REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

SENTYNL THERAPEUTICS, INC.

For The Fiscal Years Ended March 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Sentynl Therapeutics, Inc.

We have audited the accompanying financial statements of Sentynl Therapeutics, Inc. (a Delaware Corporation), which comprise the balance sheet as of March 31, 2020, and the related statements of operations, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sentynl Therapeutics, Inc. as of March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Sentynl Therapeutics, Inc. as of March 31, 2019, were audited by other auditors whose report dated May 9, 2019, expressed an unmodified opinion on those statements.

Ram Associates

Ram Associates
Hamilton, NJ
June 16, 2020.

Sentynl Therapeutics, Inc.
Balance Sheets
As of March 31,
(in thousands)

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	$ 7,399	$ 10,375
Accounts receivable, net	2,026	12,924
Inventories	1,027	3,806
Prepaid expenses and other current assets	2,819	3,308
Note and interest receivable – affiliates	70,391	94,003
Other receivable – affiliates	938	-
Total current assets	84,600	124,416
PROPERTY AND EQUIPMENT, net	56	105
IDENTIFIABLE INTANGIBLE ASSETS, net	24,071	70,346
GOODWILL	73,896	73,896
Total assets	$ 182,623	$ 268,763
CURRENT LIABILITIES		
Accounts payable	$ 258	$ 2,431
Accrued expenses and other current liabilities	23,597	30,831
Income taxes payable	1,493	2,178
Note payable - affiliate	4,000	-
Current portion of note payable, net	39,837	39,837
Total current liabilities	69,184	75,277
LONG-TERM LIABILITIES		
Note payable, net	39,869	79,706
Deferred tax liabilities, net	1,515	11,039
Other long-term liabilities, net	218	291
Total long-term liabilities	41,602	91,036
Total liabilities	110,786	166,313
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDER'S EQUITY		
Common stock (par value, $0.0001 per share, 2,000 shares authorized, 100 shares outstanding)	30,010	30,010
Retained earnings	41,827	72,440
Total stockholder's equity	71,837	102,450
Total liabilities and stockholder's equity	$ 182,623	$ 268,763

See accompanying notes to financial statements

Sentynl Therapeutics, Inc.
Statements of Operations
For the Fiscal Years Ended March 31,
(in thousands)

	2020	2019
NET REVENUE	$ 35,144	$ 95,262
OPERATING COSTS AND EXPENSES		
Cost of sales	6,209	17,807
Selling and marketing	9,764	11,100
General and administrative	8,576	8,531
Manufacturing support, quality and regulatory	1,775	2,968
Depreciation	57	88
Amortization	7,949	9,021
Intangible asset impairment loss	38,325	-
Total operating costs and expenses	72,655	49,515
OPERATING INCOME (LOSS)	(37,511)	45,747
INTEREST EXPENSE (INCOME)		
Interest expense	4,836	5,098
Interest income	(2,561)	(2,115)
Total interest expense, net	2,275	2,983
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(39,787)	42,764
PROVISION (BENEFIT) FOR INCOME TAXES	(9,173)	9,512
NET INCOME (LOSS)	$ (30,614)	$ 33,252

See accompanying notes to financial statements

Sentynl Therapeutics, Inc.
Statements of Stockholder's Equity
For the Fiscal Years Ended March 31,
(in thousands)

	Common Stock		Retained	Total Stockholder's
	Units	Amount	Earnings	Equity
BALANCE, April 1, 2018	100	$ 30,010	$ 39,188	$ 69,198
Net income	-	-	33,252	33,252
BALANCE, March 31, 2019	100	30,010	72,440	102,450
Net loss	-	-	**(30,614)**	**(30,614)**
BALANCE, March 31, 2020	**100**	**$ 30,010**	**$ 41,827**	**$ 71,837**

See accompanying notes to financial statements

Sentynl Therapeutics, Inc.
Statements of Cash Flows
For the Fiscal Years Ended March 31,
(in thousands)

	2020	2019
OPERATING ACTIVITIES		
Net income (loss)	$ (30,614)	$ 33,252
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	57	88
Amortization	7,949	9,021
Amortization of deferred financing costs	153	160
Deferred compensation expense	236	241
Impairment Loss	38,325	-
Changes in operating assets and liabilities:		
Accounts receivable	10,898	11,574
Inventories	2,779	240
Prepaid expenses and other current assets	489	183
Income taxes payable	(684)	(953)
Accrued expenses and other current liabilities	(7,534)	(5,419)
Deferred tax liabilities	(9,524)	(2,499)
Accounts payable	(2,173)	(81)
Interest and other receivable – affiliate	(825)	(238)
Net cash provided by operating activities	9,532	45,569
INVESTING ACTIVITIES		
Loan advances to affiliates	(10,000)	(111,500)
Loan repayments from affiliate	33,500	70,000
Cash paid for settlement of merger-related obligations	-	(2,464)
Purchase of property and equipment	(8)	(46)
Net cash provided by (used in) investing activities	23,492	(44,010)
FINANCING ACTIVITIES		
Note payable repayments	(40,000)	-
Loan advances from affiliates	6,500	-
Loan repayments to affiliates	(2,500)	-
Net cash used in financing activities	(36,000)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,976)	1,559
CASH AND CASH EQUIVALENTS		
Beginning of period	10,375	8,816
End of period	$ 7,399	$ 10,375
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest:		
Paid to a third party	$ 3,355	$ 3,610
Paid to a related party	1,322	1,318
Total interest paid	$ 4,677	$ 4,928
Income Taxes Paid	$ 3,608	$ 12,962

See accompanying notes to financial statements

Note 1 - Organization and Description of Business

Sentynl Therapeutics, Inc. (the "Company", or STI) was formed as a Delaware corporation in August 2011, and is headquartered in San Diego, California. STI is a specialty pharmaceutical company principally engaged in acquiring and commercializing prescription drug products. STI sells and distributes its products through wholesale, specialty retail, and conventional retail drug distributors. On April 30, 2015, the Company was acquired by Sentynl Holdings LLC (SHL).

In 2015, STI acquired the intellectual property and exclusive rights to manufacture and distribute Levorphanol Tartrate Tablets ("Levorphanol") in the United States and its territories from Roxane Laboratories, Inc. (now Hikma Labs Inc.). Levorphanol is a FDA-approved opioid medication used to treat moderate to severe pain. On November 19, 2015, STI and Galena Biopharma, Inc. ("Galena") entered into an Asset Purchase Agreement (APA) pursuant to which STI agreed to purchase from Galena certain assets and liabilities of Galena related to and including its Abstral ® ("Abstral") Sublingual Tablets product. The Company discontinued Abstral in September 2019, ceased distribution of Abstral in November 2019, and voluntarily withdrew Abstral's New Drug Application (NDA) with an effective date of June 15, 2020.

On January 19, 2017, SHL sold all of its shares to Zydus Holding Inc. ("Zydus"), a wholly owned subsidiary of Cadila Healthcare Ltd. (CHL), and Zydus was merged into STI with STI being the surviving company and CHL being sole owner of STI.

The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Note 2 – Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue recognition and related deductions and allowances – The Company adopted the provisions of Accounting Standard Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*. The adoption of this new standard had an immaterial impact on the Company's reported total revenues as compared to what reported amounts would have been under the prior standard, and the impact of adoption in future periods is expected to be immaterial. The Company's accounting policies under the new standard were applied prospectively and are noted below.

Revenue

The Company's products are distributed through an exclusive distribution model with third-party distributor (the "Distributor") whereby the Company directly sells its products to this Distributor. The Distributor subsequently sells to a limited number of wholesalers and specialty pharmacies ("Customers"), who have agreements in place with STI.

The Company recognizes net revenue for product sales when control of the promised goods is transferred to its Customers in an amount that reflects the consideration it expects to be entitled to in exchange for those goods. Revenues are recorded, net of provisions, for variable consideration, including trade discounts and distribution fees, rebates, governmental rebate programs, product returns, group purchasing

Note 2 – Summary of Significant Accounting Policies (continued)

organization (GPO) chargebacks, other sales allowances. Accruals for these provisions are presented in the financial statements as reductions in determining net revenue and as a contra asset in accounts receivable, net (if settled via credit) and other current liabilities (if paid in cash). The following briefly describes the nature of the Company's provisions for variable consideration and how such provisions are estimated. These provisions represent accrual estimates, which are based on the terms and conditions of contracts and other agreements with the direct and indirect customers and are supported by relevant historical experience. The Company periodically reviews and, if necessary, adjusts the estimated amounts accrued for these deductions and allowances. It is reasonably possible that the estimates could change in the near term.

A Third-party and government rebates / chargebacks: The Company offers rebate programs with specialty and retail pharmacies. Such rebates are recognized based on contractual obligations in place at the time of sales with consideration given to relevant factors that may affect the payment as well as historical experience for estimated market activity.

The Company contracts with a group purchasing organization, which establishes contract prices for certain products on behalf of its members (GPO Members). GPO Members independently select a wholesaler Customer from which to purchase the products at these contracted prices. Under these arrangements, the Company provides credit to the wholesaler Customer for any difference between the contracted price with the indirect party and the wholesaler Customer's invoice price. Such credits are called chargebacks. The provision for chargebacks is based on expected sell-through levels by the Company's wholesaler Customers to indirect customers, as well as estimated wholesaler Customer inventory levels. This provision is recorded in the same period the revenue is recognized, resulting in a reduction of product revenue.

The Company contracts with Medicaid,and other government agencies ("Government Payors"). It estimates the rebates, chargebacks and discounts it will provide to Government Payors and deducts these estimated amounts from its gross product revenue at the time revenue is recognized and establishes a current liability. The estimate of these rebates is based on the historical trends of rebates paid as well as estimated levels of inventory in the distribution channel.

Trade discounts and Distribution fees: Trade discounts relate to prompt settlement discounts provided to the Distributor and Customers. Distribution fees include fees, based on sales amount, paid to Distributor for the distribution of the product. In addition, the Company compensates Customers for data and other activities. Estimates of these payments are recorded as a reduction of revenue based on contractual terms.

Product returns: Consistent with industry practice, the Company maintains a return policy that allows customers to return a product within a period which begins six months prior to, and ends twelve months subsequent to the expiration date. The Company's estimate of the provision for returns is generally based upon historical experience with actual returns and records this estimate as a reduction of revenue in the period the related product revenue is recognized.

Patient assistance program redemptions: The Company offers voluntary patient support programs, such as the Company's co-pay assistance program, which are intended to provide financial assistance to qualified commercially-insured patients with prescription drug copayments required by payors. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that the Company expects to receive. The adjustments are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue.

Note 2 – Summary of Significant Accounting Policies (continued)

The net revenue of the Company for the fiscal years ended on March 31 are as follows:

(in thousands)	2020	2019
Invoiced revenue	$ 65,112	$ 142,966
Less deductions and allowances:		
Third-party and government rebates / chargebacks	20,008	30,118
Distribution fees	4,310	8,642
Product returns	3,612	4,912
Trade discounts	1,500	2,961
Patient assistance program redemptions	539	1,071
Total deductions and allowances	29,968	47,704
Net sales	$ 35,144	**$ 95,262**

Concentrations – Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and trade accounts receivable. The Company maintains all of its cash balances in the form of bank depository accounts that have immediate liquidity. The Company maintains all of its cash and cash equivalent balances with a large United States-based financial institution. Certain balances exceed federally-insured amounts.

During the fiscal year ended on March 31, 2020, three indirect wholesale drug and specialty pharmacy distributors, each of whom individually accounted for more than 10 percent, accounted for 78 percent in aggregate of the Company's invoiced revenue. During the fiscal year ended on March 31, 2019, five indirect wholesale drug and specialty pharmacy distributors, each of whom individually accounted for more than 10 percent, comprised 82 percent of invoiced revenues. The Company extends unsecured credit to a Distributor, and that balance represents the amount classified as accounts receivable. The Distributor and all of the Company's indirect customers are located in the United States.

Two AB-rated (therapeutically equivalent) generic products to the Company's Levorphanol 2mg strength product were approved and launched and, as of the date of this report, the generic equivalent products are having an impact on the Company's unit volumes, net revenue, operating profit and cash flows.

In 2018, the FDA approved the Company's submission for a 3mg strength of Levorphanol, which was commercially launched in the United States in mid-January 2019.

During the fiscal years 2020 and 2019, Levorphanol made up 96% of gross sales.

Cost of sales – Cost of sales consist primarily of third-party product manufacturing costs, product royalties, third-party distribution and destruction costs, product stability costs, and provision for estimated excess and obsolete inventory.

Cash and cash equivalents – Cash and cash equivalents includes cash held in bank accounts and short-term investments with original maturities of three months or less when purchased that are highly liquid and

Note 2 – Summary of Significant Accounting Policies (continued)

readily convertible to cash.

Accounts receivables, net – During the fiscal years 2020 and 2019, the Distributor was the only direct customer of the Company. As such, the amount recorded at March 31, 2020 and 2019, reflects unpaid amounts invoiced to this customer under the terms and conditions of the contract. The allowance for trade discounts was $0.1 million and $0.3 million as of March 31, 2020 and 2019, respectively.

Inventories, net – Inventories consist of pharmaceutical drug products that are manufactured by Food and Drug Administration (FDA)-approved third-party suppliers for sale to direct and indirect customers. Inventories are stated at net realizable value. Cost is determined using the first-in, first-out method. The Company's existing products have an initial shelf-life which ranges from 18-24 months. The Company records an estimated allowance for excess and obsolete inventory based on projected future sales, reported and estimated unit quantities of products held by its direct and indirect customers, remaining product shelf-life, historical trends, and other relevant factors.

Note receivable – affiliates – The Company entered into loan agreements with its affiliates, Zydus Pharmaceuticals (USA) Inc. (ZPUI) and Zydus Worldwide DMCC (ZWWD). As of March 31, 2020, the loan receivable with ZPUI was fully settled. See Note 10 for further discussion.

Property and equipment – Property and equipment purchased by the Company is stated at cost. Assets acquired pursuant to a business combination are stated at their fair value on the date of the acquisition. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 5 years.

Identifiable intangible assets – Intangible assets are stated at cost less accumulated amortization. Amortization is generally recorded on a straight-line basis over estimated useful lives having ranged from 4 to 10 years. The Company evaluates the estimated remaining useful lives of intangible assets based on relevant factors that include market size and growth trends, stability of therapeutic class, and further strength of competing products and periodically reviews the estimated useful lives of intangible assets and makes adjustments when events indicate that a shorter life is appropriate.

Impairment of long-lived assets (other than goodwill) – The Company periodically evaluates whether changes in facts and circumstances indicate that the carrying amounts of long-lived assets might not be recoverable. Impairment is determined to exists when the carrying amount exceeds the estimated future undiscounted cash flows associated with the asset over its estimated remaining economic life (fair value). Fair value is determined using the market, income or cost approaches as appropriate for the asset. The estimated remaining economic life of product rights and other related intellectual property rights is subject to change in the near term based on, among other things, third-party generic competition, regulatory changes, the reliability of future product supply, competition from products prescribed for similar indications, physician loyalty, and promotional efforts or lack thereof. If an asset is impaired, an impairment loss is recognized based on the excess of the asset's carrying amount over its estimated fair value. Any write-downs are treated as permanent reductions in the carrying amount of the asset and recognized as an operating loss.

Note 2 – Summary of Significant Accounting Policies (continued)

The Company performed impairment testing as of September 2019 and March 2020, due to an expected reduction in long-term revenue forecasts from the negative impact of competing products. The scope of this testing included determination of the recoverable value of the long-lived intangible assets and determination of the fair value of the Company. The Company recorded a single impairment charge of $38.3 million in the year ended March 31, 2020 to reduce the unamortized carrying value of the Levorphanol product and license right and voluntarily reduced the associated amortization from 10 to 4 years. See Note 4.

The management judgment is involved in estimating the recoverability of these assets and is dependent upon the accuracy of the assumptions used in making these estimates, as well as how the estimates compare to the eventual future operating performance of the intangible assets. Any future long-lived assets impairment charges could have an impact on the Company's financial condition and results of operations.

Goodwill – The Company does not amortize goodwill and, accordingly, periodically reviews goodwill for impairment if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable based on management's assessment of the fair value of the Company's compared to its carrying value. If the Company determines that it is more likely than not that the fair value of the Company is less than its carrying amount, then the goodwill impairment test is performed. The goodwill impairment test requires the Company to estimate the fair value of the Company and to compare with its carrying amount. If the carrying amount is less than its fair value then there is no impairment recognized. If the carrying value recorded exceeds the fair value calculated, an impairment charge is recorded for the difference. The judgments made in determining the projected cash flows used to estimate the fair value can materially impact the Company's financial condition and results of operations.

Based on the conclusions of the impairment testing performed as of September 2019 and March 2020, no instances of impairment of goodwill were identified and, accordingly, no impairment of goodwill has been recorded as of March 31, 2020.

Income taxes – The Company accounts for income taxes payable based on the asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statements and income tax returns. A deferred tax asset valuation allowance is recorded if it is more likely than not that a deferred tax asset will not be realized. Interest and penalties on tax underpayments are recorded as other expense in the statement of income. As of March 31, 2020 and 2019, no valuation allowance was recorded and no interest and penalties were incurred.

Reclassifications and adjustments – Certain items in the prior year's financial statements have been reclassified to conform to the current presentation.

New accounting pronouncements -

The Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2019-12, *Simplifying the Accounting for Income Taxes* on Dec. 18, 2019. The ASU includes several provisions aimed at reducing complexity for financial statement preparers and increasing consistency and clarity for financial statement readers. The new guidance is effective for public business entities with fiscal years, and the related interim periods, beginning after Dec. 15, 2020. For other entities, the ASU is effective for fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022.

Note 2 – Summary of Significant Accounting Policies (continued)

The guidance in the ASU may be adopted prior to the effective dates; however, companies must adopt all of the changes identified in ASU 2019-12 at the same time.

In August 2018, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2018-13, *"Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement"*. This ASU removed the following disclosure requirements: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; and (3) the valuation processes for Level 3 fair value measurements. Additionally, this update added the following disclosure requirements: (1) the changes in unrealized gains and losses for the period included in other comprehensive income and loss for recurring Level 3 fair value measurements held at the end of the reporting period; (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU No. 2018-13 will be effective for fiscal years beginning after December 15, 2019 with early adoption permitted.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017.

Note 3 – Balance Sheet Details

Balance sheet details as of March 31, 2020 and 2019, are as follows:

(in thousands)	2020	2019
Accounts receivable, net		
Trade accounts receivable	$ 2,139	$ 13,215
Trade discounts	(113)	(291)
Accounts receivable, net	$ 2,026	$ 12,924
Inventories		
Raw materials	$ 317	$ 363
Finished goods	710	3,443
Work-in progress	-	-
Inventories	$ 1,027	$ 3,806

Note 3 – Balance Sheet Details (Continued)

Note Receivable – Affiliate		
Note receivable (principal)	$ 70,000	$ 93,500
Interest receivable, affiliate	391	503
Note receivable and interest receivable – affiliate	$ 70,391	$ 94,003
Prepaid expenses and other current assets		
Prepaid income tax	$ 1,269	$ -
Prepaid retail pharmacy rebate and patient assistance deposits	564	1,205
Prepaid market data	389	178
Prepaid commercial insurance	309	424
Receivable for inventory supplies	-	1,200
Other	286	301
Prepaid expenses and other current assets	$ 2,819	$ 3,308
Property and equipment, net		
Computer hardware and software	$ 317	$ 347
Furniture and fixtures	152	147
Manufacturing equipment and tooling	144	144
	613	638
Accumulated depreciation	(556)	(533)
Property and equipment, net	$ 56	$ 105
Accrued expenses and other current liabilities		
Accrued product returns	$ 10,395	$ 8,424
Accrued rebates and wholesaler fees	8,174	11,379
Deferred revenue	1,790	6,398
Accrued incentive compensation	1,210	1,350
Accrued regulatory and medical affairs costs	501	321
Accrued patient co-pay assistance and voucher program redemptions	393	813
Accrued legal fees	224	1,137
Accrued contract manufacturing costs	160	185
Accrued product royalties	96	148
Other	653	677
Accrued expenses and other current liabilities	$ 23,597	$ 30,831
Other long-term liabilities, net		
Deferred compensation liability, net	$ 218	$ 271
Other	-	19
Other long-term liabilities, net	$ 218	$ 291

Note 4 – Identifiable Intangible Assets and Goodwill

In connection with the acquisition by CHL, STI has elected to apply pushdown accounting and reflect in its financial statements the fair value of its assets and liabilities.

Note 4 – Identifiable Intangible Assets and Goodwill (Continued)

The identifiable intangible assets are related to Levorphanol and valued at $24.0 million, net of an impairment adjustment of $38.3 million. STI periodically reviews the estimated useful lives of intangible assets and makes adjustments when events indicate that a shorter life is appropriate. In response to the potential negative impact from generic competitor on Levorphanol forecasted revenue, the Company performed a review of carrying value at September 30, 2019, which resulted in a charge for impairment of the Levorphanol license and product rights of $38.3 million and was recorded in operating expenses. At September 30, 2019, the amortization period was adjusted to 4 years. Considering the impact of the further competition on future forecasted net revenue, an impairment test was performed as of March 31, 2020, which indicated that no further impairment of Levorphanol intangible assets existed at that time.

Abstral intangible assets were fully amortized in 2017.

The carrying amounts of intangible assets were as follows:

(in thousands)	2020	2019
Gross carrying amount, net of impairment		
License and product rights	$ 27,510	$ 92,000
Trademarks	-	300
FDA permits	-	193
	27,510	92,493
Less accumulated amortization	(3,439)	(22,148)
Intangible assets, net	$ 24,071	$ 70,346
Goodwill	$ 73,896	$ 73,896

Goodwill represents the excess consideration in a business combination over the fair value of identifiable net assets acquired. The Company does not amortize goodwill and is subject to impairment testing when a triggering event occurs that could indicate a potential impairment. The Company determines whether goodwill may be impaired by comparing the carrying value to the fair value of the entity. Based on the Company's evaluation at September 30, 2019 and March 31, 2020, no impairment of goodwill was identified.

Amortization expense related to the identifiable intangible assets was $7.9 and $9.0 million for the fiscal years 2020 and 2019, respectively. Future expected amortization expense for identifiable intangible assets held as of March 31, 2020, is as follows:

Year ended March 31 (in thousands),	
2021	$ 6,878
2022	6,878
2023	6,878
2024	3,437
Total	$ 24,071

Note 5 – Debt

In connection with the January 19, 2017, acquisition and resulting merger, the Company assumed a loan and outstanding indebtedness with the Bank of Tokyo – Mitsubishi (BTMU) dated January 12, 2017 ("effective date"), totaling $120.0 million with an initial term of five years.

Interest is due and payable monthly at a rate of margin plus LIBOR, as further defined in the loan agreement. During the fiscal year 2020, the margin rate was 0.85 percent, and the LIBOR rate ranged from 1.591 percent to 2.499 percent. During the period from April 1, 2018 to March 28, 2019, the margin rate was 0.77 percent, and the LIBOR rate ranged from 1.901 percent to 2.522 percent. The margin rate will remain at 0.85 percent over the remaining term. Interest accrues on the total weighted average principal balance outstanding. The amount outstanding under the loan agreement is guaranteed in full by CHL. The agreement requires the Company and CHL comply with certain financial covenants and representations and warranties over the term of the loan agreement. The Company was in full compliance with the loan covenants to which it was obligated at March 31, 2020, and through the date of this report. The Company incurred deferred financing costs of $0.8 million in connection with this agreement, which are being amortized on a straight-line basis over the initial term of the loan.

The balance of the loan and unamortized deferred financing costs were as follows:

(in thousands)	2020	2019
Principal balance outstanding	$ 80,000	$ 120,000
Less unamortized deferred financing costs	(294)	(457)
Total	$ 79,706	$ 119,543

For the fiscal year 2020 and 2019, the Company recognized interest expense associated with this loan of $3.5 million and $3.8 million, which includes $0.2 million in each year of expense related to amortization of deferred financing costs.

In January 2020, STI made the first installment payment of $40.0 million. Future minimum principal payments on the loan are due as follows:

Year ended March 31,	
2021	$ 40,000
2022	40,000
Total Payments	$ 80,000

Note 6 – Stockholder's Equity

As the result of the acquisition described in Note 1, CHL became the sole owner and holder of 100 shares of the Company's common stock.

Note 7 – Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities arise from temporary differences between the tax basis of assets and

Note 7 – Income Taxes (continued)

liabilities, and their reported amounts in the financial statements, that will result in taxable or deductible amounts in future years. Management evaluates all available evidence about future taxable income and other possible sources of realization of deferred tax assets. A valuation allowance is established to reduce deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized. To the extent the Company establishes a valuation allowance or increases the allowance in any given period, an expense is recognized within the provision for income taxes in the statement of income.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has more likely than not of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters as other expense in the statement of income. Based on management's assessment, there are no uncertain tax positions requiring recognition as of the date of these financial statements.

The income tax provision (benefit) consists of the following:

(in thousands)	2020	2019
Current:		
Federal	$ 405	$ 10,156
State	(54)	1,854
Total current	351	12,010
Deferred:		
Federal	(8,724)	(1,444)
State	(800)	(1,054)
Total deferred	(9,524)	(2,498)
Total provision (benefit) for income taxes	$ (9,173)	$ 9,512

STI's net deferred tax liabilities are as follows:

(in thousands)	2020	2019
Deferred tax liabilities (assets):		
Tax vs. book carrying values of identifiable intangibles assets	$ 4,510	$ 13,983
Allowance for returns and rebates	(2,194)	(1,909)
Deferred revenue, net of expenses	(183)	(703)
Depreciation and amortization	12	21
Accrued compensation	(46)	(61)
Allowance for inventory obsolescence	(584)	(292)
Total net deferred tax liabilities, net	$ 1,515	$ 11,039

As of March 31, 2020, the Company has no valuation allowance against the deferred tax assets based on management's current projection of future taxable income that is expected to be sufficient for the Company to realize the future benefit of such deferred tax assets.

Note 7 – Income Taxes (continued)

The difference between the effective income tax rate and the statutory federal income tax rate applied to pretax income is as follows:

(in thousands)	2020	
	Amount	Percentage
Federal income tax at statutory rate	$ (8,345)	21.00%
State income tax, net of federal benefit	(166)	0.42%
Permanent nondeductible items	62	-0.16%
Total income tax expense	(8,449)	21.26%
Deferred tax benefit	(724)	1.82%
Total benefit for income taxes	$ (9,173)	23.08%

(in thousands)	2019	
	Amount	Percentage
Federal income tax at statutory rate	$ 8,993	21.00%
State income tax, net of federal benefit	1,329	3.08%
Permanent nondeductible items	106	0.25%
Total income tax expense	10,428	24.33%
Deferred tax benefit	(916)	-2.09%
Total provision for income taxes	$ 9,512	22.24%

The Company has not incurred any material interest or penalties during the reporting period with respect to income tax matters.

The Company is subject to taxation in the United States and various state jurisdictions. As of March 31, 2020, the Company's tax years for 2015 through 2018 are subject to examination by the taxing authorities. The Company is currently under audit with the United States Internal Revenue Service (IRS). The IRS is auditing tax year 2017and 2018. The California Franchise Tax Board discontinued its audit of 2015 through 2017 with no change.

Note 8 – Commitments and Contingencies

Leases – On February 8, 2016, the Company entered into a non-cancelable lease agreement for office space at its corporate headquarters in San Diego, California. The term of the lease commenced in June 2016, and expires five years later, with a renewal option for an additional five years. Rent expense was $0.2 million in each of the years during the fiscal years 2020 and 2019.

Future minimum payments due and payable under the Company's non-cancelable operating lease are as follows:

Note 8 – Commitments and Contingencies (Continued)

(in thousands)

Years ended March 31,		
2021	$	233
2022		39
Total	$	271

Product manufacturing agreements – The Company uses FDA-validated third-party contractors to manufacture and package its products. Under the terms and conditions of agreements with these contractors, the Company enters into firm purchase commitments that specify quantities, expected delivery, and pricing for each specific order.

The Company made purchases totaling $2.7 million and $5.8 million under this contract in fiscal year 2020 and 2019, respectively.

Legal matters – In August 2018, the Company received a subpoena from the United States Attorney's Office for the District of New Jersey seeking information related to the promotion and distribution of one of the Company's products ("Government Investigation"). At this time, the Company cannot predict or determine the outcome of this matter and is fully cooperating with the Government Investigation.

A complaint naming the Company (among other pharmaceutical companies) as a defendant, was filed on or about March 15, 2019, in the Pennsylvania Court of Common Pleas of Philadelphia. The Company was served with the lawsuit on April 18, 2019. The Company retained legal counsel to assist the Company in responding to the lawsuit. At this time, the Company cannot predict or determine the outcome of this matter.

The Company filed suit on September 3, 2019 against the former carrier of a directors and officers (D&O) liability insurance policy in connection with the carrier's refusal to cover costs related to the Government Investigation. At this time, the Company cannot predict or determine the outcome of this matter.

The Company may be involved in other legal matters that arise from time to time in the ordinary course of business. Management does not believe that the resolution of any of these matters would have a material impact on the Company's financial position or results of operations.

As of March 31, 2020, STI accrued unpaid legal and related costs totaling $0.2 million.

Royalty and Milestone Agreements – STI is obligated to pay quarterly royalties to the seller of Levorphanol, subject to certain limitations as further defined in the definitive agreement and amendments thereto. Royalties are based on a percentage of the gross profit (defined as net sales less direct product cost) from the future sales of Levorphanol.

Royalty expense for Levorphanol totaled $0.3 million and $9.2 million for the fiscal years 2020 and 2019, respectively, and was classified as a component of cost of sales.

The assets acquired and the liabilities assumed by STI pursuant to the Galena APA included, among other things, all of Galena's rights and interests in a previous Asset Purchase Agreement by and between Galena and Orexo AB ("Orexo") dated March 15, 2013, and a License Agreement by and between Galena and

Note 8 – Commitments and Contingencies (Continued)

Orexo dated March 18, 2013 (collectively, the "Orexo Agreements"). Under assumed Orexo Agreements, STI was obligated to pay Orexo royalties based on future net sales of Abstral. Royalty expense for Abstral totaled $0.2 million and $0.5 million for the fiscal 2020 and 2019, respectively, and was classified as a component of cost of sales. The Company's obligation to pay royalties ended when the Abstral patents expired in September 2019.

Note 9 – Retirement Plan and Deferred Compensation Plan

The Company has established a qualified defined contribution 401(k) plan for its eligible directors. Company contributions, if any, to the 401(k) plan are at the sole discretion of the Board of Directors. In 2020, the Board approved, and the Company paid, a matching contribution of $0.3 million related to employee services during 2019. In 2019, the Company paid a board-approved matching contribution of $0.2 million related to 2018 employee services. At March 31, 2020, the Company accrued a discretionary matching contribution for employee services related to 2020 totaling $0.1 million, which, subject to Board approval, will be funded in early 2021.

The Company has a deferred compensation plan in which certain key employees were eligible to participate effective January 19, 2017. This plan allows each participant to accrue deferred compensation equal to their share, as further defined in the plan agreement, of annual net revenue growth measured against the previous year's ("Base Year") annual net revenue. The computation of deferred compensation was based on the growth in net revenue for the calendar years ended December 31, 2017 and December 31, 2018, compared with 2016 and 2017, respectively, the Base Years. The growth in calendar year 2019 net revenue did not exceed its Base Year and, as such, did not meet the qualification for deferred compensation accrual. The deferred liability for each participant cliff vests equally over a five-year period on December 31 each year, and the vested amount is paid out at the end of the following year. The participant must be employed at the Company in order to be eligible for annual vesting and the subsequent end of year payment. If the participant(s) employment is terminated, any unvested amounts are forfeited. The Company accounts for the deferred compensation asset separately from the liability and, as such, systematically amortizes the compensation expense on a straight-line basis over the estimated future service period, which approximates six years. At March 31, 2020 and 2019, the Company recorded deferred compensation asset of $0.8 million and $1.2 million, respectively, which reflected future amortization over the remaining service period at each date. In addition, the Company had recorded a liability of $1.0 million and $1.4 million at March 31, 2020 and 2019, which reflects the amount of future payments, representing in a net liability of $0.2 million and $0.3 million, at March 31, 2020 and 2019, respectively, which were classified as other long-term liability.

Note 10 – Related Party Transactions

As of March 31, 2020, the Company has provided cumulative loan advances totaling $103.5 million pursuant to a loan agreement entered into between the Company and ZPUI. The loan agreement was terminated effective from March 31, 2020. The full amount outstanding under the loan agreement was repaid by ZPUI in January 2020. Interest earned on the outstanding loan balance was calculated at a rate of margin plus LIBOR, as further defined in the loan agreement. The Company deemed the interest rates to represent fair value. The Company recognized $0.7 million and $1.6 million in interest income associated with this loan during the fiscal year 2020 and 2019, respectively. Since the loan was fully paid in January 2020, there was no outstanding principal nor accrued interest receivable balance at March 31, 2020. The

Note 10 – Related Party Transactions (Continued)

outstanding principal and accrued interest receivable balance was $23.5 million and $0.1 million, respectively, at March 31, 2019.

As of March 31, 2020, the Company has provided cumulative net loan advances of $70.0 million pursuant to a loan agreement entered into between the Company and Zydus Worldwide DMMC (ZWWD). The initial term was rolled over to end on January 10, 2021, and can be repaid, by mutual consent, before the end of the term at any time without penalty. Interest is due quarterly, and is earned on the unpaid loan balance during the quarterly interest period at rate of margin plus LIBOR, as further defined in the loan agreement. The Company deems the interest rate to represent fair value. The Company recognized $1.9 million and $0.5 million in interest income associated with this loan during the fiscal years 2020 and 2019, respectively. The current outstanding principal and interest receivable was $70.0 million and $0.4, respectively, at March 31, 2020 and $70.0 million and $0.5 million, respectively, at March 31, 2019.

As of March 31, 2020 and 2019, the Company classified the outstanding loan receivable balances as current assets as follows:

(in thousands)	2020	2019
Note receivable - ZPUI	$ -	$ 23,555
Note receivable - ZWWD	70,391	70,448
Note receivable and interest receivable – affiliate	$ 70,391	$ 94,003

As of March 31, 2020, the Company had received cumulative loan advances totaling $6.5 million from ZPUI pursuant to a loan agreement between the Company and ZPUI, of which $2.5 million had been repaid by the Company. Interest accrued on the unpaid loan balance is calculated at a rate of margin plus LIBOR, as further defined in the loan agreement. The Company deemed the interest rates to represent fair value. The Company recorded $0.03 million in interest expense associated with this loan during the fiscal year ended on March 31, 2020. The current outstanding principal and accrued interest payable balance was $4.0 million and $0.0 million, respectively, at March 31, 2020. There was no activity associated with this note payable in fiscal 2019.

In connection with the merger in 2017, the Company agreed to pay to Cadila Healthcare Limited ("CHL") a loan guarantee fee as compensation for CHL's guarantee of the Company's debt obligation with BTMU. The Company settles its obligation with CHL on a quarterly basis. During the fiscal years 2020 and 2019, the Company recognized fee expense of $1.3 million in each of the years in connection with this arrangement and $0.3 million was outstanding at March 31, 2020. As of March 31 2019, no accrued and billed amounts were outstanding. At March 31, 2020, a receivable, net of the guarantee fee payment, totaled $0.9 million and is classified in Other receivable – affiliate on the balance sheet.

Under the terms and conditions of the development agreement entered into by the Company with an affiliate, Nesher Pharmaceuticals (USA) LLC ("Nesher"), the Company made payments totaling $2.6 million.

During the fiscal year 2020 and 2019, respectively, the Company recognized development expense totaling $0.4 million and $0.8 million in connection with this agreement, and made payments totaling $0.4 million and $1.0 million, respectively. As of March 31, 2020, no accrued and billed amounts were outstanding.

Note 10 – Related Party Transactions (Continued)

The Company made purchases totaling $0.4 million and $0.6 million under the manufacturing agreement from Nesher for the period ended March 31, 2020 and 2019, respectively, and had finished goods inventory acquired of $0.8 million and $0.6 million at March 31, 2020 and 2019. At March 31, 2020, there was $0.4 million in outstanding firm purchase commitments in connection with this agreement.

Note 11 – Subsequent Events

The Company has evaluated subsequent events through June 16, 2020, the date, which the financial statements were available to be issued. No reportable subsequent events have occurred through June 16, 2020, which would have a significant effect on the financial statements as of March 31, 2020, except as otherwise disclosed.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what will be the financial impact to the Company. To date, the Company has not experienced any consequences or loss of business due to Covid-19 which will materially impact the financial conditions of the Company.