other Matters

1. On December 30, 2015, the Plumbers Union Local 690 filed a putative class action complaint in the Court of Common Pleas, Philadelphia County (PA) against the Company and others alleging that the defendants had reported artificially high Average Wholesale Prices resulting in higher drug prices for purchasers and payers. The Company has removed the matter to the United States District Court for the Eastern District of Pennsylvania. On February 26, 2016, a companion action was filed in the Court of Common Pleas, Philadelphia County (PA) against the Company and others making substantially identical allegations to those made in the Plumbers Union Local 690 action. A motion to dismiss the *Plumbers Union* case is currently pending while the companion case is stayed pending the resolution of *Plumbers Union*.

2. The Company is a defendant in an action now pending in the Court of Appeals for the Fifth District of Texas at Dallas brought by the minority member in the Ranbaxy Signature Joint Venture. The complaint in that action seeks damages relating to management of the joint venture and the manner in which revenues were allocated to Ranbaxy Signature.

In addition to all of the above legal matters, the Company is also currently involved, and from time to time becomes involved, in certain other legal proceedings relating to the conduct of its business, including those pertaining to patents, product liability, contract and employment matters. The Company carries product liability insurance in an amount it believes is sufficient to meet the needs related to those cases involving products that it

manufactured. While the outcome of any of such proceedings cannot be accurately predicted, the Company does not believe that the ultimate resolution of any of these other existing proceedings will have a material adverse effect on its financial condition or liquidity.

Product Liability and Insurance

The Company currently maintains a product liability insurance policy with primary coverage limits of $10 million per incident and in the aggregate, and also an excess coverage of $40 million over and above the primary coverage. The Company's product liability policy provides coverage on a claims made basis and is subject to annual renewal. In addition, the Company maintains policies for property, workers compensation and officer and directors' liability and other general liability claims. There can be no assurance that the coverage limits of these policies will be adequate to cover the Company's liabilities, should they occur, or that such insurance may not be available in the future on acceptable terms or at all.

Regulatory Matters

Sun Detroit/Wixom Facilities

The Company stopped the manufacturing activities at its Detroit manufacturing facility during Fiscal 2015. Evaluating additions to current capacities related to acquisitions by the Company and also by other entities within the Sun family of companies, the Company determined it would be more efficient to permanently close this facility.

Following the closure of the Detroit facility, the Company began discussions with the FDA concerning vacating the Consent Decree. As of March 16, 2017, the United States District Court lifted the Consent Decree for the Detroit facility. While the Wixom facility remains under the Consent Decree, the company notified the FDA in February 2017 of its intention to cease distribution from this facility on or about June 30, 2017. Following the closure of the Wixom facility, the company will begin discussion with the FDA concerning vacating the Consent Decree.

Sun Cranbury Facility

The Cranbury, New Jersey facility was inspected during March 2017 with one minor observation identified. The FDA-483 response was provided to FDA on April 6, 2017 with all Corrective Actions and Preventive Actions (CAPA) closed.

DUSA

DUSA is registered as both an FDA drug manufacturing facility and an FDA device manufacturing facility. Both licenses are for the physical facility located in Wilmington, Massachusetts.

The last FDA inspection was September 2016 and was a comprehensive Drug Manufacturing Inspection and a limited Medical Device Inspection. There were no FDA 483's as a result of this inspection and there are no 483 observations issued or pending from any previous inspection.

(amounts in thousands)

Pharmalucence

Pharmalucence has two drug establishments currently registered with FDA, one located in Bedford, Massachusetts and the other located in Billerica, Massachusetts. In April 2016, the FDA completed inspections and issued the respective Establishment Inspection Report to each site. Both sites remain in good standing for cGMP compliance for drug manufacturing operations.

Chattem

Chattem has its primary manufacturing facility in Chattanooga, Tennessee. This facility has been inspected by the FDA and found to be compliant with cGMP standards.

Ohm

The Company has two manufacturing locations. One in North Brunswick, New Jersey and the other in New Brunswick, New Jersey. The most recent inspection of the North Brunswick facility was in October 2016 and there are no 483 observations issued or pending from any previous inspection. The most recent inspection of the New Brunswick facility was in November 2016 and there are no 483 observations issued or pending from any previous inspection.

19. SEGMENT INFORMATION

The Company operates in reportable segments consisting of Company-owned products and those products distributed under various agreements with Sun Limited and its affiliates, as well as third parties. The sales and gross profit earned on these categories of products are as follows for the year ended March 31:

	2017		2016	
	Sales	Gross Profit	Sales	Gross Profit
Category				
Company-owned products	$ 720,143	$ 347,594	$ 665,219	$ 291,119
Distributed products	626,496	40,855	542,792	38,080
Total	**$ 1,346,639**	**$ 388,449**	**$ 1,208,011**	**$ 329,199**

The Company is in the business of manufacturing, developing, selling and distributing various therapeutic classes of solid oral dosage and injectables of generic pharmaceuticals. The Company is also in the business of manufacturing, developing, selling and distributing various proprietary brand products in the therapeutic categories of ophthalmology, dermatology, oncology, and neurology. Most products in this area are in the development stage and the Company expects to bring these products to market in the future. There are no separate management teams or individuals assigned to a product or products or therapeutic classes of products, no separate allocation of funds or resources to distinct product or products or

(amounts in thousands)

therapeutic classes or products, and the performance of any individual product or products or therapeutic classes of products is not separately assessed. The Company's revenues are solely based on the receipt of customers' orders.

20. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing Activities
The Company financed the purchase of a building facility during Fiscal 2016 by entering into a capital lease in the amount of $11,580.

Other Cash Flows Information
Cash paid for interest and income taxes (net of refunds) amounted to the following during the year ended March 31:

	2017	2016
Interest	$ 13,125	$ 11,385
Income taxes paid (refunded)	$ 39,467	$ (13,860)

21. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the components of accumulated other comprehensive income for the year ending March 31, 2017:

Unrealized gains on available-for-sale securities held by unconsolidated entities	
Other comprehensive income	$ 11,186
Tax expense	(3,993)
Balance at end of year	**$ 7,193**

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