

**Sun Pharmaceutical  
Industries, Inc.  
and Subsidiaries**  
(a subsidiary of Sun Pharmaceutical  
Holdings USA, Inc.)

Years Ended  
March 31,  
2019 and 2018

Consolidated  
Financial  
Statements and  
Consolidating  
Supplementary  
Information  
(Restated and  
Reissued)

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

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**INDEPENDENT AUDITORS' REPORT**

July 9, 2019

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

We have audited the accompanying consolidated financial statements of *Sun Pharmaceutical Industries, Inc and Subsidiaries* (the "Company"), a subsidiary of Sun Pharmaceutical Holdings USA, Inc., which comprise the consolidated balance sheets as of March 31, 2019 and 2018, 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 audits 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 Industries Inc. and Subsidiaries* as of March 31, 2019 and 2018, 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.

### *Changes in Accounting Principles*

As described in Note 1, effective April 1, 2018, the Company implemented recent accounting principles related to revenue recognition and the recognition and measurement of certain financial assets and liabilities. Our opinion is not modified with respect to these matters.

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidated Balance Sheets (As Restated and Reissued)**  
*(amounts in thousands)*

	March 31	
	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 57,885	\$ 116,071
Accounts receivable, net	522,680	343,943
Accounts receivable - Sun Limited and affiliates	160,156	24,307
Inventories	270,461	277,058
Prepaid expenses and other assets	11,137	16,231
Note receivable	-	12,695
<b>Total current assets</b>	<b>1,022,319</b>	<b>790,305</b>
Property, plant and equipment		
Land	2,122	2,122
Buildings and improvements	33,839	28,135
Equipment	68,773	103,832
Furniture and fixtures	2,825	2,636
Vehicles	16,864	11,112
Construction in process	15,642	33,525
<b>Total</b>	<b>140,065</b>	<b>181,362</b>
Less accumulated depreciation	58,222	82,363
<b>Net property, plant and equipment</b>	<b>81,843</b>	<b>98,999</b>
Investments		
Marketable equity securities	262,588	2,777
Nonmarketable equity securities	7,361	36,576
Investment in unconsolidated subsidiaries	107,565	71,838
Convertible notes	11,100	7,000
<b>Total investments</b>	<b>388,614</b>	<b>118,191</b>
Goodwill	70,913	70,913
Other intangible assets, net	87,858	126,597
Deferred income taxes	-	47,357
<b>Total assets</b>	<b>\$ 1,651,547</b>	<b>\$ 1,252,362</b>

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

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidated Balance Sheets (As Restated and Reissued)**  
*(amounts in thousands)*

	March 31	
	2019	2018
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings	\$ 370,000	\$ 260,000
Accounts payable - trade	28,961	65,593
Accrued expenses	137,472	134,243
Current portion of contingent liability on acquisition	6,250	15,625
Current portion of capital lease obligations	4,551	1,992
Current portion of long-term debt	-	788
	<u>547,234</u>	<u>478,241</u>
<b>Total current liabilities</b>	<b>547,234</b>	<b>478,241</b>
Advances from affiliates	337,254	207,673
Allocation of income taxes payable	31,613	17,652
Contingent liability on acquisition, net of current portion	-	4,583
Capital lease obligations, net of current portion	13,337	17,350
Deferred income taxes	4,460	-
Long-term debt, net of current portion	-	15,945
	<u>933,898</u>	<u>741,444</u>
<b>Total liabilities</b>	<b>933,898</b>	<b>741,444</b>
<b>Commitments and contingencies (Notes 1, 12, 13, and 16)</b>		
<b>Shareholders' equity</b>		
Class A common stock, no par value; authorized 340,000,000 shares, issued and outstanding 228,098,308 shares (as restated)	-	-
Additional paid-in capital	565,595	565,595
Retained earnings (Accumulated Deficit)	152,054	(73,953)
Accumulated other comprehensive income	-	19,276
	<u>717,649</u>	<u>510,918</u>
<b>Total shareholders' equity</b>	<b>717,649</b>	<b>510,918</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,651,547</b>	<b>\$ 1,252,362</b>

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

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidated Statements of Income**  
*(amounts in thousands)*

	Year Ended March 31	
	2019	2018
Net sales	\$ 922,020	\$ 773,501
Cost of goods sold	610,701	514,703
Selling, general and administrative expenses	287,375	169,195
Research and development costs	9,868	19,150
Loss on disposal of property, plant, and equipment	7,742	10,228
Operating income	6,334	60,225
Other (expense) income		
Interest expense	(20,312)	(18,204)
Dividend and interest income	31,046	5,157
Gains on equity securities	48,894	-
Equity in earnings (losses) from unconsolidated subsidiaries	21,323	(6,040)
Gain on sale of intangible asset	149	-
Impairment of goodwill	-	(413)
Other income	276	1,333
Other income (expense), net	81,376	(18,167)
Income before income tax allocation	87,710	42,058
Allocation of income tax expense	20,277	24,741
Net income	\$ 67,433	\$ 17,317

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

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidated Statements of Comprehensive Income**  
*(amounts in thousands)*

	Year Ended March 31	
	2019	2018
Net income	\$ 67,433	\$ 17,317
Other comprehensive income, net of tax (Note 19)	-	10,439
Comprehensive income	<u>\$ 67,433</u>	<u>\$ 27,756</u>

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



**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidated Statements of Shareholders' Equity (As Restated and Reissued)**  
*(in thousands except share data)*

	Common Stock Shares (*)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balances, April 1, 2017 (Note 1)	42,184,294	\$ 565,595	\$ (89,626)	\$ 7,193	\$ 483,162
Comprehensive income	-	-	17,317	10,439	27,756
Issuance of newly created shares (Note 20)	185,914,014	-	-	-	-
Reclassification related to Tax Cuts and Jobs Act (Note 19)	-	-	(1,644)	1,644	-
Balances, March 31, 2018 (Note 1)	228,098,308	565,595	(73,953)	19,276	510,918
Net income	-	-	67,433	-	67,433
Cumulative effect of change in accounting principle (Note 1)	-	-	166,629	(19,276)	147,353
Distributions	-	-	(8,055)	-	(8,055)
Balances, March 31, 2019	<u>228,098,308</u>	<u>\$ 565,595</u>	<u>\$ 152,054</u>	<u>\$ -</u>	<u>\$ 717,649</u>

\* Note: The common stock of the Company has as no stated par value, thus all stock transactions reported in Additional Paid-In Capital.

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

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidated Statements of Cash Flows**

(in thousands)

	Year Ended March 31	
	2019	2018
Cash flows from operating activities		
Net income	\$ 67,433	\$ 17,317
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation	18,763	15,629
Amortization	38,543	37,769
Gains on equity securities	(48,894)	-
Equity in (earnings) losses from subsidiaries	(21,323)	6,040
Stock dividend from investee	(913)	-
Loss on disposal of property, plant, and equipment	7,759	10,228
Gain on sale of intangible asset	(149)	-
Deferred income taxes	4,256	11,365
Recovery of doubtful accounts	(1,633)	-
Contingent earn-out interest expense	-	227
Goodwill impairment charge	-	(413)
Changes in operating assets and liabilities which (used) provided cash		
Accounts receivable	(178,737)	(44,113)
Due from related parties	(135,849)	203,942
Inventories	6,597	(1,679)
Allocated income tax receivable / payable	13,961	23,757
Prepaid expenses and deposits	5,094	6,788
Accounts payable	(36,632)	(116,093)
Deferred revenue	-	(1,033)
Accrued expenses	(10,729)	52,320
Net cash (used in) provided by operating activities	<u>(272,453)</u>	<u>222,052</u>
Cash flows from investing activities		
Purchases and construction of property, plant and equipment	(12,680)	(19,450)
Proceeds on disposal of property, plant, and equipment	17,109	7,198
Proceeds from sale of intangible assets	344	-
Investment in unconsolidated entities	(6,111)	(13,943)
Distributions from unconsolidated subsidiaries	5,831	5,132
Issuance of convertible note	(4,100)	-
Proceeds from dissolution of joint venture interest	-	2,598
Net cash provided by (used in) investing activities	<u>393</u>	<u>(18,465)</u>
Cash flows from financing activities		
Proceeds from (repayment of) short-term bank borrowings	110,000	(50,000)
Advances from (repayments to) affiliates, net	129,581	(114,564)
Repayment of long-term debt	(16,733)	(756)
Repayment of capital lease obligations	(8,974)	(2,513)
Net cash provided by (used in) financing activities	<u>213,874</u>	<u>(167,833)</u>
Net (decrease) increase in cash and cash equivalents	(58,186)	35,754
Cash and cash equivalents, beginning of year	116,072	80,318
Cash and cash equivalents, end of year	<u>\$ 57,886</u>	<u>\$ 116,072</u>

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

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization and Nature of Business*

*Sun Pharmaceutical Industries, Inc.* ("Sun"), with headquarters in Princeton, New Jersey, is 96.32% owned by Sun Pharmaceutical Holdings USA, Inc. ("Sun Holding") and 3.68% owned by Sun Pharmaceutical Industries Limited ("Sun Limited").

The Company develops, licenses, manufactures, markets and distributes generic and brand prescription 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, cancer and pain management. The Company has brand products which currently are primarily intended to treat patients related to dermatology. The Company has divisions for the distribution of various proprietary brand products in the therapeutic categories of ophthalmology, dermatology (biologics), oncology and neurology.

Subsidiaries of Sun (together with Sun hereafter referred to as "the Company"), all of which are wholly owned, include:

Chattem Chemicals, Inc. ("Chattem") 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") sold its real property and operating assets in June 2016 and entered into a manufacturing contract agreement with the new owners to manufacture, in cooperation with Sun, certain of the drugs previously manufactured by the Company.

DUSA Pharmaceuticals Inc. ("DUSA") 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") 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.

Taro Development Corporation ("TDC") 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.

PI Real Estate Ventures, LLC ("PI"), a wholly owned subsidiary of Pharmalucence, was formed to hold the building and related debt in connection with Sun's acquisition of Pharmalucence. Any operating expenses incurred by PI are charged to Pharmalucence in the form of building rental, in such a manner that PI reports no profit or loss on its activities.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

*(amounts in thousands)*

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

### *Principles of Consolidation*

These 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 US 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. 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, valuation of investments, 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. Management does not believe the Company is exposed to any significant interest rate or other financial risk as a result of these deposits.

### *Investments*

The Company invests in equity securities of public and private companies to promote business and strategic objectives. These investments, although long-term, are generally focused on the development of these individual drugs and are not intended to be ongoing relationships.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

*(amounts in thousands)*

Marketable equity securities are equity securities with readily determinable fair value that are measured and recorded at fair value on a recurring basis with changes in fair value, whether realized or unrealized, recorded through the consolidated statement of operations. Prior to Fiscal 2019, these securities were classified as available-for-sale securities and measured and recorded at fair value with unrealized changes in fair value recorded through other comprehensive income. 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 such interests were acquired as strategic investments by Sun Limited and its subsidiaries. Prior to Fiscal 2019, this investment was carried at cost and was reflected in "Nonmarketable equity securities" at March 31, 2018 on the consolidated balance sheet.

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for using 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 noncorporate entities. Under the equity method of accounting, an Investee's underlying accounts are not reflected within the Company's consolidated balance sheets and consolidated income statements; rather, the Company's share of the earnings or losses of the Investee is reflected in the caption "Earnings (losses) from unconsolidated subsidiaries" in the consolidated statements of operations. Prior to Fiscal 2019, the Company's share of unrealized gains and losses, net of income tax, was reported in other comprehensive income. The Company's carrying value in an equity method Investee is reflected in the caption "Investment in unconsolidated subsidiaries" on the consolidated balance sheets.

Nonmarketable equity securities are equity securities without readily determinable fair values that are not accounted for under the consolidation or the equity method of accounting. Management has elected the measurement alternative for these investments that do not have readily determined fair values. Under this alternative, such investments are measured at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes in orderly transactions for an identical or similar investment of the same issuer. Prior to Fiscal 2019, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary-impairment. At March 31, 2019, the Company has outstanding capital commitments of approximately \$6,164 to these investees.

Realized and unrealized gains and losses resulting from changes in fair value or the sale of equity investments are reported as "Gains on equity securities" on the consolidated income statements. All gains recognized in Fiscal 2019 are unrealized. Prior to Fiscal 2019, unrealized gains and losses were recorded through other comprehensive income and realized gains and losses on the sale, exchange, or impairment of these equity investments through the consolidated income statements.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *Convertible Notes*

During Fiscal 2018, the Company converted a \$7,000 advance to one of its development stage investees into a convertible note. The convertible note matures in February 2020. Interest accrues at an annual rate of 5%. The investee may prepay the convertible note in \$1,000 increments without penalty. The Company has the right to convert any outstanding principal into shares of the investee's common stock, at any time on or before the maturity date at its discretion. If the Company chooses to convert, it will forfeit all accrued and unpaid interest.

During Fiscal 2019, an addendum to the original convertible note agreement was signed. As a result, the Company agreed to invest an additional \$5,000 of which \$4,100 was paid prior to March 31, 2019. This convertible note matured in June 2019, with no exercise or extension as of the date of these financial statements. Interest accrues at an annual rate of 12%. The investee may prepay the convertible note in \$1,000 increments without penalty. The Company has the right to convert any outstanding principal into shares of the investee's common stock, at any time on or before the maturity date at its discretion at a conversion price of \$5,000 per unit. If the Company chooses to convert, it will forfeit all accrued and unpaid interest. Additionally, the existing convertible note conversion price was amended to \$5,000 per unit from \$12,500 per unit.

The conversion feature of these notes does not allow for a cash settlement. The shares delivered on conversion are privately held and therefore not readily convertible to cash. As a result, the conversion feature does not have a net settlement characteristic and therefore does not meet the definition of a derivative.

### *Advances from Affiliates (Related by Common Ownership and Management Control)*

The Company has received funds, on various dates, from Alkaloida Chemical Co. ZRT. Additionally, in Fiscal 2019, the Company received funds from Sun Pharma Netherlands B.V. These advances are considered unsecured operating loans. 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 affiliates' discretion, it is not anticipated that this will occur within the next year and accordingly the advances have been classified as noncurrent in the consolidated balance sheets.

### *Revenue Recognition*

Revenue from product sales is recognized only when: the parties to the contract have approved it and are committed to perform their respective obligation, the Company can identify each party's rights regarding the distinct goods or services to be transferred ("performance obligations"), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer, excluding amounts collected on behalf of other third parties and sales taxes.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

*(amounts in thousands)*

The amount of consideration the Company expects to be entitled varies as a result of rebates, chargebacks, returns, and other sales reserves and allowances the Company offers its customers and their customers, as well as the occurrence or nonoccurrence of future events, including milestone events. A minimum amount of variable consideration is recorded concurrently with the satisfaction of performance obligations to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimates of variable consideration are based on historical experience and the specific terms in the individual agreements (which management believes approximates expected value). Rebates and chargebacks are the largest components of sales reserves and allowances. For further description of sales reserves and allowances and how they are estimated, see "Allowances for Sales Adjustments" below.

Shipping and handling costs are considered to be a fulfillment cost. These costs are included in selling, general and administrative expenses and amounted to \$7,824 and \$6,134 in Fiscal 2019 and F2018, respectively.

The Company does not adjust the promised consideration for the effects of a significant financing component as it is expected, at contract inception, that the period between the transfer of the promised goods or services to the customer and the time the customer pays for these goods or services to be generally one year or less. The Company's credit terms to customers are in average between sixty and ninety days.

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. Pharmeducence's primary customers are radiopharmaceutical pharmacies.

Revenue from the sales of goods, including sales to wholesalers, is recognized when the customer obtains control of the product. This generally occurs when the products are received by the customers and they obtain the risks and rewards of ownership and the Company has a right to payment.

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 606-10-55-37, "Principal versus Agent Considerations." Management 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 which led management to make such determination include the following: (1) the title of the goods have been transferred to the Company and the Company assumes all general inventory risks; (2) the Company is responsible for fulfilling the promise to provide the specified good to customers; and (3) the Company has discretion in establishing the prices for the specific good.

Contract assets are mainly comprised of trade receivables net of doubtful accounts, which includes amounts billed and currently due from customers.

Contract liabilities are mainly comprised of trade accounts payable, accrued expenses and at times, deferred revenues. 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. These deferred amounts are immaterial at March 31, 2019 and 2018.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *Allowances for Sales Adjustments*

Variable consideration includes sales reserves and allowances. Chargebacks, customer rebates, shelf stock adjustments and sales discounts are netted against trade receivables. Sales returns, Medicaid and Medicare rebates, managed care rebates, and patient coupons are recorded within accrued expenses on the consolidated balance sheets. The Company recognizes these provisions at the time of the sale and adjusts them if the actual amounts differ from the estimated provisions. The following briefly describes the nature of each deduction and how the provisions are estimated:

### *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.

Approximately 77% and 65% of the total allowance for trade receivables at March 31, 2019 and 2018, respectively, have been established to provide for estimated sales chargebacks (Note 3).



# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *Shelf Stock Adjustments*

General practices within the pharmaceutical industry include granting customers a shelf stock adjustment based on the customers' existing inventory and decreases in the market price of the related product. The most significant of these adjustments relate to products for which an exclusivity period exists.

Management considers the following factors when recording an allowance for shelf stock adjustments: 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.

### *Rebates*

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 and Other Governmental Rebates*

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, 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, and fluctuations in sales volumes.

### *Product Returns*

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.

### *Other Allowances*

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 the Company pays to its 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.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *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 first-in, first-out method, or net realizable value. 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 obsolescence 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 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.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *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 assets are 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 (See Note 5).

### *Allocation of Income Taxes*

The Company is a party to a tax sharing arrangement with Sun Holding (Note 11) and affiliates related through common ownership and management control. The Company reports income taxes in these consolidated financial statements using the separate return method. Deferred income tax assets and liabilities are computed annually for differences between the consolidated 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 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.

See Note 11 for a description of the impact of the Federal Tax Cuts and Jobs Act, which the U.S. Government enacted on December 22, 2017.

### *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 2019 or 2018.

### *Advertising and Promotion Costs*

Advertising and promotion costs which are expensed as incurred and included in selling, general and administrative expenses, amounted to \$21,336 and \$6,200 in Fiscal 2019 and 2018, respectively.

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## Notes to Consolidated Financial Statements

(amounts in thousands)

### *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, a \$413 impairment charge was necessary at March 31, 2018 for the portion of goodwill related to the Jacksonville, Florida location that was closed in Fiscal 2018 (Note 5). The Company concluded, based on management's assessment, no such charge was considered necessary at March 31, 2019.

### *Other Intangible Assets*

Intangible assets with definite lives are amortized over periods ranging from three to fifteen years and are evaluated for impairment at least annually. Intangibles are included in the "Other intangible assets, net" caption on the consolidated balance sheets. The Company concluded, based on management's assessment, that there was no impairment at March 31, 2019 or 2018.

### *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.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *Change in Accounting Principles*

The Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in May 2014. The standard requires revenue to be recognized when promised goods and services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The standard also requires expanded disclosures regarding revenue and contracts with customers. On April 1, 2018, the Company adopted the standard using the modified retrospective method. There was no impact to the timing or amount of revenue recognized as a result of this adoption.

The Financial Accounting Standards Board issued ASU No. 2016-01, *Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, in January 2016. The new standard is effective for the Company in Fiscal 2019. This ASU requires (1) certain equity investments to be measured at fair value with changes in fair value to be recognized in net income. Equity investments that do not have readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer; (2) a qualitative assessment of equity investments without readily determinable fair values to identify impairment; and (3) a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the consolidated balance sheet or in these notes. On April 1, 2018, the Company adopted the standard using the modified retrospective method and, therefore, no adjustments were made to amounts previously reported in the consolidated financial statements. As a result of the adoption, the Company recorded a cumulative effect adjustment as an increase to equity of \$147,353 (cumulative previously unrecognized unrealized gains of \$194,912 net of related deferred income tax of \$47,559).

On February 14, 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")*. The ASU allows a reclassification from AOCI to retained earnings for deferred income taxes previously recorded in AOCI that exceed the current federal tax rate of 21% resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act (the Act). The Company elected to early adopt the ASU, which affects only the year that the effects related to Tax Reform are recognized. Refer to Note 19 for the impact of this election on the Fiscal 2018 consolidated financial statements.

### *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, 2019, the most recent consolidated balance sheet presented herein, through July 8, 2019, the date these consolidated financial statements were available to be issued. No such significant events or transactions were identified.

## 2. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

On April 1, 2018, the Company adopted a new accounting and disclosure standard related to accounting for the recognition of financial assets and liabilities.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

*(amounts in thousands)*

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Marketable equity securities, the convertible notes, and the contingent liability on acquisition are recorded at fair value on a recurring basis. 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. The description includes an indication of the level of the fair value hierarchy in which the assets are classified.

### *Marketable Equity Securities*

Marketable securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets. All marketable equity security investments as of March 31, 2019 and 2018 are considered Level 1 securities.

### *Convertible Notes*

As quoted prices in active markets or other observable inputs were not available for these notes, in order to measure them at fair value, the Company utilized a discounted cash flow model using a discount rate reflecting the market risk inherent in holding securities of an early-stage enterprise. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible notes; accordingly, the asset was categorized within Level 3 of the fair value hierarchy. At March, 31, 2019 and 2018, it was determined that cost reasonably approximates the estimated fair value of the notes.

### *Contingent Liability on Acquisition*

As quoted prices in active markets or other observable inputs were not available for this liability, in order to measure it at estimated fair value, the Company utilized a discounted cash flows model using a discount rate reflecting the current market lending rate. This methodology required the Company to make assumptions that were not directly or indirectly observable regarding the fair value of the convertible note; accordingly, the asset was categorized within Level 3 of the fair value hierarchy. At March 31, 2019 and 2018, it was determined that cost approximates the fair value of the liability.

The preceding methods described may produce fair value calculations that may not be indicative of net realizable values 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.

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(amounts in thousands)

*Assets and Liability Recorded at Fair Value on a Recurring Basis*

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets and liability measured at estimated fair value on a recurring basis at March 31:

2019	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Marketable equity securities				
Healthcare industry	\$ 262,588	\$ -	\$ -	\$ 262,588
Convertible notes	-	-	11,100	11,100
<b>Total assets at fair value</b>	<b>\$ 262,588</b>	<b>\$ -</b>	<b>\$ 11,100</b>	<b>\$ 273,688</b>

2018	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Marketable equity securities				
Healthcare industries	\$ 2,777	\$ -	\$ -	\$ 2,777
Convertible note	-	-	7,000	7,000
<b>Total assets at fair value</b>	<b>\$ 2,777</b>	<b>\$ -</b>	<b>\$ 7,000</b>	<b>\$ 9,777</b>

2019	Liability at Fair Value			
	Level 1	Level 2	Level 3	Total
Contingent liability on acquisition	\$ -	\$ -	\$ 6,250	\$ 6,250

2018	Liability at Fair Value			
	Level 1	Level 2	Level 3	Total
Contingent liability on acquisition	\$ -	\$ -	\$ 20,208	\$ 20,208

The following table sets forth a summary of changes in the fair value of the Company's Level 3 assets measured at estimated fair value on a recurring basis for the year ended March 31:

	2019	2018
Beginning balance of recurring Level 3 assets	\$ 7,000	\$ -
Investment in convertible notes	4,100	7,000
<b>Ending balance of recurring Level 3 assets</b>	<b>\$ 11,100</b>	<b>\$ 7,000</b>

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The following table sets forth a summary of changes in the fair value of the Company's Level 3 liability measured at estimated fair value on a recurring basis for the year ended March 31:

	2019	2018
Beginning balance of recurring Level 3 liability	\$ 20,208	\$ 19,981
Change in estimate*	(13,958)	-
Recognition of discounted value	-	227
	<u>6,250</u>	<u>20,208</u>
Ending balance of recurring Level 3 liability	<u>\$ 6,250</u>	<u>\$ 20,208</u>

\*During Fiscal 2019, certain obligations related to the contingent liability were not met within the timeframe specified in the original acquisition agreement. As a result, management concluded that the obligation to the previous owner no longer existed and reversed the portion of the liability related to these obligations. This reversal was recognized as a reduction of selling, general, and administrative expenses in the 2019 consolidated income statement.

**3. ACCOUNTS RECEIVABLE, NET**

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

	2019	2018
Accounts receivable, gross	<u>\$ 644,906</u>	<u>\$ 499,371</u>
Valuation allowances		
Chargebacks and shelf stock	93,762	101,145
Direct and indirect rebates (includes administrative fees, service fees and related allowances, etc.)	14,599	26,842
Cash discounts	13,147	10,084
Allowance for doubtful accounts	564	17,240
Other concessions	154	117
	<u>122,226</u>	<u>155,428</u>
Total valuation allowances	<u>122,226</u>	<u>155,428</u>
Accounts receivable, net	<u>\$ 522,680</u>	<u>\$ 343,943</u>



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The following table sets forth a summary of the activity in the accounts receivable valuation allowances for the Fiscal year ended March 31:

	2019	2018
Beginning balance	\$ 155,428	\$ 167,465
Additions charged to net sales	1,884,019	1,787,846
Deductions allowed to customers	<u>(1,917,221)</u>	<u>(1,799,883)</u>
Ending balance	<u>\$ 122,226</u>	<u>\$ 155,428</u>

**4. INVENTORIES**

Inventories consist of the following components at March 31:

	2019	2018
Raw materials	\$ 20,994	\$ 23,822
Work in process	9,018	14,599
Goods in transit (distributed products)	18,106	18,909
Finished goods (Company-owned products)	199,332	205,355
Finished goods (distributed products)	<u>23,011</u>	<u>14,373</u>
Total inventory	<u>\$ 270,461</u>	<u>\$ 277,058</u>

The principal components used in the Company's business are active and inactive pharmaceutical ingredients and certain packaging materials. While some of these components are purchased from single sources, 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 purchased finished goods for distribution under various marketing agreements.

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(amounts in thousands)

**5. PROPERTY, PLANT AND EQUIPMENT**

In July 2018, the Company announced plans to consolidate its New Jersey manufacturing facilities with Ohm Laboratories, Inc. ("Ohm"), an entity related through common ownership and management control. As a result, a leased facility in Cranbury, New Jersey was closed in March 2019. During Fiscal 2019, the Company recognized approximately \$21,000 in costs related to this closure including severance, asset write-offs, accelerated depreciation, remaining lease commitments, and exit cleanup costs. Of the approximate \$21,000 in costs, \$7,742 and \$13,258 is recognized within "Loss on disposal of property, plant, and equipment" and "Selling, general, and administrative expenses," respectively, in the Fiscal 2019 consolidated income statement. Additionally, approximately \$8,000 in equipment was transferred to Ohm. This transaction occurred based on the carrying value of the assets at the time of the transfer and was treated as a capital contribution.

In October 2018, Pharmeducence sold its Bedford, Massachusetts facility that was utilized for research and development and inventory storage and recorded a gain of approximately \$125 within "Loss on disposal of property, plant, and equipment" in the 2019 consolidated income statement. Total consideration was \$1,608 which was received in full at March 31, 2019. All operations for this subsidiary are now completed at the Billerica, Massachusetts facility.

During Fiscal 2018, the Company sold its dormant manufacturing facility located in Detroit, Michigan and recorded a loss of approximately \$1,447 within "Loss on disposal of property, plant, and equipment" in the 2018 consolidated statement of operations. Total consideration was \$5,349 which was received in full on the date of the sale.

In addition, during Fiscal 2018 the Company closed its distribution facility in Jacksonville, Florida that is subject to a long-term lease. Currently, the facility is vacant as the Company explores sub-lease options with the landlord. As a result, the facility's estimated useful life was adjusted, and the Company recognized accelerated depreciation of approximately \$8,100 in Fiscal 2018 which is included in "Selling, general, and administrative expenses" in the Fiscal 2018 consolidated income statement.

**6. OTHER INTANGIBLE ASSETS**

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

	2019	2018
Patents and trademarks	\$ 338,364	\$ 325,450
Product rights and licenses	25,000	25,000
Technical know-how	3,028	20,190
Other	2,500	2,500
	<hr/>	<hr/>
Total	368,892	373,140
Less accumulated amortization	281,034	246,543
	<hr/>	<hr/>
Other intangible assets, net	<u>\$ 87,858</u>	<u>\$ 126,597</u>

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
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(amounts in thousands)

Intangible assets are amortized ratably over periods ranging from 3 to 15 years, which correspond with the expected periods of future economic benefit.

Estimated annual amortization expense for each of the five years succeeding March 31, 2019 and thereafter, are summarized as follows:

Year Ended March 31	Amount
2020	\$ 38,608
2021	25,725
2022	8,771
2023	6,543
2024	6,621
Thereafter	<u>1,590</u>
Total	<u>\$ 87,858</u>

**7. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES**

At March 31, 2019, investments accounted for under the equity method, and the percentage interest owned, consisted of Frazier Healthcare VII, L.P. (6.83%), Versant Venture Capital V, L.P. (7.46%), Medinstill LLC (19.99%), Atlas Venture Fund X L.P. (3.57%), and 5AM Ventures IV L.P. (3.33%). At March 31, 2018, investments accounted for under the equity method, and the percentage interest owned, consisted of Frazier Healthcare VII, L.P. (6.83%), Versant Venture Capital V, L.P. (7.46%), Medinstill LLC (19.99%), and scPharmaceuticals, Inc. (11.69%). These investments are reflected in the caption "Investment in unconsolidated subsidiaries" on the Company's consolidated balance sheets.

On April 1, 2018, the Company adopted a new accounting and disclosure principle related to accounting for the recognition of certain financial assets and liabilities. As a result of the adoption, the investments in Atlas Venture Fund X L.P. and 5AM Ventures IV L.P. are now reported as unconsolidated subsidiaries and accounted for under the equity method. At March 31, 2018, these investments were carried at their cost basis of \$12,827. The Company recorded the \$13,059 cumulative impact of the change in accounting principle for these interests as an increase to the investment as of April 1, 2018 and a \$9,873 and \$3,186 increase to retained earnings and deferred income tax liabilities, respectively, at that date.

In April 2018, the Company vacated its position on the board of directors of scPharmaceuticals. As a result, the Company no longer exercises significant influence over this investee and now classifies its investment in scPharmaceuticals within "Marketable equity securities" on the consolidated balance sheets. There was no impact on the 2018 consolidated income statement as a result of this change in classification.

During Fiscal 2018, S & I Ophthalmic, LLC was dissolved. As a result, the Company received a final distribution of \$2,598.

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

Balance, April 1, 2017	\$ 68,571
Capital contributions	16,484
Proportionate share of equity in net loss	(6,040)
Distributions	(4,579)
Dissolution of S & I Ophthalmic	<u>(2,598)</u>
Balance, March 31, 2018	71,838
Change in accounting principle and reclassification	25,886
Reclassification of scPharmaceuticals	(8,537)
Capital contributions	2,886
Proportionate share of equity in net income	21,323
Distributions	<u>(5,831)</u>
Balance, March 31, 2019	<u>\$ 107,565</u>

At March 31, 2019, the Company has outstanding capital commitments of approximately \$3,900 to these investees.

Combined, condensed financial information underlying the Company's interests in unconsolidated subsidiaries, accounted for using the equity method, is summarized as follows at March 31:

	2019	2018
Current assets	\$ 63,459	\$ 129,806
Investments at estimated fair value	2,086,039	733,917
Property and equipment	<u>3,711</u>	<u>6,393</u>
Total assets	<u>\$ 2,153,209</u>	<u>\$ 870,116</u>
Current liabilities	\$ 51,462	\$ 50,479
Noncurrent liabilities	6,928	18,190
Total equity	<u>2,094,819</u>	<u>801,447</u>
Total liabilities and equity	<u>\$ 2,153,209</u>	<u>\$ 870,116</u>

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Combined, condensed financial information underlying the Company's interests in unconsolidated subsidiaries, accounted for using the equity method, is summarized as follows at March 31:

	2019	2018
Operating income	\$ 389	\$ 3,145
Realized gain on investments	114,679	14,171
Research and development	(698)	(3,600)
Management fees	(17,149)	(8,702)
Professional fees	(862)	(799)
Other expenses	(2,548)	(2,296)
	<u>93,811</u>	<u>1,919</u>
Net income	93,811	1,919
Other comprehensive income	495,351	185,653
	<u>589,162</u>	<u>187,572</u>
Comprehensive income	\$ 589,162	\$ 187,572

**8. ACCRUED EXPENSES**

Accrued expenses consist of the following amounts at March 31:

	2019	2018
Sales returns	\$ 43,537	\$ 47,848
Medicaid rebates	11,224	20,559
Managed care	25,407	21,290
Employee-related benefits	16,954	6,905
Royalties and profit sharing	15,636	12,216
Patient coupons	24,464	25,373
Other	250	52
	<u>137,472</u>	<u>134,243</u>
Total	\$ 137,472	\$ 134,243

**9. SHORT-TERM BANK BORROWINGS**

In November 2018, the Company entered into an uncommitted line of credit agreement ("credit agreement") with Standard Chartered Bank with a termination date of November 20, 2020. The maximum available borrowings under the credit agreement is \$160,000, which is outstanding at March 31, 2019. The effective interest rate was 3.24% at March 31, 2019.

In December 2016, the Company entered into an uncommitted revolving line-of-credit agreement (revolving agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan") for a maximum borrowing availability of \$200,000, which is outstanding at March 31, 2019 and 2018. The agreement has no fixed termination date, and thus will terminate at such time either party chooses. The effective interest rate was 3.05% at March 31, 2019.

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(amounts in thousands)

In addition to the \$200,000 revolving credit 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, 2019 and 2018. The agreement terminates on May 31, 2020. The effective interest rate was 3.25% at March 31, 2019.

The Company had an uncommitted line of credit agreement (“credit agreement”) with Citibank, N.A. (“Citibank”). During Fiscal 2018, the term of the line was extended from January 2018 to January 2019 at which time it was paid in full. The maximum borrowings under the credit agreement was \$50,000, which was outstanding at March 31, 2018.

### 10. LONG-TERM DEBT

As part of the Fiscal 2015 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 an assumed balance of \$19,355 at the time of the acquisition in Fiscal 2015. The loan was repaid in full during Fiscal 2019.

### 11. ALLOCATION OF INCOME TAXES

The allocation of income taxes consists of the following components for the year ended March 31:

	2019	2018
Current expense	\$ 16,021	\$ 10,601
Deferred expense	4,256	14,140
Total income tax allocation	<u>\$ 20,277</u>	<u>\$ 24,741</u>

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, among other provisions. The Company remeasured certain deferred income tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%, resulting in an immediate income tax charge of \$8,581 in Fiscal 2018.

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Notes to Consolidated Financial Statements**

(amounts in thousands)

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

	2019	2018
Federal tax (benefit) at statutory rate (21% for Fiscal 2019, 31.5% for Fiscal 2018)	\$ 18,419	\$ 13,248
Deemed repatriation	1,068	-
Dividend income	(1,699)	-
GILTI tax	3,316	-
Remeasurement impact of the Tax Cuts and Jobs Act	-	8,581
Research and development credit	(1,072)	(300)
Other	245	3,212
	<u>20,277</u>	<u>24,741</u>
Total income tax allocation	<u>\$ 20,277</u>	<u>\$ 24,741</u>

The net deferred income tax (liability) asset consist of the following components at March 31:

	2019	2018
Deferred tax assets		
State net operating loss carryforwards (NOLs)	\$ 210	\$ -
Receivables	16,696	20,682
Intangibles	15,225	10,042
Inventory	5,001	4,106
Investments	-	3,119
Depreciation	149	-
Accrued expenses and other	19,752	11,652
	<u>57,033</u>	<u>49,601</u>
Total deferred tax assets	<u>57,033</u>	<u>49,601</u>
Deferred tax liabilities		
Investments	61,493	-
Depreciation	-	2,244
	<u>61,493</u>	<u>2,244</u>
Total deferred tax liabilities	<u>61,493</u>	<u>2,244</u>
Net deferred tax (liability) asset	<u>\$ (4,460)</u>	<u>\$ 47,357</u>

The Company has a tax sharing arrangement with its Parent and affiliates related through common ownership and management control. The arrangement, among other stipulations, requires that a consolidated federal income tax return will be filed, and that the Parent will pay/receive monies due to/from the Company based on the Company's separate taxable results.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

*(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. No such valuation allowances considered necessary as of March 31, 2019 or 2018.

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 2017 to 2019) in these jurisdictions. The Company believes that no adjustments for unrecognized tax benefit or benefit are necessary as a result of this analysis. The Company reports interest and penalties attributable to income taxes to the extent they arise, as a component of its operating expenses.

The Internal Revenue Service has concluded an examination of Sun's Fiscal 2013 through 2015 tax returns. As a result, tax return adjustments resulting in approximately \$3,800 of additional tax expense were made and included within the Fiscal 2018 tax provision. The IRS has also completed its examination of Sun's Fiscal 2016 tax return and issued tax return adjustments resulting in approximately \$29,314 of additional tax expense. The Company is disputing the assessment and has not included any additional tax expense within the Fiscal 2019 tax provision. The IRS has opened an audit related to the 2017 Sun tax return. No final audit adjustments have been communicated related to Sun's Fiscal 2017 return and management believes that such adjustments, if any, will not have a material impact on the Company's consolidated financial statements.

## 12. LEASES (INCLUDING RELATED PARTY)

The Company conducts a portion of its operations with leased property and equipment, including a warehouse facility in Jacksonville, Florida and related equipment, a portion of which meet capitalization criteria. As discussed in Note 5, the Company closed the leased Jacksonville, Florida facility in Fiscal 2018 and accelerated depreciation on the related asset. In Fiscal 2019, the Company and the lessor entered into a termination agreement that enabled the lessor to execute a substitute lease. Under the terms of this agreement, the Company continued to make payments on the facility until the lessor could execute the substitute lease which occurred in November 2018. The Company's contract for the lease is considered to be terminated eleven months subsequent to the execution of the substitute lease (October 2019). Additionally, the lessor is to pay the Company a daily fee for each day that the termination date extends beyond April 1, 2019. As a condition of the termination agreement, the Company's deposited \$6,300 into an escrow account. At March 31, 2019, the escrow payment has been accounted for as a reduction of the related capital lease obligation.

The Company rents its facilities in Cranbury, New Jersey, and Wilmington, Massachusetts. These leases are with third parties and are noncancelable. The Company rented a facility in Wixom, Michigan which expired in Fiscal 2018. The Cranbury lease expires in Fiscal 2021 and the Wilmington lease expires in Fiscal 2020. Net rental expense for all operating leases was \$6,485 and \$6,076 in Fiscal 2019 and 2018, respectively.

In addition, in January 2014, the Company entered into a ten-year noncancelable lease for the rental of office space in Cranbury, New Jersey, from an affiliated company, Taro. Rent expense for this lease was \$1,129 and \$1,115 in Fiscal 2019 and 2018, respectively.



**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Notes to Consolidated Financial Statements**

(amounts in thousands)

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

	2019	2018
Building	\$ 24,377	\$ 24,377
Vehicles	11,252	11,110
Equipment	233	233
Computers	75	75
	<hr/>	<hr/>
Total	35,937	35,795
Less accumulated amortization	30,017	27,403
	<hr/>	<hr/>
Net book value	<u>\$ 5,920</u>	<u>\$ 8,392</u>

The following is a schedule of annual future minimum lease payments required under capitalized leases with imputed interest rates ranging from 5 to 9.7%, and under operating leases with initial or remaining noncancelable lease terms in excess of one year as of March 31, 2019:

Year Ended March 31	Capitalized Leases	Noncancelable Operating Leases (including affiliates)
2020	\$ 7,754	\$ 2,574
2021	4,594	2,137
2022	4,151	2,158
2023	2,732	1,989
2024	942	1,639
Thereafter	4	4,679
	<hr/>	<hr/>
Total minimum payments due	20,177	<u>\$ 15,176</u>
Less amounts representing interest	<u>2,289</u>	
Present value of net minimum lease payments	<u>\$ 17,888</u>	

**13. 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 Fiscal 2019 and 2018, royalty and profit share expense was \$28,204 and \$58,412, respectively. Of these amounts, \$26,013 and \$56,237, respectively, have been included in cost of goods sold and \$2,191 and \$2,175, respectively, have been included in selling, general and administrative expenses in the consolidated income statements.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### 14. RETIREMENT PLAN

The Company maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, 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 the plan. The Company made contributions in the amounts of \$4,952 and \$5,313 to the plan for Fiscal 2019 and Fiscal 2018, respectively.

### 15. SALES CONCENTRATIONS

#### *Major Customers*

Shipments to five customers, including three wholesalers, accounted for approximately 63% and 66% of net revenues for Fiscal 2019 and 2018, respectively. Balances due from these customers (gross outstanding amounts) represented approximately 63% and 65% of gross accounts receivable at March 31, 2019 and 2018, 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 2019 or 2018. The loss of any of these customers would have a materially adverse effect on short-term operating results.

#### *Major Products*

Shipments of three products accounted for 35% and 37% of net sales for Fiscal 2019 and 2018, respectively.

### 16. COMMITMENTS, CONTINGENCIES, AND 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.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *Litigation*

The Company is involved in various legal proceedings including product liability, contracts, employment claims, anti-trust and other regulatory matters relating to conduct of its business. The more significant matters are discussed below. Most of the legal proceedings involve complex issues, which are specific to the case and do not have precedents and hence for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors including: the stage of the proceedings and the overall length and the discovery process; the entitlement of the parties to an action to appeal a decision; the extent of the claims, including the size of any potential class, particularly when damages are not specified or are indeterminate; the possible need for further legal proceedings to establish the appropriate amount of damages, if any; the settlement posture of the other parties to the litigation and any other factors that may have a material effect on the litigation. Management makes an assessment of likely outcome, based on the views of internal legal counsel and in consultation with external legal counsel representing the Company. The Company also believes that disclosure of the amount sought by plaintiffs, generally would not be meaningful because historical evidence indicates that the amounts settled (if any) are significantly different than those claimed by plaintiffs. Some of the legal claims against the Company, if decided against the Company may result in a material impact on consolidated results of operations or cash flows of a given period during which the claim is settled.

### *Antitrust - Generic Drug Price Fixing*

The Company received a grand jury subpoena from the United States Department of Justice, Antitrust Division, seeking documents relating to corporate and employee records, generic pharmaceutical products and pricing, communications with competitors and others regarding the sale of generic pharmaceutical products, and certain other related matters. The Company is in the process of responding to the subpoenas. Certain current and former officers and employees in the Company's commercial teams have also received related subpoenas. A similar subpoena was received by the Company from the Connecticut Attorney General.

The Company has separately received a Civil Investigative Demand from the U.S. Department of Justice pursuant to the False Claims Act seeking information relating to corporate and employee records, generic pharmaceutical products and pricing, communications and/or agreements with competitors and others regarding the sale of generic pharmaceutical products, and certain other related matters. The Company is in the process of responding to the subpoenas.

The Company is a defendant along with other pharmaceutical companies in a number of punitive class action lawsuits and individual actions brought by purchasers and payors of several generic pharmaceutical products, as well as State Attorneys Generals, alleging a conspiracy with competitors to fix prices, rig bids, or allocate customers, and also an industry-wide conspiracy as to all generic pharmaceutical products. The cases have been transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings. The Court has sequenced the lawsuits into separate groups for purposes of briefing motions to dismiss. Defendants filed motions to dismiss complaints in the first group. On October 16, 2018, the Court denied the motions with respect to the federal law claims. On February 15, 2019, the Court granted in part and denied in part the motions with respect to the state law claims. The case is proceeding in discovery.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES (a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Notes to Consolidated Financial Statements

(amounts in thousands)

### *Antitrust - Modafinil*

The Company is a defendant in a group of putative class action lawsuits and individual actions brought by purchasers and payors, as well as a generic manufacturer, alleging that the Company and its affiliates violated antitrust laws in connection with a 2005 patent settlement agreement with Cephalon concerning Modafinil. The cases were transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings. The Company has reached settlements with all but one plaintiff.

### *Antitrust - Lipitor*

The Company is a defendant in a number of putative class action lawsuits and individual actions brought by purchasers and payors alleging that the Company and its affiliates violated antitrust laws in connection with a 2008 patent settlement agreement with Pfizer concerning Atorvastatin. The cases have been transferred to the United States District Court for the District of New Jersey for coordinated proceedings. The case is proceeding in discovery.

### *Product Liability and Insurance*

The Company currently maintains a product liability insurance policy which 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 - Wixom Facility**

The Wixom warehouse distribution activities were transferred to the TARO New Jersey Distribution Center as of June 2017 and the facility has been vacated as of November 2017. The related lease expired in January 2018 and the Company will be requesting the Court to vacate the Consent Decree.

#### **Sun - Cranbury, DUSA, Pharmeducence, and Chattem Facilities**

All facilities remain in good standing for cGMP compliance for FDA registered drug or device manufacturing operations.

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Notes to Consolidated Financial Statements**

(amounts in thousands)

**17. OPERATING 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 summarized as follows for the year ended March 31:

Category	2019		2018	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Company-owned products	\$ 639,896	\$ 257,516	\$ 593,678	\$ 233,680
Distributed products	282,124	53,803	179,823	25,118
<b>Total</b>	<b>\$ 922,020</b>	<b>\$ 311,319</b>	<b>\$ 773,501</b>	<b>\$ 258,798</b>

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

**18. SUPPLEMENTAL CASH FLOWS INFORMATION**

*Non-Cash Investing Activities*

The Company financed the acquisition of vehicles by entering into capital leases totaling \$7,520 and \$11,110 in Fiscal 2019 and Fiscal 2018, respectively. Additionally, during Fiscal 2018 the Company received distributions in the amount of \$1,565 in the form of marketable securities from an unconsolidated subsidiary.

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

	2019	2018
Interest	\$ 21,535	\$ 14,898
Income taxes refunded	\$ -	\$ (268)

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Notes to Consolidated Financial Statements**

(amounts in thousands)

**19. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes in the components of accumulated other comprehensive income for the years ending March 31:

	2019	2018
Unrealized gains on available-for-sale securities		
Balance at beginning of year	\$ 19,276	\$ 7,193
Other comprehensive income	-	13,214
Income taxes	-	(2,775)
Other comprehensive income, net of tax	-	10,439
Reclassification related to implementation of ASU 2016-01*	(19,276)	-
Reclassification related to Tax Cuts and Jobs Act **	-	1,644
Balance at end of year	<u>\$ -</u>	<u>\$ 19,276</u>

\* In Fiscal 2019, the Company adopted ASU 2016-01, which resulted in an accounting reclassification of these amounts from accumulated other comprehensive income to retained earnings.

\*\* In Fiscal 2018, the Company adopted ASU 2018-02, which resulted in an accounting reclassification of these amounts from accumulated other comprehensive income to retained earnings.

**20. RESTATEMENT AND REISSUANCE OF CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements have been restated and are being reissued in order to properly reflect an issuance of additional shares of common stock which occurred in March of 2018. The shares were ultimately issued to Sun Pharmaceutical Holdings USA, Inc., which increased its ownership of Sun from 80.12% to 96.32%. There was no consideration exchanged related to the issuance of these shares. In addition, a correction has been made to properly allocate equity between "Additional Paid-In Capital" and "Retained Earnings". Additional Paid-In Capital has been increased and Retained Earnings decreased by \$379,397 at both March 31, 2019 and 2018. These restatements to reflect the increased number of authorized and outstanding common shares held by Sun Pharmaceutical Holdings USA, Inc. and the proper allocation of equity accounts have no impact on the reported results, financial position, or cash flows of Sun, as previously issued and reported.

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**INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING SUPPLEMENTARY INFORMATION**

July 9, 2019

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

We have audited the consolidated financial statements of *Sun Pharmaceutical Industries, Inc. and Subsidiaries* as of and for the years ended March 31, 2019 and 2018, and have issued our report thereon dated July 9, 2019, which expressed an unmodified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating and individual entity financial information of Sun Pharmaceutical Industries, Inc. and Subsidiaries is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information, which is the responsibility of management, was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**CONSOLIDATING SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED  
MARCH 31, 2019 AND 2018**



**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidating Balance Sheet**

March 31, 2019

(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmaulucence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
<b>ASSETS</b>										
<b>Current assets</b>										
Cash and cash equivalents	\$ 38,497	\$ 1,330	\$ 1,096	\$ 6,412	\$ 10,550	\$ -	\$ -	\$ -	-	57,885
Accounts receivable, net	472,262	4,152	2,783	37,520	5,963	-	-	-	-	522,680
Accounts receivable - Sun Limited and affiliates	160,156	-	81,321	22	-	-	-	-	(81,343)	160,156
Inventories	241,272	5,558	12,884	5,366	5,381	-	-	-	-	270,461
Prepaid expenses and other assets	7,848	270	1,922	303	794	-	-	-	-	11,137
<b>Total current assets</b>	<b>920,035</b>	<b>11,310</b>	<b>100,006</b>	<b>49,623</b>	<b>22,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(81,343)</b>	<b>1,022,319</b>
<b>Property, plant and equipment</b>										
Land	-	322	-	-	-	-	-	1,800	-	2,122
Buildings and improvements	425	15,403	-	47	-	-	-	17,964	-	33,839
Equipment	14,207	27,887	-	9,217	17,462	-	-	-	-	68,773
Furniture and fixtures	705	182	-	1,152	677	-	-	109	-	2,825
Vehicles	16,864	-	-	-	-	-	-	-	-	16,864
Construction in process	908	1,994	-	44	12,696	-	-	-	-	15,642
<b>Total</b>	<b>33,109</b>	<b>45,788</b>	<b>-</b>	<b>10,460</b>	<b>30,835</b>	<b>-</b>	<b>-</b>	<b>19,873</b>	<b>-</b>	<b>140,065</b>
Less accumulated depreciation	14,575	24,204	-	10,331	7,437	-	-	1,675	-	58,222
<b>Net property, plant and equipment</b>	<b>18,534</b>	<b>21,584</b>	<b>-</b>	<b>129</b>	<b>23,398</b>	<b>-</b>	<b>-</b>	<b>18,198</b>	<b>-</b>	<b>81,843</b>
<b>Investments</b>										
Marketable equity securities	9,405	-	-	-	-	253,098	85	-	-	262,588
Nonmarketable equity securities	7,361	-	-	-	-	-	-	-	-	7,361
Investment in unconsolidated subsidiaries	721,356	-	-	-	29,773	69	-	-	(643,633)	107,565
Convertible notes	11,100	-	-	-	-	-	-	-	-	11,100
<b>Total investments</b>	<b>749,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,773</b>	<b>253,167</b>	<b>85</b>	<b>-</b>	<b>-</b>	<b>388,614</b>
<b>Goodwill</b>	<b>-</b>	<b>12,422</b>	<b>-</b>	<b>43,111</b>	<b>15,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,913</b>
<b>Other intangible assets, net</b>	<b>16,314</b>	<b>-</b>	<b>5,163</b>	<b>41,041</b>	<b>25,340</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87,858</b>
<b>Advances to Parent</b>	<b>-</b>	<b>5,624</b>	<b>23,238</b>	<b>45,887</b>	<b>-</b>	<b>5,614</b>	<b>4</b>	<b>-</b>	<b>(80,367)</b>	<b>-</b>
<b>Total assets</b>	<b>\$ 1,704,105</b>	<b>\$ 50,940</b>	<b>\$ 128,407</b>	<b>\$ 179,791</b>	<b>\$ 116,579</b>	<b>\$ 258,781</b>	<b>\$ 89</b>	<b>\$ 18,198</b>	<b>(805,343)</b>	<b>1,651,547</b>

See independent auditors' report on supplementary consolidating information.

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidating Balance Sheet**

March 31, 2019

(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmaulucence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
Current liabilities										
Short-term borrowings	\$ 370,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	370,000
Accounts payable - trade	99,637	3,340	316	5,303	1,708	-	-	-	(81,343)	28,961
Accrued expenses	134,741	-	-	1,535	1,196	-	-	-	-	137,472
Current portion of contingent liability on acquisition	6,250	-	-	-	-	-	-	-	-	6,250
Current portion of capital lease obligations	4,551	-	-	-	-	-	-	-	-	4,551
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>615,179</b>	<b>3,340</b>	<b>316</b>	<b>6,838</b>	<b>2,904</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(81,343)</b>	<b>547,234</b>
Advances from affiliates	408,862	-	-	-	20,334	-	-	(11,575)	(80,367)	337,254
Allocation of income taxes (receivable) payable	(2,313)	(244)	14,773	15,472	4,816	(891)	-	-	-	31,613
Deferred income taxes	(48,609)	317	(16,232)	8,158	2,431	58,375	20	-	-	4,460
Capital lease obligations, net of current portion	13,337	-	-	-	-	-	-	-	-	13,337
Long-term debt, net of current portion	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>986,456</b>	<b>3,413</b>	<b>(1,143)</b>	<b>30,468</b>	<b>30,485</b>	<b>57,484</b>	<b>20</b>	<b>(11,575)</b>	<b>(161,710)</b>	<b>933,898</b>
Shareholders' equity										
Common stock	-	34,433	1	10	0	-	3	0	(34,447)	-
Additional paid-in capital	565,595	-	65,670	-	87,348	-	-	9,002	(162,020)	565,595
Retained earnings (Deficit)	152,054	13,094	63,879	149,313	(1,254)	201,297	66	20,771	(447,166)	152,054
<b>Total shareholders' equity</b>	<b>717,649</b>	<b>47,527</b>	<b>129,550</b>	<b>149,323</b>	<b>86,094</b>	<b>201,297</b>	<b>69</b>	<b>29,773</b>	<b>(643,633)</b>	<b>717,649</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,704,105</b>	<b>\$ 50,940</b>	<b>\$ 128,407</b>	<b>\$ 179,791</b>	<b>\$ 116,579</b>	<b>\$ 258,781</b>	<b>\$ 89</b>	<b>\$ 18,198</b>	<b>(805,343)</b>	<b>1,651,547</b>

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidating Balance Sheet**  
March 31, 2018  
(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmauluce , Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
<b>ASSETS</b>										
<b>Current assets</b>										
Cash and cash equivalents	88,037	2,094	3,693	5,768	16,479	-	-	-	-	116,071
Accounts receivable, net	295,456	4,497	-	39,774	4,216	-	-	-	-	343,943
Accounts receivable - Sun Limited and affiliates	24,307	-	56,023	-	-	-	-	-	(56,023)	24,307
Inventories	239,163	5,429	17,560	8,354	6,552	-	-	-	-	277,058
Prepaid expenses and other assets	13,068	459	172	1,781	751	-	-	-	-	16,231
Current portion of note receivable	-	-	12,695	-	-	-	-	-	-	12,695
<b>Total current assets</b>	<b>660,031</b>	<b>12,479</b>	<b>90,143</b>	<b>55,677</b>	<b>27,998</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(56,023)</b>	<b>790,305</b>
<b>Property, plant and equipment</b>										
Land	-	322	-	-	-	-	-	1,800	-	2,122
Buildings and improvements	5,571	3,666	-	934	-	-	-	17,964	-	28,135
Equipment	58,972	23,949	-	919	19,992	-	-	-	-	103,832
Furniture and fixtures	1,529	36	-	285	677	-	-	109	-	2,636
Vehicles	11,112	-	-	-	-	-	-	-	-	11,112
Construction in process	6,225	13,696	-	-	13,604	-	-	-	-	33,525
<b>Total</b>	<b>83,409</b>	<b>41,669</b>	<b>-</b>	<b>2,138</b>	<b>34,273</b>	<b>-</b>	<b>-</b>	<b>19,873</b>	<b>-</b>	<b>181,362</b>
Less accumulated depreciation	45,277	22,857	-	2,028	10,526	-	-	1,675	-	82,363
<b>Net property, plant and equipment</b>	<b>38,132</b>	<b>18,812</b>	<b>-</b>	<b>110</b>	<b>23,747</b>	<b>-</b>	<b>-</b>	<b>18,198</b>	<b>-</b>	<b>98,999</b>
<b>Investments</b>										
Marketable equity securities	2,777	-	-	-	-	-	-	-	-	2,777
Nonmarketable equity securities	16,723	-	-	-	-	19,851	2	-	-	36,576
Investment in unconsolidated subsidiaries	461,679	-	-	-	29,066	2	-	-	(418,909)	71,838
Convertible notes	7,000	-	-	-	-	-	-	-	-	7,000
<b>Total investments</b>	<b>488,179</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,066</b>	<b>19,853</b>	<b>2</b>	<b>-</b>	<b>(418,909)</b>	<b>118,191</b>
<b>Goodwill</b>	<b>-</b>	<b>12,422</b>	<b>-</b>	<b>43,111</b>	<b>15,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,913</b>
Other intangible assets, net	21,152	-	10,454	65,666	29,325	-	-	-	-	126,597
Allocated income tax receivable	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	48,290	(465)	15,813	(13,113)	(3,168)	-	-	-	-	47,357
Advances to Parent	-	6,818	23,238	-	-	-	-	-	(30,056)	-
<b>Total assets</b>	<b>1,255,784</b>	<b>50,066</b>	<b>139,648</b>	<b>151,451</b>	<b>122,348</b>	<b>19,853</b>	<b>2</b>	<b>18,198</b>	<b>(504,987)</b>	<b>1,252,362</b>

See independent auditors' report on supplementary consolidating information.

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**  
(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidating Balance Sheet**  
March 31, 2018  
(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmaulucence , Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
<b>Current liabilities</b>										
Short-term borrowings	260,000	-	-	-	-	-	-	-	-	260,000
Accounts payable - trade	110,135	2,275	1,295	5,992	1,919	-	-	-	(56,023)	65,593
Accrued expenses	132,405	-	-	329	1,509	-	-	-	-	134,243
Current portion of contingent liability on acquisition	15,625	-	-	-	-	-	-	-	-	15,625
Current portion of capital lease obligations	1,992	-	-	-	-	-	-	-	-	1,992
Current portion of long-term debt	-	-	-	-	-	-	-	788	-	788
<b>Total current liabilities</b>	<b>520,157</b>	<b>2,275</b>	<b>1,295</b>	<b>6,321</b>	<b>3,428</b>	<b>-</b>	<b>-</b>	<b>788</b>	<b>(56,023)</b>	<b>478,241</b>
Advances from affiliate	207,855	-	-	-	37,613	19,861	1	(27,601)	(30,054)	207,673
Allocation of income taxes (receivable) payable	(5,079)	(303)	13,188	7,641	2,205	-	-	-	-	17,652
Contingent liability on acquisition, net of current portion	4,583	-	-	-	-	-	-	-	-	4,583
Capital lease obligations, net of current portion	17,350	-	-	-	-	-	-	-	-	17,350
Long-term debt, net of current portion	-	-	-	-	-	-	-	15,945	-	15,945
<b>Total liabilities</b>	<b>744,866</b>	<b>1,972</b>	<b>14,483</b>	<b>13,962</b>	<b>43,246</b>	<b>19,861</b>	<b>1</b>	<b>(10,868)</b>	<b>(86,077)</b>	<b>741,444</b>
<b>Shareholders' equity</b>										
Common stock	-	34,433	-	10	-	-	3	-	(34,446)	-
Additional paid-in capital	565,595	-	65,670	-	87,348	-	-	9,002	(162,020)	565,595
Retained earnings (Accumulated Deficit)	(73,953)	13,661	59,495	137,479	(8,246)	(8)	(2)	20,064	(222,444)	(73,953)
Accumulated other comprehensive income	19,276	-	-	-	-	-	-	-	-	19,276
<b>Total shareholders' equity</b>	<b>510,918</b>	<b>48,094</b>	<b>125,165</b>	<b>137,489</b>	<b>79,102</b>	<b>(8)</b>	<b>1</b>	<b>29,066</b>	<b>(418,910)</b>	<b>510,918</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,255,784</b>	<b>50,066</b>	<b>139,648</b>	<b>151,451</b>	<b>122,348</b>	<b>19,853</b>	<b>2</b>	<b>18,198</b>	<b>(504,987)</b>	<b>1,252,362</b>

## SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

### Consolidating Statement of Income

Year Ended March 31, 2019

(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattam Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmaulucence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
Net sales	\$ 767,056	\$ 22,639	\$ 52,679	\$ 94,130	\$ 34,802	\$ -	\$ -	\$ 3,000	\$ (52,286)	\$ 922,020
Cost of goods sold	553,401	20,107	45,141	31,836	12,059	-	-	443	(52,286)	610,701
Selling, general and administrative expenses	225,769	2,459	2,336	44,092	11,609	-	-	1,110	-	287,375
Research and development costs	1,542	956	-	3,801	3,569	-	-	-	-	9,868
Loss (gain) on disposal of property, plant, and equipment	7,789	77	-	-	(124)	-	-	-	-	7,742
Operating (loss) income	(21,445)	(960)	5,202	14,401	7,689	-	-	1,447	-	6,334
Other (expense) income										
Interest expense	(20,988)	-	-	-	63	-	-	(740)	1,353	(20,312)
Dividend and interest income	1,035	304	350	538	161	30,003	8	-	(1,353)	31,046
(Losses) gains on equity securities	(3,045)	-	-	-	-	51,922	17	-	-	48,894
Equity in earnings from unconsolidated subsidiaries	108,140	-	-	-	707	19	-	-	(87,543)	21,323
Gain on sale of intangible asset	149	-	-	-	-	-	-	-	-	149
Other income	-	-	-	30	246	-	-	-	-	276
Other income, net	85,291	304	350	568	1,177	81,944	25	(740)	(87,543)	81,376
Income (loss) before allocated income taxes	63,846	(656)	5,552	14,969	8,866	81,944	25	707	(87,543)	87,710
Allocated income tax (benefit) expense	(3,587)	(89)	1,167	3,135	1,874	17,771	6	-	-	20,277
Net income (loss)	\$ 67,433	\$ (567)	\$ 4,385	\$ 11,834	\$ 6,992	\$ 64,173	\$ 19	\$ 707	\$ (87,543)	\$ 67,433

See independent auditors' report on supplementary consolidating information.

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidating Statement of Income**

Year Ended March 31, 2018

(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmaulucence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
Net sales	\$ 620,224	\$ 22,147	\$ 67,517	\$ 93,805	\$ 34,025	\$ -	\$ -	\$ 3,300	\$ (67,517)	\$ 773,501
Cost of goods sold	479,282	19,440	38,846	29,039	15,183	-	-	430	(67,517)	514,703
Selling, general and administrative expenses	125,290	2,538	5,127	28,126	8,065	-	-	50	-	169,195
Research and development costs	3,295	876	-	9,459	5,520	-	-	-	-	19,150
Loss on disposal of property, plant, and equipment	10,228	-	-	-	-	-	-	-	-	10,228
Operating income (loss)	2,129	(707)	23,544	27,181	5,258	-	-	2,820	-	60,225
Other (expense) income										
Interest expense	(16,074)	-	-	(1,416)	(126)	-	-	(740)	152	(18,204)
Dividend and interest income	3,741	282	1,267	-	19	-	-	-	(152)	5,157
Gains on equity securities	-	-	-	-	-	-	-	-	-	-
Equity in earnings (losses) from unconsolidated subsidiaries	32,787	-	-	-	1,643	-	-	-	(40,470)	(6,040)
Gain on sale of intangible asset	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	(413)	-	-	-	-	-	-	-	-	(413)
Other income	-	-	-	-	1,333	-	-	-	-	1,333
Other income (expense), net	20,041	282	1,267	(1,416)	2,869	-	-	(740)	(40,470)	(18,167)
Income (loss) before allocated income taxes	22,170	(425)	24,811	25,765	8,127	-	-	2,080	(40,470)	42,058
Allocated income tax expense (benefit)	4,853	(209)	9,605	7,958	2,097	-	-	437	-	24,741
Net income (loss)	\$ 17,317	\$ (216)	\$ 15,206	\$ 17,807	\$ 6,030	\$ -	\$ -	\$ 1,643	\$ (40,470)	\$ 17,317

## SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

### Consolidating Statements of Shareholders' Equity March 31, 2019 and 2018 (amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.	Pharmaulucence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
Balances, April 1, 2017	483,162	48,310	109,959	119,682	73,072	(8)	1	27,423	(378,439)	483,162
Comprehensive income (loss)	27,756	(216)	15,206	17,807	6,030	-	-	1,643	(40,470)	27,756
Balances, March 31, 2018	510,918	48,094	125,165	137,489	79,102	(8)	1	29,066	(418,909)	510,918
Net income (loss)	67,433	(567)	4,385	11,834	6,992	64,173	19	707	(87,543)	67,433
Cumulative effect of change in accounting principle	147,353	-	-	-	-	137,132	49	-	(137,181)	147,353
Distributions	(8,055)	-	-	-	-	-	-	-	-	(8,055)
Balances, March 31, 2019	<u>717,649</u>	<u>47,527</u>	<u>129,550</u>	<u>149,323</u>	<u>86,094</u>	<u>201,297</u>	<u>69</u>	<u>29,773</u>	<u>(643,633)</u>	<u>717,649</u>

See independent auditors' report on supplementary consolidating information.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended March 31, 2019

(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.
<b>Cash flows from operating activities</b>				
Net income (loss)	\$ 67,433	\$ (567)	\$ 4,385	\$ 11,834
Adjustments to reconcile net income to net cash (used in) provided by operating activities				
Depreciation	14,575	1,634	-	40
Amortization	4,644	-	5,290	24,625
Losses (gains) on equity securities	3,045	-	-	-
Equity in earnings from unconsolidated subsidiaries	(108,140)	-	-	-
Stock dividend from investee	(913)	-	-	-
Loss (gain) on disposal of property, plant, and equipment	7,789	94	-	-
Gain on sale of intangible asset	(149)	-	-	-
Deferred income taxes (benefit)	(3,624)	(147)	(418)	(4,955)
Recovery of doubtful accounts	-	-	(1,633)	-
Changes in operating assets and liabilities which (used) provided cash				
Accounts receivable	(176,806)	345	(2,783)	2,254
Due from related parties	(135,849)	-	(25,298)	(22)
Inventories	(2,109)	(129)	4,676	2,988
Allocated income tax receivable / payable	2,766	59	1,585	7,831
Prepaid expenses and other assets	5,220	189	(1,750)	1,478
Accounts payable	(10,498)	1,065	(979)	(689)
Accrued expenses	(11,622)	-	-	1,206
<b>Net cash (used in) provided by operating activities</b>	<b>(344,238)</b>	<b>2,543</b>	<b>(16,925)</b>	<b>46,590</b>
<b>Cash flows from investing activities</b>				
Purchases and construction of property, plant and equipment	(4,473)	(4,501)	-	(59)
Proceeds on disposal of property, plant, and equipment	1,172	-	14,328	-
Proceeds from sale of intangible assets	344	-	-	-
Investment in unconsolidated entities	(6,111)	-	-	-
Distributions from unconsolidated subsidiaries	5,831	-	-	-
Issuance of convertible note	(4,100)	-	-	-
<b>Net cash (used in) provided by investing activities</b>	<b>(7,337)</b>	<b>(4,501)</b>	<b>14,328</b>	<b>(59)</b>
<b>Cash flows from financing activities</b>				
Net proceeds from short-term borrowings	110,000	-	-	-
Advances from (repayments to) affiliates, net	201,009	1,194	-	(45,887)
Repayment of long-term debt	-	-	-	-
Repayment of capital lease obligations	(8,974)	-	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>302,035</b>	<b>1,194</b>	<b>-</b>	<b>(45,887)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(49,540)</b>	<b>(764)</b>	<b>(2,597)</b>	<b>644</b>
Cash and cash equivalents, beginning of year	88,037	2,094	3,693	5,768
<b>Cash and cash equivalents, end of year</b>	<b>\$ 38,497</b>	<b>\$ 1,330</b>	<b>\$ 1,096</b>	<b>\$ 6,412</b>



**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**CONSOLIDATING STATEMENT OF CASH FLOWS**

Year Ended March 31, 2019

(amounts in thousands)

	Pharmalulcence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
<b>Cash flows from operating activities</b>						
Net income (loss)	\$ 6,992	\$ 64,173	\$ 19	\$ 707	\$ (87,543)	\$ 67,433
Adjustments to reconcile net income to net cash (used in) provided by operating activities						
Depreciation	2,071	-	-	443	-	18,763
Amortization	3,984	-	-	-	-	38,543
Losses (gains) on equity securities	-	(51,922)	(17)	-	-	(48,894)
Equity in earnings from unconsolidated subsidiaries	(707)	(19)	-	-	87,543	(21,323)
Stock dividend from investee	-	-	-	-	-	(913)
Loss (gain) on disposal of property, plant, and equipment	(124)	-	-	-	-	7,759
Gain on sale of intangible asset	-	-	-	-	-	(149)
Deferred income taxes (benefit)	(737)	14,134	3	-	-	4,256
Recovery of doubtful accounts	-	-	-	-	-	(1,633)
Changes in operating assets and liabilities which (used) provided cash						
Accounts receivable	(1,747)	-	-	-	-	(178,737)
Due from related parties	-	-	-	-	25,320	(135,849)
Inventories	1,171	-	-	-	-	6,597
Allocated income tax receivable / payable	2,611	(891)	-	-	-	13,961
Prepaid expenses and other assets	(43)	-	-	-	-	5,094
Accounts payable	(211)	-	-	-	(25,320)	(36,632)
Accrued expenses	(313)	-	-	-	-	(10,729)
<b>Net cash (used in) provided by operating activities</b>	<b>12,947</b>	<b>25,475</b>	<b>5</b>	<b>1,150</b>	<b>(0)</b>	<b>(272,454)</b>
<b>Cash flows from investing activities</b>						
Purchases and construction of property, plant and equipment	(3,647)	-	-	-	-	(12,680)
Proceeds on disposal of property, plant, and equipment	1,609	-	-	-	-	17,109
Proceeds from sale of intangible assets	-	-	-	-	-	344
Investment in unconsolidated entities	-	-	-	-	-	(6,111)
Distributions from unconsolidated subsidiaries	-	-	-	-	-	5,831
Issuance of convertible note	-	-	-	-	-	(4,100)
<b>Net cash (used in) provided by investing activities</b>	<b>(2,038)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393</b>
<b>Cash flows from financing activities</b>						
Net proceeds from short-term borrowings	-	-	-	-	-	110,000
Advances from (repayments to) affiliates, net	(105)	(25,475)	(5)	(1,150)	-	129,581
Repayment of long-term debt	(16,733)	-	-	-	-	(16,733)
Repayment of capital lease obligations	-	-	-	-	-	(8,974)
<b>Net cash provided by (used in) financing activities</b>	<b>(16,838)</b>	<b>(25,475)</b>	<b>(5)</b>	<b>(1,150)</b>	<b>-</b>	<b>213,874</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(5,929)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0)</b>	<b>(58,187)</b>
Cash and cash equivalents, beginning of year	16,479	-	-	-	-	116,071
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,550</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ 57,885</b>

See independent auditors' report on supplementary consolidating information.

# SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

## Consolidating Statement of Cash Flows

Year Ended March 31, 2018

(amounts in thousands)

	Sun Pharmaceutical Industries, Inc.	Chattem Chemicals, Inc.	Mutual Pharmaceutical Company, Inc.	DUSA Pharmaceuticals, Inc.
<b>Cash flows from operating activities</b>				
Net income (loss)	\$ 17,317	\$ (216)	\$ 15,206	\$ 17,807
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities				
Depreciation	10,614	1,491	-	86
Amortization	4,547	-	4,613	24,625
Gains on equity securities	-	-	-	-
Equity in earnings from unconsolidated subsidiaries	(32,787)	-	-	-
Stock dividend from investee	-	-	-	-
Loss on disposal of property, plant, and equipment	10,228	-	-	-
Gain on sale of intangible asset	-	-	-	-
Deferred income taxes (benefit)	14,280	24	(3,584)	317
(Recovery of) provision for doubtful accounts	-	-	-	-
Contingent earn-out interest expense	227	-	-	-
Share-based compensation	-	-	-	-
Goodwill impairment charge	(413)	-	-	-
Changes in operating assets and liabilities which (used) provided cash				
Accounts receivable	(24,102)	(837)	(31,374)	13,051
Due from related parties	203,942	-	-	-
Inventories	648	1,885	(5,012)	1,466
Allocated income tax receivable / payable	955	(232)	13,188	7,641
Prepaid expenses and other assets	6,101	(95)	316	327
Accounts payable	(118,989)	1,585	(4,521)	1,792
Deferred revenue	-	-	-	-
Accrued expenses	59,627	(1,129)	-	(1,264)
<b>Net cash provided by (used in) operating activities</b>	<b>152,195</b>	<b>2,476</b>	<b>(11,168)</b>	<b>65,848</b>
<b>Cash flows from investing activities</b>				
Purchases and construction of property, plant and equipment	(9,740)	(5,901)	-	(13)
Proceeds on disposal of property, plant, and equipment	3,242	-	3,956	-
Proceeds from sale of intangible assets	-	-	-	-
Investment in unconsolidated entities	(13,943)	-	-	-
Distributions from unconsolidated subsidiaries	5,132	-	-	-
Issuance of convertible note	-	-	-	-
Proceeds from dissolution of joint venture interest	2,598	-	-	-
<b>Net cash (used in) provided by investing activities</b>	<b>(12,711)</b>	<b>(5,901)</b>	<b>3,956</b>	<b>(13)</b>
<b>Cash flows from financing activities</b>				
Proceeds from short-term bank borrowings	-	-	-	-
Repayment of short-term borrowings	(50,000)	-	-	-
(Repayment) advances from affiliates, net	(58,772)	(261)	8,500	(64,668)
Repayment of long-term debt	-	-	-	-
Repayment of capital lease obligations	(2,513)	-	-	-
<b>Net cash (used in) provided by financing activities</b>	<b>(111,285)</b>	<b>(261)</b>	<b>8,500</b>	<b>(64,668)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>28,199</b>	<b>(3,686)</b>	<b>1,288</b>	<b>1,167</b>
Cash and cash equivalents, beginning of year	59,838	5,780	2,405	4,601
<b>Cash and cash equivalents, end of year</b>	<b>\$ 88,037</b>	<b>\$ 2,094</b>	<b>\$ 3,693</b>	<b>\$ 5,768</b>

**SUN PHARMACEUTICAL INDUSTRIES, INC. AND SUBSIDIARIES**

(a subsidiary of Sun Pharmaceutical Holdings USA, Inc.)

**Consolidating Statement of Cash Flows**

Year Ended March 31, 2018

*(amounts in thousands)*

	Pharmaulucence, Inc.	Taro Development Corporation	Morley & Company, Inc.	PI Real Estate Ventures, LLC	Consolidating Entries	Total
<b>Cash flows from operating activities</b>						
Net income (loss)	\$ 6,030	\$ -	\$ -	\$ 1,643	\$ (40,470)	\$ 17,317
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities						
Depreciation	3,008	-	-	430	-	15,629
Amortization	3,984	-	-	-	-	37,769
Gains on equity securities	-	-	-	-	-	-
Equity in earnings from unconsolidated subsidiaries	(1,644)	-	-	-	40,471	6,040
Stock dividend from investee	-	-	-	-	-	-
Loss on disposal of property, plant, and equipment	-	-	-	-	-	10,228
Gain on sale of intangible asset	-	-	-	-	-	-
Deferred income taxes (benefit)	328	-	-	-	-	11,365
(Recovery of) provision for doubtful accounts	-	-	-	-	-	-
Contingent earn-out interest expense	-	-	-	-	-	227
Share-based compensation	-	-	-	-	-	-
Goodwill impairment charge	-	-	-	-	-	(413)
Changes in operating assets and liabilities which (used) provided cash						
Accounts receivable	(851)	-	-	-	-	(44,113)
Due from related parties	-	-	-	-	-	203,942
Inventories	(666)	-	-	-	-	(1,679)
Allocated income tax receivable / payable	2,205	-	-	-	-	23,757
Prepaid expenses and other assets	139	-	-	-	-	6,788
Accounts payable	4,040	-	-	-	-	(116,093)
Deferred revenue	(1,033)	-	-	-	-	(1,033)
Accrued expenses	(4,914)	-	-	-	-	52,320
<b>Net cash provided by (used in) operating activities</b>	<b>10,626</b>	<b>-</b>	<b>-</b>	<b>2,073</b>	<b>1</b>	<b>222,051</b>
<b>Cash flows from investing activities</b>						
Purchases and construction of property, plant and equipment	(3,796)	-	-	-	-	(19,450)
Proceeds on disposal of property, plant, and equipment	-	-	-	-	-	7,198
Proceeds from sale of intangible assets	-	-	-	-	-	-
Investment in unconsolidated entities	-	-	-	-	-	(13,943)
Distributions from unconsolidated subsidiaries	-	-	-	-	-	5,132
Issuance of convertible note	-	-	-	-	-	-
Proceeds from dissolution of joint venture interest	-	-	-	-	-	2,598
<b>Net cash (used in) provided by investing activities</b>	<b>(3,796)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,465)</b>
<b>Cash flows from financing activities</b>						
Proceeds from short-term bank borrowings	-	-	-	-	-	-
Repayment of short-term borrowings	-	-	-	-	-	(50,000)
(Repayment) advances from affiliates, net	2,711	-	-	(2,074)	-	(114,564)
Repayment of long-term debt	(756)	-	-	-	-	(756)
Repayment of capital lease obligations	-	-	-	-	-	(2,513)
<b>Net cash (used in) provided by financing activities</b>	<b>1,955</b>	<b>-</b>	<b>-</b>	<b>(2,074)</b>	<b>-</b>	<b>(167,833)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,785</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>1</b>	<b>35,753</b>
Cash and cash equivalents, beginning of year	7,694	-	-	-	-	80,318
<b>Cash and cash equivalents, end of year</b>	<b>\$ 16,479</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ 116,071</b>

See independent auditors' report on supplementary consolidating information.