

NATCO PHARMA, INC. T/A SAVEMART
FINANCIAL REPORT
FOR THE YEAR ENDED
MARCH 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Natco Pharma, Inc. T/A Savemart

We have audited the accompanying balance sheet of Natco Pharma, Inc. T/A Savemart (a C-Corporation) as of March 31, 2015 and the related statements of income and retained earnings and cash flows for the year ended March 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Natco Pharma, Inc. T/A Savemart as of March 31, 2015 and the results of its operations, its cash flows and changes in its retained earnings for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Timothy G. Gearity, CPA

Rutherford, NJ 07070, USA

April 30, 2015

NATCO PHARMA, INC. T/A SAVEMART
BALANCE SHEET
MARCH 31, 2015

ASSETS

CURRENT ASSETS

Cash		
Accounts Receivable (Net of Allowance of \$100,000)	\$	710,599
Inventory		61,910
Other Current Assets		1,255,265
TOTAL CURRENT ASSETS		<u>300,552</u>
		\$ 2,328,326

PROPERTY AND EQUIPMENT - At Cost
Less Accumulated Depreciation

85,179

OTHER ASSETS

Goodwill (Net of Allowance for Impairment of \$670,428)	\$	2,681,713	
Security Deposit		<u>11,631</u>	
TOTAL ASSETS			<u>2,693,344</u>
			<u>\$ 5,106,849</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Accounts Payable	\$	613,366	
Accrued Expenses and Other Current Liabilities		162,663	
Federal and State Income Taxes Payable		35,509	
Deferred Federal and State Income Taxes Payable		<u>95,784</u>	
TOTAL CURRENT LIABILITIES			\$ 907,322

LONG-TERM DEBT

0

STOCKHOLDER'S EQUITY

Common Stock, No Par Value, 1,500 Shares Authorized, 1,000 Shares Issued and Outstanding	\$	1,000,000	
Retained Earnings		<u>3,199,527</u>	
TOTAL STOCKHOLDER'S EQUITY			4,199,527

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY

\$ 5,106,849

See Accountants' Report and Accompanying Notes

NATCO PHARMA, INC. T/A SAVEMART
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED
MARCH 31, 2015

	Amount	% of Sales
SALES	\$ 15,530,020	100.0%
COST OF SALES		
Beginning Inventory	1,643,839	10.6%
Purchases	11,458,022	73.8%
Freight	19,181	0.1%
Total	13,121,042	84.5%
Advertising Expense	135,604	0.9%
Total	13,256,646	85.4%
Less: Ending Inventory	(1,255,265)	-8.1%
TOTAL COST OF SALES	12,001,381	77.3%
GROSS PROFIT	3,528,639	22.7%
OPERATING EXPENSES	2,153,648	13.9%
INCOME BEFORE ADMINISTRATIVE EXPENSES	1,374,991	8.9%
ADMINISTRATIVE EXPENSES	209,213	1.3%
INCOME FROM OPERATIONS	1,165,778	7.5%
OTHER INCOME (EXPENSE)	106,645	0.7%
NET INCOME (LOSS) BEFORE INCOME TAXES	1,272,423	8.2%
FEDERAL AND STATE INCOME TAXES		
Federal Income Taxes	326,288	2.1%
State Income Taxes	99,221	0.6%
Total Income Taxes	425,509	2.7%
DEFERRED FEDERAL AND STATE INCOME TAXES		
Deferred Federal Income Taxes	(22,048)	-0.1%
Deferred State Income Taxes	(3,539)	0.0%
Total Deferred Income Taxes	(25,587)	-0.2%
NET INCOME (LOSS)	\$ 872,501	5.6%
RETAINED EARNINGS		
Beginning Balance	\$ 2,327,026	
Net Income	872,501	
ENDING BALANCE	\$ 3,199,527	

See Accountants' Report and Accompanying Notes

NATCO PHARMA, INC. T/A SAVEMART
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
MARCH 31, 2015

Cash Flows from Operating Activities:	
Net Income (Loss)	\$ 872,501
Adjustments to reconcile net income (loss) to net cash provided in operating activities:	
Depreciation	26,966
Net change in operating assets and liabilities:	
(Increase) Decrease in Accounts Receivable	(41,667)
(Increase) Decrease in Inventory	388,574
(Increase) Decrease in Other Current Assets	(80,107)
(Increase) Decrease in Security Deposit	0
Increase (Decrease) in Accounts Payable/Accrued Expenses	(666,865)
Increase (Decrease) in Federal and State Corporate Taxes Payable	(176,264)
Increase (Decrease) in Deferred Federal and State Income Taxes Payable	(25,587)
Total Adjustments	<u>(574,950)</u>
Net Cash Used By Operating Activities	<u>297,551</u>
Cash Flows from Investing Activities:	
Acquisition of Property and Equipment	(58,183)
Disposition of Property and Equipment	0
Net Cash Provided/(Used) By Investing Activities	<u>(58,183)</u>
Cash Flows from Financing Activities:	
Capital Lease Payments	0
Stockholder Loan Repayments	0
Net Cash Provided By Financing Activities	<u>0</u>
Net Increase in Cash	
Cash at Beginning of Period	239,368
Cash at End of Period	<u>471,231</u>
	<u>\$ 710,599</u>
SUPPLEMENTAL DISCLOSURE	
Interest Paid	<u>\$ 500,000</u>
Non-Cash Investing and Financing Activities	
Capital Lease Obligation Incurred in Purchase of Property and Equipment	<u>\$ 0</u>

See Accountants' Report and Accompanying Notes

NATCO PHARMA, INC. T/A SAVEMART
SUPPORTING SCHEDULES TO
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED
MARCH 31, 2015

OPERATING EXPENSES	<u>Amount</u>	<u>% of Sales</u>
Bad Debt Expense	959	0.0%
Cash Over & Short & Refused Coupons	7,161	0.0%
Contributions	5,941	0.0%
Depreciation	26,966	0.2%
Insurance-Health, Life, Disability	71,527	0.5%
Lease Expense	7,368	0.0%
Payroll Tax Expenses	128,866	0.8%
Rent	214,570	1.4%
Repairs and Maintenance	15,274	0.1%
Salaries - Managers	238,274	1.5%
Salaries - Office	58,627	0.4%
Salaries - Store	591,176	3.8%
Salaries - Bonus	65,840	0.4%
Salaries - Pharmacy	292,215	1.9%
Vacation/Holiday/Sick Pay	57,485	0.4%
Service Charges	202,149	1.3%
Supplies	82,062	0.5%
Telephone	13,583	0.1%
Travel	25,172	0.2%
Utilities	48,433	0.3%
TOTAL OPERATING EXPENSES	\$ <u>2,153,648</u>	<u>13.9%</u>
ADMINISTRATIVE EXPENSES		
Dues and Subscriptions	\$ 1,000	0.0%
Employer Matching 401-K	16,802	0.1%
Insurance-General	72,905	0.5%
Legal and Accounting Fees	26,000	0.2%
Office Expenses	9,593	0.0%
Office Supplies	6,548	0.0%
Professional Services	76,365	0.5%
TOTAL ADMINISTRATIVE EXPENSES	\$ <u>209,213</u>	<u>1.3%</u>
OTHER INCOME (EXPENSE)		
Interest Income	\$ 258	0.0%
Miscellaneous Income (Expense)	106,387	0.7%
TOTAL OTHER INCOME (EXPENSE)	\$ <u>106,645</u>	<u>0.7%</u>

See Accountants' Report and Accompanying Notes

NATCO PHARMA, INC. T/A SAVEMART
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS ACTIVITY

Natco Pharma, Inc. T/A Savemart, a "C" Corporation, was incorporated in the State of Delaware on October 10, 2006. The Corporation acquired the assets of H. Morgan Corporation T/A Savemart on July 9, 2007. The acquisition was reported using the purchase method of accounting. The Corporation is engaged in the retail distribution of health and beauty aids and the operation of a pharmacy at 241 West Roseville Road, Lancaster, Pennsylvania.

BASIS OF ACCOUNTING

The Corporation presents its financial statements on the accrual basis method of accounting in compliance with accounting principles generally accepted in the United States of America.

CASH

For purposes of the statement of cash flows, cash includes amounts on hand and amounts on deposit with financial institutions.

ACCOUNTS RECEIVABLE

The company has provided an allowance of \$100,000 for accounts outstanding over 120 days old and deemed to be non-collectible.

INVENTORY

Inventory is valued at the lower of cost or market using the first-in, first-out method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Assets acquired through lease agreements meeting requirements under generally accepted accounting principles that require capitalization are recorded at their fair market at the date of lease inception. Major additions and improvements are capitalized, and routine expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is provided using the straight-line method based on the estimated useful lives of the related assets.

NATCO PHARMA, INC. T/A SAVEMART
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2015

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of cost over the fair value of the net assets acquired through acquisition. In lieu of amortization, goodwill is to be evaluated on an annual basis for potential impairment.

INCOME TAXES

The Corporation has elected taxation as a "C" Corporation for federal and state income tax purposes.

ADVERTISING

Advertising costs are expensed as incurred. The company has mounted a concerted effort to boost its image with the public with a high profile marketing program and associations with the local semi-professional sports team and leading members of the community. Revenues from advertising/redemption of coupons were reported as \$54,807 for the year. Overall net advertising expenses were reported at a net cost of \$135,604 for the year.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSET IMPAIRMENT

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an asset is determined to be impaired, it is written down to its fair market value.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Corporation maintains cash balances with Fulton Bank. Accounts maintained at commercial banks are insured, in the aggregate per depositor, by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Management regularly monitors the financial conditions at the bank and tries to keep these risks at a minimum. The Company has not previously suffered any such losses. At March 31, 2015, the Corporation's main cash

NATCO PHARMA, INC. T/A SAVEMART
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2015

balance was approximately \$390,000 in excess of the FDIC's limit. Management feels that it is impractical to work with a lesser sum but has indicated that they will closely monitor the situation and take immediate action should there be cause for concern.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>USEFUL LIVES</u>	<u>March 31, 2015</u>
Pharmacy Equipment	5 Years	\$ 105,435
Furniture and Fixtures	7 Years	90,833
Computer Equipment	5 Years	118,176
Leasehold Improvements	6 Years	117,333
Total Property and Equipment		\$ 431,777
Less: Accumulated Depreciation		(346,598)
Net Book Value		\$ <u>85,179</u>

NOTE 4 - OTHER ASSETS

Other assets include:

	<u>March 31, 2015</u>
Goodwill	\$ 3,352,141
Impairment of Goodwill	(670,428)
Security Deposits	11,631
Total Other Assets	\$ <u>2,693,344</u>

The Corporation has classified as goodwill the excess of the purchase price of the acquisition over the fair value of the assets acquired. On an annual basis, goodwill is tested for impairment and adjusted to reflect any impairment loss. In the year ended March 31, 2015, there wasn't any additional impairment provision deemed necessary to be recognized at the present time.

NOTE 5 - ACCRUED EXPENSES

Accrued expenses and other current liabilities consist of the following:

	<u>March 31, 2015</u>
Loan Interest Payable to Parent Company	\$ 2,757
Accrued Payroll/Vacation/Sick/Personal	46,489
Reserve for Growth and Improvements	77,050
Professional Services/Service Fees	13,000
Commonwealth of Pennsylvania Sales Taxes	13,147
Payroll Tax Withholdings/Deductions	7,970
Gift Card Advance Revenues	2,250
Total Accrued Expenses and	
Other Liabilities	\$ 162,663
	<u>=====</u>

NATCO PHARMA, INC. T/A SAVEMART
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2015

NOTE 6 - LOAN FROM PARENT COMPANY AND RELATED PARTY TRANSACTIONS

Natco Pharma, Ltd., the Corporation's parent company, had provided loan proceeds totaling \$4,975,000 when the Corporation was initially capitalized. The loan was unsecured, did not specify a repayment period and bore simple interest at the rate of 9% per annum. The principal of the loan had been paid off as of the end of the preceding year. Beginning in 2013, the Company began to make repayment of the simple interest that had accrued from the inception of the loan. \$500,000 in interest payments were remitted during the current fiscal year. The remaining balance of the loan interest payable as of March 31, 2015 has been reduced to \$2,757.

The Company has made a short-term (one-year) loan of \$100,000 to NATCOfarma Do Brazil, a NATCO affiliate located in Brazil. The loan bears simple interest at the rate of 5% per annum. Interest income has not been accrued in these financial statements and the loan remains outstanding as of March 31, 2015.

A \$100,000 advance has also been reported under other current assets for the rights to the intellectual property, including all product formulas associated with the development of an arthritis aerosol foam product for the benefit of NATCO Pharma, Ltd., the parent company. The transaction had been made with a former employee of the parent company in October, 2009. The agreement states that if the product development efforts of the parent company proves unsuccessful, the exclusive rights to the product will be returned to the former employee and the advance monies will be returned. The two-year time period for the agreement expired in October, 2011 and the monies have not been returned as of the date of this report. Management anticipates that the advance will be repaid in the near future, either in cash or professional services. A \$100,000 reserve has been set aside in an earlier time period to the reserve for doubtful accounts in the event this advance proves to not be fully-collectible.

NATCO PHARMA, INC. T/A SAVEMART
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31. 2015

NOTE 7 - CORPORATE INCOME TAXES PAYABLE/EXPENSE

In accordance with generally accepted accounting principles, an entity recognizes deferred tax assets and/or liabilities for the future tax consequences of events that have been previously recognized in the Corporation's financial statements or tax returns.

The provision for income taxes for the period ending March 31, 2015 is comprised as follows:

Current Federal Income Taxes	\$ 326,288
Current State of Pennsylvania	
Corporate Income Taxes	99,221
Total Corporate Income Taxes	\$ 425,509
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NOTE 8 - RETIREMENT PLAN

The Corporation provides a 401(k) retirement plan for all employees meeting certain age and length of service requirements. Eligible employees may make contributions to the plan. The Corporation's matching contributions were \$16,802 for the year.

NOTE 9 - OPERATING LEASES

The initial term of the Corporation's lease ran through April 30, 2014. At that time the Corporation exercised the first of two five-year options that it has for the store from the original lease. The Corporation presently has the following minimum future lease commitments through April, 2019 for the 23,172 square foot store:

<u>Year Ending</u>	
March 31, 2016	\$ 184,975
March 31, 2017	191,449
March 31, 2018	198,150
March 31, 2019	205,085
March 31, 2020	17,139