

Unichem Pharmaceuticals (USA), Inc.
Financial Statements
March 31, 2022 and 2021

Unichem Pharmaceuticals (USA), Inc.

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March 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of

Unichem Pharmaceuticals (USA), Inc.

Opinion

We have audited the accompanying financial statements of Unichem Pharmaceuticals (USA), Inc. (the "Company") which comprise the balance sheets as of March 31, 2022 and 2021 and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Exercise professional judgment and maintain professional skepticism throughout the audit.
2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
3. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

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

East Brunswick, New Jersey

May 23, 2022

Unichem Pharmaceuticals (USA), Inc.**Balance Sheets****March 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 915,853	\$ 2,683,068
Accounts receivable, net	47,114,303	18,566,871
Inventories, net	18,199,936	25,664,804
Accounts receivable, due from parent	13,900	17,619
Other prepaid expenses	490,749	506,607
Total Current Assets	<u>66,734,741</u>	<u>47,438,969</u>
Property and equipment, net	392,166	447,931
Deferred tax asset	575,000	410,000
Total Assets	<u>\$ 67,701,907</u>	<u>\$ 48,296,900</u>
Liabilities and Shareholder's Equity		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,396,992	\$ 1,953,411
Accrued Medicaid	636,008	724,235
Income taxes payable	300,174	440,525
Line of credit, net	23,660,894	10,195,675
Due to parent	18,311,400	17,113,709
Sublease liability, short term	43,835	-
Total Current Liabilities	<u>45,349,303</u>	<u>30,427,555</u>
Sublease liability, long term	51,138	-
Total Liabilities	<u>45,400,441</u>	<u>30,427,555</u>
Shareholder's Equity		
Common stock, \$1 par value, 6,500,000 shares authorized; 6,476,955 issued and outstanding	6,476,955	6,476,955
Additional paid-in capital	310,984	229,848
Retained earnings	15,513,527	11,162,542
Shareholder's Equity	<u>22,301,466</u>	<u>17,869,345</u>
Total Liabilities and Shareholder's Equity	<u>\$ 67,701,907</u>	<u>\$ 48,296,900</u>

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

Unichem Pharmaceuticals (USA), Inc.
Statements of Operations
For the Years Ended March 31, 2022 and 2021

	2022	2021
Net Sales	\$ 98,828,339	\$ 92,785,031
Cost of Goods Sold	75,994,391	69,581,296
Gross Profit	22,833,948	23,203,735
Operating Expenses		
Selling and distribution	4,121,447	2,779,694
Officers and office salaries	4,958,340	4,307,795
Administrative	1,968,199	723,623
Outbound freight	1,955,510	2,644,699
Professional fees	1,106,869	1,153,229
Payroll taxes and benefits	890,874	751,369
Guarantee fee	546,719	-
Rent	318,419	346,524
Insurance	329,306	328,032
Market research	173,783	167,427
Travel and entertainment	145,696	37,960
Marketing and trade shows	136,618	55,373
Depreciation	107,452	161,402
Contract advance write off	-	157,093
Total Operating Expenses	16,759,232	13,614,220
Income from Operations	6,074,716	9,589,515
Non-Operating Income (Expenses)		
Forgiveness of debt	-	423,000
Loss on disposal of property and equipment	-	(56,667)
Loss on sublease	(105,933)	-
Interest expense	(433,019)	(378,726)
Total Non-Operating Income (Expenses)	(538,952)	(12,393)
Income Before Provision for Income Taxes	5,535,764	9,577,122
Provision for Income Taxes		
Current tax provision	1,349,779	2,235,317
Deferred tax provision	(165,000)	(20,000)
Total Provision for Income Taxes	1,184,779	2,215,317
Net Income	\$ 4,350,985	\$ 7,361,805

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

Unichem Pharmaceuticals (USA), Inc.
Statements of Changes in Shareholder's Equity
For the Years Ended March 31, 2022 and 2021

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Shareholder's Equity
Balances at March 31, 2020	6,476,955	\$ 6,476,955	\$ -	\$ 3,800,737	\$ 10,277,692
Stock Based Compensation - Stock Options	-	-	229,848	-	229,848
Net Income	-	-	-	7,361,805	7,361,805
Balances at March 31, 2021	6,476,955	6,476,955	229,848	11,162,542	17,869,345
Stock Based Compensation - Stock Options	-	-	81,136	-	81,136
Net Income	-	-	-	4,350,985	4,350,985
Balances at March 31, 2022	<u>6,476,955</u>	<u>\$ 6,476,955</u>	<u>\$ 310,984</u>	<u>\$ 15,513,527</u>	<u>\$ 22,301,466</u>

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

Unichem Pharmaceuticals (USA), Inc.
Statements of Cash Flows
For the Years Ended March 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Net income	\$ 4,350,985	\$ 7,361,805
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	107,452	161,402
Amortization	78,553	78,553
Loss on disposal of property and equipment	-	56,667
Deferred tax provision	(165,000)	(20,000)
Loss on sublease	105,933	-
Costs related to issuance of stock options	81,136	229,848
Changes in operating assets and liabilities		
Accounts receivable	(28,547,432)	20,019,637
Inventories	7,464,868	(13,896,502)
Accounts receivable, due from parent	3,719	84,203
Other prepaid expenses	15,858	26,496
Accounts payable and accrued expenses	443,581	(2,438,934)
Accrued Medicaid	(88,227)	(5,836)
Income taxes payable	(140,351)	390,525
Due to parent	1,197,691	(3,220,161)
Sublease liability	(10,960)	-
Net Cash Provided by (Used in) Operating Activities	(15,091,234)	8,827,703
Cash Flows from Investing Activities		
Acquisition of property and equipment	(51,687)	(89,648)
Cash Flows from Financing Activities		
Proceeds from line of credit, net of repayments	13,386,666	(8,355,045)
Net Increase (Decrease) in Cash	(1,767,215)	383,010
Cash - Beginning of Period	2,683,068	2,300,058
Cash - End of Period	\$ 915,853	\$ 2,683,068
Cash Paid During the Period for		
Interest	\$ 345,304	\$ 325,885
Income taxes	\$ 1,577,775	\$ 1,860,500

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

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 1 Nature of Operations

Unichem Pharmaceuticals (USA), Inc. (the "Company"), was incorporated on March 9, 2004 under the laws of the State of New Jersey and is headquartered in East Brunswick, New Jersey. The Company operates as the U.S. distributor of certain generic prescription pharmaceuticals developed by Unichem Laboratories, Ltd. (the "Parent"). As of March 31, 2022, the Company distributes twenty-eight (28) FDA approved generic prescription drugs.

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

Note 2 Summary of Significant Accounting Policies

Use of Estimates

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

In March 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus to be a pandemic. This pandemic has created and may continue to create significant uncertainty in the United States and global economies which, in addition to other unforeseen effects of this pandemic, may impact our operations. As a result, most of our estimates and assumptions may require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

Cash

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

Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. On a periodic basis, management evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management has determined that no allowance for doubtful accounts is necessary at March 31, 2022 and 2021.

Note 2 Summary of Significant Accounting Policies (Continued)

Inventories

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

Revenue Recognition

Product Sales

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

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

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

Chargebacks

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

Note 2 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)
Product Sales (Continued)

Wholesaler Rebates

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

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

Certain fees paid to wholesalers do not meet the meet the foregoing conditions to be characterized as a cost, as such, the Company characterized these fees as a reduction of product sales and have included them in wholesaler rebates in the table in Note 9.

Administrative Fees

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

Prompt Payment Discounts

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

Medicaid Rebates

Federal law requires all pharmaceutical manufacturers, as a condition of having their products receive federal reimbursement under Medicaid and Medicare Part B, to pay rebates to state Medicaid programs on units of their pharmaceuticals that re-dispensed to Medicaid beneficiaries. For the years ended March 31, 2022 and 2021, the Company had accrued a liability related to the rebates totaling approximately \$636,000 and \$724,000, respectively, which is included in wholesaler rebates in Note 8.

Note 2 Summary of Significant Accounting Policies (Continued)

Advertising

The Company's policy is to expense advertising costs as the costs are incurred. Advertising costs incurred during the years ended March 31, 2022 and 2021 total approximately \$14,000 and \$13,000, respectively, and are included in marketing and trade shows expense on the accompanying statements of operations and retained earnings.

Shipping and Handling Costs

Shipping and handling costs of approximately \$1,956,000 and \$2,645,000 for the years ended March 31, 2022 and 2021, respectively, are included in operating expenses on the accompanying statements of operations as selling and distribution fees.

Property and Equipment

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

Financing Costs

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

Income Taxes

The Company is a C Corporation and provisions, if applicable, are made for federal and state income taxes.

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax asset and liabilities is recognized in the income in the periods that includes the enactment date.

The Company recognizes deferred tax assets to the extent that management believes these assets are more likely than not to be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income and results of recent operations.

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

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 2 Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

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

Reclassifications

Certain amounts in the March 31, 2021 financial statements have been reclassified to conform to the March 31, 2022 financial statement presentation. These reclassifications had no effect on the previously reported results of operations or equity balances.

Subsequent Events

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

Note 3 Accounts Receivable, Net

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

	March 31,	
	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 80,019,076	\$ 54,839,182
Allowance for chargeback provision	(23,642,132)	(28,104,641)
Allowance for wholesaler and pending rebates	(5,095,067)	(5,947,207)
Allowance for prompt payment discount	(2,131,420)	(1,586,499)
Allowance for other reductions	<u>(2,036,154)</u>	<u>(633,964)</u>
Accounts Receivable, Net	<u>\$ 47,114,303</u>	<u>\$ 18,566,871</u>

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 4 Inventories, Net

Inventories consist of the following:

	March 31,	
	<u>2022</u>	<u>2021</u>
Inventories	\$ 19,088,202	\$ 26,317,810
Less: Inventories reserve	<u>(888,266)</u>	<u>(653,006)</u>
Total	<u>\$ 18,199,936</u>	<u>\$ 25,664,804</u>

Note 5 Property and Equipment

Property and equipment consist of the following:

	March 31,	
	<u>2022</u>	<u>2021</u>
Equipment	\$ 85,408	\$ 69,107
Furniture and fixtures	285,938	296,606
Computers	116,751	105,302
Computer software	<u>785,045</u>	<u>750,440</u>
Total	1,273,142	1,221,455
Less: Accumulated depreciation	<u>(880,976)</u>	<u>(773,524)</u>
Total	<u>\$ 392,166</u>	<u>\$ 447,931</u>

Note 6 Stock Compensation

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

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

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

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 6 Stock Compensation (Continued)

The Parent issued options vests 50% at the end of the fourth year following the date of issuance of the grant of options and 50% at the end of the fifth year following the date of issuance of the grant of options. The values attributable to these options are amortized over the vesting period. The Company believes that the fair value of the options is more reliably measurable than the fair value of the services received. Included in officer and office salaries expense is approximately \$81,000 and \$230,000 of costs related to options as of March 31, 2022 and 2021, respectively.

The weighted average assumptions utilized for option grants during the years ended March 31, 2022 and 2021 are as follows:

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

As of March 31, 2022 and 2021 there was \$51,576 and \$132,712, respectively, of total unrecognized compensation cost related to non-vested, share-based compensation arrangements, which is expected to be recognized over a weighted average period of approximately 1.5 and 2.5 years as of March 31, 2022 and 2021, respectively.

A summary of stock option activity as of March 31, 2022 and 2021, and changes during the year ended is as follows:

	Stock Options	Weighted Average Exercise Price
Balance April 1, 2021	352,000	3.71
Granted	-	-
Vested	-	-
Cancelled	-	-
Balance at March 31, 2022	<u>352,000</u>	<u>3.71</u>

Note 7 Line of Credit

On June 27, 2019, the Company secured a line of credit with Citibank, N.A. in the amount of \$35,000,000 which expires in June 2022. The line of credit interest rate is equal to the 30-day LIBOR rate plus 1.50%. The 30-day LIBOR at March 31, 2022 and 2021 was 0.40% and 0.34%, respectively, which equated to an effective interest rate of 1.90% and 1.84%, respectively. The borrowing base of the line of credit consists of 85% of the eligible receivables, and 65% of eligible inventory, net of certain caps as defined in the credit agreement. The line of credit is also collateralized by substantially all of the assets of the Company.

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 7 Line of Credit (Continued)

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

The line of credit requires the Company meet to certain negative covenants. The Company was in compliance with all such covenants at March 31, 2022 and 2021. If the Company fails to meet these covenants, the commitments under the Revolving Credit Facility could be terminated and any outstanding borrowings, together with accrued interest, under the line of credit could be declared immediately due and payable.

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

	<u>March 30,</u>	
	<u>2022</u>	<u>2021</u>
Outstanding balance of the line of credit	\$ 23,680,532	\$ 10,293,866
Unamortized financing costs	<u>(19,638)</u>	<u>(98,191)</u>
Net line of credit balance	<u>\$ 23,660,894</u>	<u>\$ 10,195,675</u>

Amortization of the debt issuance costs is reported as interest expense in the statement of operations and retained earnings. Interest expense related to the amortization of financing costs is \$78,553 for both years ended March 31, 2022 and 2021.

Note 8 Payroll Protection Program Loan

In May 2020, the Company received an unsecured promissory note (the "PPP Loan") for \$423,000 through programs established under the CARES Act and administered by the U.S. Small Business Administration (the "SBA"). The PPP Loan was guaranteed by the SBA. The PPP Loan was able to have the debt be forgiven, in whole or in part, if the Company met certain eligibility requirements for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within a defined period, and otherwise satisfied PPP requirements. On March 12, 2021, the Company was informed that its application for forgiveness of \$423,000 of the PPP Loan was approved. The Company recorded it as forgiveness of debt in the period when forgiveness was granted. The debt forgiveness income is exempt from federal and state income tax.

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 9 Gross-to-Net Product Sales

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

	March 30,	
	<u>2022</u>	<u>2021</u>
Gross sales	\$ 327,994,901	\$ 339,428,381
Chargebacks	(192,068,338)	(210,790,808)
Administrative fees	(13,622,418)	(11,308,393)
Wholesaler rebates	(13,046,037)	(15,010,948)
Prompt payment discount	(7,464,444)	(7,714,541)
Other reductions	(2,462,977)	(1,232,580)
Off invoice discounts	<u>(502,348)</u>	<u>(586,080)</u>
Net Sales	<u>\$ 98,828,339</u>	<u>\$ 92,785,031</u>

Note 10 Income Taxes

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

For the years ended March 31, 2022 and 2021, federal and state income taxes have been provided as follows:

	March 31,	
	<u>2022</u>	<u>2021</u>
Current Tax		
Current		
Federal income tax expense	\$ 1,240,779	\$ 1,877,317
State income tax expense	<u>109,000</u>	<u>358,000</u>
Total Current	1,349,779	2,235,317
Deferred tax and other		
Federal income tax benefit	(145,000)	(17,600)
State income tax benefit	<u>(20,000)</u>	<u>(2,400)</u>
Total Deferred	<u>(165,000)</u>	<u>(20,000)</u>
Total	<u>\$ 1,184,779</u>	<u>\$ 2,215,317</u>

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 10 Income Taxes (Continued)

The tax effect of temporary differences that gave rise to significant components of deferred tax assets and liabilities consisted of the following at March 31, 2022 and 2021:

	<u>March 31,</u>	
	<u>2022</u>	<u>2021</u>
Deferred tax assets		
Start-up cost	\$ 93,000	\$ 135,000
Inventory capitalization	46,000	89,000
Deferred rent liability	27,000	34,000
Accrued Medicaid	152,000	173,000
Stock compensation	74,000	55,000
Donated product	239,000	-
Sublease liability	<u>23,000</u>	<u>-</u>
Deferred Tax Assets	654,000	486,000
Less: deferred tax liability: property plant and equipment	<u>(79,000)</u>	<u>(76,000)</u>
Total	<u>\$ 575,000</u>	<u>\$ 410,000</u>

Management determined that no valuation allowance is needed for the deferred tax asset at March 31, 2022 and 2021. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets.

Note 11 Related Party Transactions

Unichem Laboratories, LTD

The Company purchases substantially all of its inventory from the Parent. The Company also purchases testing supplies, for which it is reimbursed by the Parent. Purchases and reimbursements for the years ended March 31, 2022 and 2021 were \$68,830,376 and \$79,340,067, respectively. Additionally, during the year ended March 31, 2022, the Parent invoiced the Company a fee for the guarantee of certain debt from previous periods. The total fee is \$546,719 and is included in the statement of operations as a guarantee fee.

At March 31, 2022 and 2021, the Company owed the Parent approximately \$18,298,000, net of receivables of approximately \$14,000, and \$17,096,000, net of receivables of approximately \$17,000, respectively, for purchases of inventory, which is included on the accompanying balance sheets. At March 31, 2021 and 2020, the Company had receivables from the Parent of approximately \$14,000 and \$17,000 respectively, which is included on the accompanying balance sheets.

Unichem Pharmaceuticals (USA), Inc.
Notes to the Financial Statements
March 31, 2022 and 2021

Note 11 Related Party Transactions (Continued)

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

During the years ended March 31, 2022 and 2021, the Company incurred legal fees for contract review to a law firm, SJD that is owned by the spouse of the president of the Company. Amounts paid to SJD for the years ended March 31, 2022 and 2021 were approximately \$114,000 and \$39,000, respectively. As of March 31, 2022, \$4,650 was owed to SJD and is included in accounts payable and accrued expenses.

Note 12 Major Customers/Concentrations

For the year ended March 31, 2022, three customers accounted for approximately 38%, 16% and 14% of net sales, respectively. In addition, two customers accounted for approximately 57% and 27%, respectively, of accounts receivable at March 31, 2022.

For the year ended March 31, 2021, three customers accounted for approximately 30%, 18% and 16% of net sales, respectively. In addition, two customers accounted for approximately 45% and 37%, respectively, of accounts receivable at March 31, 2021.

During the year ended March 31, 2021, the products associated with three molecules accounted for approximately 12%, 12% and 11%, respectively. No such concentration exists during the year ended March 31, 2022.

Note 13 Defined Contribution Plan

The Company participates in a qualified retirement plan under Section 401(k) of the Internal Revenue Code (the "Code") that permits nonunion employees over the age of 21 to voluntarily contribute up to the maximum allowed under the Code. The Company matches 100% of employee contributions up to the first 3% of compensation and 50% of employee contributions between 3% and 5% of compensation (4% in total). Employer contributions for the years ended March 31, 2022 and 2021 were approximately \$116,000 and \$86,000, respectively and are included in payroll taxes and benefits on the accompanying statement of operations.

Note 14 Commitments and Contingencies

Leases

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

Unichem Pharmaceuticals (USA), Inc.
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Note 14 Commitments and Contingencies (Continued)

Leases (Continued)

All leases are considered noncancelable operating leases and require approximate future minimum rental payments as follows:

<u>Year Ending March 31,</u>	<u>Future Payments</u>
2023	\$ 362,000
2024	365,000
2025	29,000
2026	5,000
2027	<u>4,000</u>
Total	<u>\$ 765,000</u>

Rent expense, including equipment rental, for the years ended March 31, 2022 and 2021 was approximately \$424,000 and \$347,000, respectively.

Letters of Credit

At March 31, 2022 and 2021, the Company was contingently liable under an outstanding letter of credit totaling \$50,000 which was issued as a security deposit for the Hasbrouck Heights space.

Note 15 Sublease

As of January 1, 2022, the Company entered into an agreement to sublease their Hasbrouck Heights, NJ office space. The sublease expires on May 31, 2024. The future lease payments are at a rate less than the required expenses for the same period, and as a result, the Company will be responsible for the shortfall. The shortfall liability as of March 31, 2022 was approximately \$94,973. The net expense associated with the loss on lease abandonment totaled approximately \$95,000 for the year ended March 31, 2022.

As of March 31, 2022, the approximate future net sublease obligation is calculated as:

	<u>Initial Lease Obligation</u>	<u>Sublease Income</u>	<u>Net Sublease Obligation</u>
2023	\$ 141,000	\$ 97,000	\$ 44,000
2024	141,000	97,000	44,000
2025	<u>23,000</u>	<u>16,000</u>	<u>7,000</u>
Total	<u>\$ 305,000</u>	<u>\$ 210,000</u>	<u>\$ 95,000</u>

Note 16 Recent Accounting Pronouncements

Effective for its annual financial statements for 2022 and interim financial statements thereafter, the Company expects to adopt new accounting standards issued by FASB that will require significant changes in accounting for operating leases under which the Company is lessee. Upon adoption, among other effects, the Company will be required to record assets and liabilities for all operating lease obligations with terms of twelve (12) months or greater. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.