

ANI PHARMACEUTICALS INC  
Form 10-Q  
November 07, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2013**

- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number 001-31812**

**ANI PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**58-2301143**

(IRS Employer Identification Number)

**210 Main Street West**

**Baudette, Minnesota**

(Address of principal executive offices)

**(218) 634-3500**

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

As of October 31, 2013, 9,480,206 shares of common stock and 10,868 shares of class C special stock of the registrant were outstanding.

**ANI PHARMACEUTICALS, INC.**  
**FORM 10-Q Quarterly Report**  
**For the Quarterly Period Ended September 30, 2013**  
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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements under the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about the potential benefits of the recent merger between BioSante Pharmaceuticals, Inc. and ANIP Acquisition Company (the “Merger”), the Company’s plans, objectives, expectations and intentions with respect to future operations and products, the anticipated financial position, operating results and growth prospects of the Company and other statements that are not historical in nature, particularly those that utilize terminology such as “anticipates,” “will,” “expects,” “plans,” “potential,” “future,” “believes,” “intends,” “continue,” other words of similar meaning, derivations of such and the use of future dates. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Uncertainties and risks may cause the Company’s actual results to be materially different than those expressed in or implied by such forward-looking statements. Uncertainties and risks include the risk that the Company may in the future be required to seek FDA approval for its unapproved products or withdraw such products from the market; the Company may fail to meet NASDAQ listing requirements; general business and economic conditions; the Company’s need for and ability to obtain additional financing; the difficulty of developing pharmaceutical products, obtaining regulatory and other approvals and achieving market acceptance; and the marketing success of the Company’s licensees or sublicensees. More detailed information on these and additional factors that could affect the Company’s actual results are described in the Company’s filings with the Securities and Exchange Commission, including its most recent annual report on Form 10-K and this quarterly report on Form 10-Q, as well as its proxy statement/prospectus, filed with the Securities and Exchange Commission on May 8, 2013. All forward-looking statements in this quarterly report speak only as of the date made and are based on the Company’s current beliefs and expectations. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

| <b>ANI PHARMACEUTICALS, INC.</b>             |                       |                      |
|--|-----------------------|----------------------|
| <b>Condensed Consolidated Balance Sheets</b> |                       |                      |
| <i>(Unaudited)</i>                           |                       |                      |
|  | September 30,<br>2013 | December 31, 2012    |
| Assets                                       |                       |                      |
| Current Assets                               |                       |                      |
| Cash and cash equivalents                    | \$ 10,929,806         | \$ 11,028            |
| Restricted cash                              | 2,260,100             | -                    |
| Accounts receivable, net                     | 9,515,096             | 5,432,401            |
| Inventories, net                             | 2,809,160             | 2,809,685            |
| Prepaid expenses                             | 580,597               | 313,193              |
| <b>Total Current Assets</b>                  | <b>26,094,759</b>     | <b>8,566,307</b>     |
| Property and Equipment                       |                       |                      |
| Land   | 86,949                | 86,949               |
| Buildings                                    | 3,682,006             | 3,682,006            |
| Machinery, furniture and equipment           | 3,736,484             | 3,564,948            |
| Construction in progress                     | 197,948               | 208,069              |
|  | 7,703,387             | 7,541,972            |
| Less: accumulated depreciation               | 3,062,900             | 2,662,799            |
| <b>Total Property and Equipment, net</b>     | <b>4,640,487</b>      | <b>4,879,173</b>     |
| Other Assets                                 |                       |                      |
| Intangible assets, net                       | 10,712,273            | 85,000               |
| Goodwill                                     | 1,838,309             | -                    |
| Deferred loan costs, net                     | -                     | 217,290              |
| <b>Total Other Assets</b>                    | <b>12,550,582</b>     | <b>302,290</b>       |
| <b>Total Assets</b>                          | <b>\$ 43,285,828</b>  | <b>\$ 13,747,770</b> |

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

|  |
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| <b>ANI PHARMACEUTICALS, INC.</b>             |
| <b>Condensed Consolidated Balance Sheets</b> |
| <i>(Unaudited)</i>                           |

|   | September 30,<br>2013 | December 31, 2012 |
|---|-----------------------|-------------------|
| <b>Liabilities and Stockholders' Equity/(Deficit)</b>   |                       |                   |
| <b>Current Liabilities</b>  |                       |                   |
| Accounts payable  | \$ 2,086,847          | \$ 1,993,567      |
| Accrued expenses  | 1,338,215             | 555,635           |
| Returned goods reserve  | 457,890               | 410,992           |
| Deferred revenue  | 46,712                | 314,794           |
| Borrowings under line of credit   | -                     | 4,065,307         |
| Accrued compensation  | 2,535,746             | 21                |
| Current liabilities, discontinued operation   | 131,613               | 370,766           |
| <b>Total Current Liabilities</b>  | <b>6,597,023</b>      | <b>7,711,082</b>  |
| <b>Commitments and Contingencies (Note 10)</b>  |                       |                   |
| <b>Redeemable Convertible Preferred Stock</b>   |                       |                   |
| 10% Convertible Preferred Stock, Series A, \$0.10 par value, stated value of \$100 per share; no shares authorized, issued, or outstanding at September 30, 2013; |                       |                   |
| 108,494 shares authorized, 102,774 shares issued and outstanding including cumulative dividends of \$2,186,326 at December 31, 2012                               | -                     | 11,579,126        |
| 10% Convertible Preferred Stock, Series B, \$0.10 par value, stated value of \$110 per share; no shares authorized, issued, or outstanding at September 30, 2013; |                       |                   |
| 118,915 shares authorized, 78,491 shares issued and outstanding including cumulative dividends of \$1,836,734 at December 31, 2012                                | -                     | 10,560,082        |
| 12% Convertible Preferred Stock, Series C, \$0.10 par value, stated value of \$110 per share; no shares authorized, issued, or outstanding at September 30, 2013; |                       |                   |
| 37,956 shares authorized, 34,810 shares issued and outstanding including cumulative dividends \$994,471 at December 31, 2012                                      | -                     | 4,814,735         |
| 10% Convertible Preferred Stock, Series D, \$0.10 par value, stated value of \$30 per share; no shares authorized, issued, or outstanding at September 30, 2013;  |                       |                   |
| 3,400,000 shares authorized, 2,375,312 shares issued and outstanding including cumulative dividends of \$4,184,858 at December 31, 2012                           | -                     | 21,797,240        |
| <b>Total Redeemable Convertible Preferred Stock</b>   | <b>-</b>              | <b>48,751,183</b> |

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|  |               |               |
|--|---------------|---------------|
| Stockholders' Equity/(Deficit)   |               |               |
| Common Stock, \$0.0001 par value, 33,333,334 shares authorized; 9,539,299 shares issued and 9,480,206 shares outstanding at September 30, 2013; 4,070,373 shares issued and outstanding at December 31, 2012 | 954           | 407           |
| Class C Special Stock, \$0.0001 par value, 781,281 shares authorized; 10,868 shares issued and outstanding at September 30, 2013 and December 31, 2012   | -             | -             |
| Additional paid-in capital   | 89,024,878    | 1,083,431     |
| Accumulated deficit  | (51,904,465)  | (43,798,333)  |
| Treasury stock, 59,093 shares of common stock, at cost, on September 30, 2013  | (432,562)     | -             |
| Total Stockholders' Equity/(Deficit)   | 36,688,805    | (42,714,495)  |
| Total Liabilities and Stockholders' Equity/(Deficit)   | \$ 43,285,828 | \$ 13,747,770 |

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

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| <b>ANI PHARMACEUTICALS, INC.</b>                       |
| <b>Condensed Consolidated Statements of Operations</b> |
| <i>(Unaudited)</i>                                     |

|  | Three months ended September 30, |                | Nine months ended September 30, |                |
|--|----------------------------------|----------------|---------------------------------|----------------|
|  | 2013                             | 2012           | 2013                            | 2012           |
| Net Revenues   | \$ 7,836,222                     | \$ 5,036,024   | \$ 19,549,670                   | \$ 15,049,619  |
| Operating Expenses   |                                  |                |                                 |                |
| Cost of sales (excluding depreciation and amortization)                                      | 2,629,119                        | 2,321,773      | 7,066,195                       | 6,292,377      |
| Salaries and benefits  | 1,729,066                        | 1,291,667      | 8,699,638                       | 3,516,427      |
| Freight  | 81,416                           | 80,622         | 224,189                         | 242,814        |
| Research and development   | 453,897                          | 148,650        | 1,187,461                       | 636,726        |
| Selling, general and administrative  | 1,750,734                        | 1,256,754      | 4,261,182                       | 2,961,649      |
| Depreciation and amortization  | 381,699                          | 143,959        | 672,828                         | 425,238        |
| Total Operating Expenses   | 7,025,931                        | 5,243,425      | 22,111,493                      | 14,075,231     |
| Operating Income/(Loss) from Continuing Operations   | 810,291                          | (207,401)      | (2,561,823)                     | 974,388        |
| Other Income/(Expense)   |                                  |                |                                 |                |
| Interest expense   | -                                | (81,225)       | (466,902)                       | (1,239,137)    |
| Other income/(expense)   | 147,563                          | (91,205)       | (336,393)                       | (190,605)      |
| Net Income/(Loss) from Continuing Operations Before Income Tax Benefit                       | 957,854                          | (379,831)      | (3,365,118)                     | (455,354)      |
| Income tax benefit   | 82,852                           | 866            | 82,852                          | 36,327         |
| Net Income/(Loss) from Continuing Operations   | 1,040,706                        | (378,965)      | (3,282,266)                     | (419,027)      |
| Discontinued Operation   |                                  |                |                                 |                |
| Gain on discontinued operation, net of tax   | 150,337                          | 1,617          | 150,337                         | 67,793         |
| Net Income/(Loss)  | \$ 1,191,043                     | \$ (377,348)   | \$ (3,131,929)                  | \$ (351,234)   |
| Computation of Income/(Loss) from Continuing Operations Attributable to Common Stockholders: |                                  |                |                                 |                |
| Net Income/(Loss) from Continuing Operations   | \$ 1,040,706                     | \$ (378,965)   | \$ (3,282,266)                  | \$ (419,027)   |
| Preferred stock dividends  | -                                | (2,527,565)    | (4,974,199)                     | (4,326,622)    |
| Income/(Loss) from Continuing Operations Attributable to Common Stockholders                 | \$ 1,040,706                     | \$ (2,906,530) | \$ (8,256,465)                  | \$ (4,745,649) |



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|  |           |               |           |               |
|--|-----------|---------------|-----------|---------------|
| Basic and Diluted Income/(Loss) Per Share: |           |               |           |               |
| Continuing operations                      | \$ 0.11   | \$ (1,295.82) | \$ (2.31) | \$ (4,689.38) |
| Discontinued operation                     | 0.02      | 0.72          | 0.04      | 66.99         |
| Basic and Diluted Income/(Loss) Per Share  | \$ 0.13   | \$ (1,295.10) | \$ (2.27) | \$ (4,622.39) |
| Basic and Diluted Weighted-Average Shares  |           |               |           |               |
| Outstanding                                | 9,480,206 | 2,243         | 3,578,178 | 1,012         |

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

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| <b>ANI PHARMACEUTICALS, INC.</b>                       |
| <b>Condensed Consolidated Statements of Cash Flows</b> |
| <i>(Unaudited)</i>                                     |

| For the nine months ended September 30,  | 2013                 | 2012              |
|--|----------------------|-------------------|
| <b>Cash Flows From Operating Activities</b>  |                      |                   |
| Net loss from continuing operations  | \$ (3,282,266)       | \$ (419,027)      |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities: |                      |                   |
| Stock-based compensation   | 2,951                | -                 |
| Depreciation and amortization  | 672,828              | 425,238           |
| Non-cash interest relating to convertible debt and loan cost amortization                        | 217,290              | 1,027,713         |
| Non-cash compensation relating to business combination   | 4,418,524            | -                 |
| Changes in operating assets and liabilities, net of those acquired in business combination:      |                      |                   |
| Accounts receivable  | (4,082,695)          | (518,429)         |
| Inventories  | 525                  | (387,172)         |
| Prepaid expenses   | (188,143)            | 83,031            |
| Accounts payable   | 93,280               | 87,897            |
| Accrued expenses, returned goods reserve and deferred revenue                                    | (382,858)            | 188,271           |
| <b>Net Cash and Cash Equivalents (Used in)/Provided by Continuing Operations</b>                 | <b>(2,530,564)</b>   | <b>487,522</b>    |
| <b>Net Cash Used in Discontinued Operation</b>   | <b>(88,816)</b>      | <b>(65,917)</b>   |
| <b>Net Cash and Cash Equivalents (Used in)/Provided by Operating Activities</b>                  | <b>(2,619,380)</b>   | <b>421,605</b>    |
| <b>Cash Flows From Investing Activities</b>  |                      |                   |
| Cash acquired in business combination  | 18,197,442           | -                 |
| Acquisition of property and equipment, net of disposals  | (161,415)            | (76,888)          |
| <b>Net Cash and Cash Equivalents Provided by/(Used in) Investing Activities</b>                  | <b>18,036,027</b>    | <b>(76,888)</b>   |
| <b>Cash Flows From Financing Activities</b>  |                      |                   |
| (Repayments)/borrowings under line of credit, net  | (4,065,307)          | 364,362           |
| Payment of debt issuance costs   | -                    | (260,748)         |
| Treasury stock purchases   | (432,562)            | -                 |
| <b>Net Cash and Cash Equivalents Used in Continuing Operations</b>                               | <b>(4,497,869)</b>   | <b>103,614</b>    |
| <b>Net Cash Used in Discontinued Operation</b>   | <b>-</b>             | <b>(300,000)</b>  |
| <b>Net Cash and Cash Equivalents Used in Financing Activities</b>                                | <b>(4,497,869)</b>   | <b>(196,386)</b>  |
| <b>Change in Cash and Cash Equivalents</b>   | <b>10,918,778</b>    | <b>148,331</b>    |
| Cash and cash equivalents, beginning of period   | 11,028               | -                 |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 10,929,806</b> | <b>\$ 148,331</b> |

Supplemental disclosure for cash flow information:

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|  |    |            |    |            |
|--|----|------------|----|------------|
| Cash paid for interest   | \$ | 249,612    | \$ | 211,424    |
| Supplemental non-cash investing and financing activities:                |    |            |    |            |
| Issuance of common stock in business combination                         | \$ | 40,033,695 | \$ | -          |
| Cancellation of Series D, Series C, Series B, Series A, and common stock | \$ | 57,296,106 | \$ | -          |
| Acquired intangibles   | \$ | 10,900,000 | \$ | -          |
| Acquired goodwill  | \$ | 1,838,309  | \$ | -          |
| Acquired restricted cash   | \$ | 2,260,100  | \$ | -          |
| Other acquired tangible assets   | \$ | 79,261     | \$ | -          |
| Assumed liabilities  | \$ | 3,479,979  | \$ | -          |
| Preferred stock dividends  | \$ | 4,974,199  | \$ | 4,326,622  |
| Issuance of common and preferred stock upon cashless warrant exercise    | \$ | -          | \$ | 4,984      |
| Issuance of preferred stock upon convertible debt conversion             | \$ | -          | \$ | 17,609,646 |

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

**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Overview**

ANI Pharmaceuticals, Inc. (the “Company”) is a specialty pharmaceutical company, developing and marketing generic and branded prescription products. In two facilities located in Baudette, Minnesota, with combined manufacturing, packaging and laboratory capacity totaling 173,000 sq. ft., the Company manufactures oral solid dose products, as well as liquids and topicals, including those that must be manufactured in a fully contained environment due to their potency and/or toxicity. The Company also performs contract manufacturing for other pharmaceutical companies.

On June 19, 2013, BioSante Pharmaceuticals, Inc. (“BioSante”) acquired ANIP Acquisition Company (“ANIP”) in an all-stock, tax-free reorganization (Note 2), in which ANIP became a wholly-owned subsidiary of BioSante. BioSante was renamed ANI Pharmaceuticals, Inc. The Merger was accounted for as a reverse acquisition pursuant to which ANIP was considered the acquiring entity for accounting purposes. As such, ANIP's historical results of operations replace BioSante's historical results of operations for all periods prior to the Merger. The results of operations of both companies are included in the Company's financial statements for all periods after completion of the Merger.

The Company's operations are subject to certain risks and uncertainties including, among others, current and potential competitors with greater resources, dependence on significant customers, lack of operating history and uncertainty of future profitability and possible fluctuations in financial results. The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities in the ordinary course of business. The propriety of using the going-concern basis is dependent upon, among other things, the achievement of future profitable operations, the ability to generate sufficient cash from operations, and potential other funding sources, including cash on hand, to meet the Company's obligations as they become due. Management believes the going-concern basis is appropriate for the accompanying unaudited condensed consolidated financial statements based on its current operating plan through September 30, 2014.

**Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly the Company's financial position, results of operations and cash flows. The condensed consolidated balance sheet at December 31, 2012, has been derived from audited financial statements of that date. The interim condensed consolidated results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in financial statements prepared in accordance with US GAAP have been omitted pursuant to instructions, rules and regulations prescribed by the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission. Management believes that the disclosures provided herein are adequate to make the information presented not misleading when these condensed consolidated financial statements are read in conjunction with the audited financial statements and notes previously distributed in the Company's annual report on Form 10-K for the year ended December 31, 2012 and proxy statement/prospectus filed on May 8, 2013. Certain prior period information has been reclassified to conform to the current period presentation.



**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**cont'd.**

**Principles of Consolidation**

The condensed consolidated financial statements include the accounts of ANI Pharmaceuticals, Inc. and its wholly-owned subsidiary, ANIP. All significant inter-company accounts and transactions are eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In the accompanying unaudited condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, accruals for chargebacks, returns and other allowances, allowance for inventory obsolescence, valuation of derivative liabilities, allowances for contingencies and litigation, deferred tax valuation allowance, and the depreciable lives of fixed assets. Actual results could differ from those estimates.

**Credit Concentration**

The Company's customers are primarily pharmaceutical companies, wholesale distributors, chain drug stores, and group purchasing organizations.

During the three month period ended September 30, 2013, two customers represented 27% and 19% of net revenues. During the three month period ended September 30, 2012, these same customers represented 24% and 25% of net revenues, respectively. As of September 30, 2013, accounts receivable from these customers totaled \$6,105,271. During the nine month period ended September 30, 2013, four customers represented approximately 28%, 18%, 10%, and 5% of net revenues. During the nine month period ended September 30, 2012, these same four customers represented 24%, 21%, 8%, and 12% of net revenues, respectively.

**Vendor Concentration**

During the three month period ended September 30, 2013, the Company purchased approximately 54% of total costs of goods sold from two suppliers. As of September 30, 2013, amounts payable to these suppliers totaled \$700,424. During the nine month period ended September 30, 2013, the Company purchased approximately 31% of total costs of goods sold from two suppliers. During the three month period ended September 30, 2012, the Company purchased approximately 43% of total costs of goods sold from two suppliers. During the nine month period ended September 30, 2012, the Company purchased approximately 55% of total costs of goods sold from three suppliers.

**Revenue Recognition**

Revenue is recognized for product sales upon passing of risk and title to the customer, when estimates of discounts, rebates, promotional adjustments, price adjustments, returns, chargebacks, and other potential adjustments are reasonably determinable, collection is reasonably assured, and the Company has no further performance obligations.

These estimates reduce gross revenues to net revenues in the accompanying unaudited condensed consolidated statements of operations, and are presented as current liabilities or reductions in accounts receivable in the accompanying unaudited condensed consolidated balance sheets.

**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**cont'd.**

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. All interest bearing and non-interest bearing accounts are guaranteed by the FDIC up to \$250,000. The Company may maintain cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

In conjunction with the Merger, the Company acquired restricted cash, which will be paid out in satisfaction of certain severance liabilities assumed in the Merger (Note 2).

**Accounts Receivable**

The Company extends credit to customers on an unsecured basis. The Company uses the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of accounts receivable, whereby the Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. Management's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. The Company determines trade receivables to be delinquent when they are greater than 30 days past due. Receivables are written off when it is determined that amounts are uncollectible. Management determined that no allowance for doubtful accounts was necessary as of September 30, 2013 and December 31, 2012.

**Accruals for Chargebacks, Returns and Other Allowances**

The Company's generic and branded product revenues are typically subject to agreements with customers allowing chargebacks, product returns, administrative fees, and other rebates and prompt payment discounts. The Company accrues for these items at the time of sale and continually monitors and re-evaluates the accruals as additional information becomes available. The Company makes adjustments to the accruals at the end of each reporting period, to reflect any such updates to the relevant facts and circumstances. Accruals are relieved upon receipt of payment from the customer or upon issuance of credit to the customer.

The following table summarizes activity in the balance sheet for accruals and allowances for the nine month periods ended September 30, 2013 and 2012, respectively:

|                               | Chargebacks  | Returns     | Administrative<br>Fees and Other<br>Rebates | Prompt<br>Payment<br>Discounts |
|-------------------------------|--------------|-------------|---|--------------------------------|
| Balance at January 1, 2013    | \$ 5,661,974 | \$ 410,992  | \$ 230,575                                  | \$ 241,840                     |
| Accruals/adjustments          | 20,132,724   | 1,154,726   | 1,435,996                                   | 751,993                        |
| Credits taken against reserve | (19,734,545) | (1,107,828) | (979,404)                                   | (667,473)                      |
| Balance at September 30, 2013 | \$ 6,060,153 | \$ 457,890  | \$ 687,167                                  | \$ 326,360                     |

  

|  | Chargebacks | Returns | Administrative<br>Fees and Other<br>Rebates | Prompt<br>Payment<br>Discounts |
|--|-------------|---------|---|--------------------------------|
|--|-------------|---------|---|--------------------------------|



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|                               |              |            |            |            |
|-------------------------------|--------------|------------|------------|------------|
| Balance at January 1, 2012    | \$ 3,680,838 | \$ 252,045 | \$ 238,195 | \$ 166,439 |
| Accruals/adjustments          | 15,996,550   | 486,844    | 925,488    | 522,812    |
| Credits taken against reserve | (15,348,165) | (351,274)  | (892,370)  | (481,435)  |
| Balance at September 30, 2012 | \$ 4,339,223 | \$ 387,615 | \$ 271,313 | \$ 207,816 |

**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**cont'd.**

**Inventories**

Inventories consist of raw materials, packaging materials, work-in-progress, and finished goods. Inventories are stated at the lower of cost or net realizable value. The Company values inventory at standard cost. The Company reviews and adjusts standard costs periodically and its inventory, as valued, approximates weighted average cost.

**Property and Equipment**

Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is recorded on a straight-line basis over estimated useful lives as follows:

|                                    |             |
|------------------------------------|-------------|
| Buildings and improvements         | 20-40 years |
| Machinery, furniture and equipment | 3-10 years  |

Construction in progress includes the cost of construction and other direct costs attributable to the construction, along with capitalized interest, if any. Depreciation is not recorded on construction in progress until such time as the assets are placed in service. During the nine month period ended September 30, 2013 and the year ended December 31, 2012, there was no material interest capitalized into construction in progress.

Depreciation expense for the three month periods ended September 30, 2013 and 2012 totaled \$133,972 and \$131,459, respectively. Depreciation expense for the nine month periods ended September 30, 2013 and 2012 totaled \$400,101 and \$387,738, respectively.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets held for disposal are reportable at the lower of the carrying amount or fair value, less costs to sell. Management determined that no assets were impaired and no assets were held for disposal as of September 30, 2013 and December 31, 2012.

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. For interim periods, the Company recognizes an income tax provision (benefit) based on its estimated annual effective tax rate expected for the entire year.



**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**cont'd.**

**Income Taxes cont'd.**

Management uses a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company has not identified any uncertain income tax positions that could have a material impact on the financial statements. The Company is subject to taxation in various jurisdictions and remains subject to examination by taxing jurisdictions for the years 1998 and all subsequent periods due to the availability of net operating loss carryforwards.

The Company recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The Company did not have any amounts accrued relating to interest and penalties as of September 30, 2013 and December 31, 2012.

The Company considers potential tax effects resulting from discontinued operations and records intra-period tax allocations, when those effects are deemed material.

**Income/(Loss) per Share**

Basic income/(loss) per share is calculated by dividing net income/(loss) less preferred stock dividends by the weighted-average number of shares of common stock outstanding during the period.

For periods of net income, and when the effects are not anti-dilutive, diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding plus the impact of all potential dilutive common shares, consisting primarily of stock purchase warrants and common stock options, using the treasury stock method.

For periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential common shares is anti-dilutive due to the net losses.

The number of anti-dilutive shares, consisting of Class C Special stock, common stock options, and warrants exercisable for common stock (and prior to the Merger, warrants exercisable for preferred stock, convertible debt, and convertible preferred stock), which have been excluded from the computation of diluted income/(loss) per share for the three month periods ended September 30, 2013 and 2012, were 909,792 and 242,247, respectively. The number of anti-dilutive shares, consisting of Class C Special stock, common stock options, and warrants exercisable for common stock, (and prior to the Merger, warrants exercisable for preferred stock, convertible debt, and convertible preferred stock), which have been excluded from the computation of diluted income/(loss) per share for the nine month periods ended September 30, 2013 and 2012, were 498,647 and 115,351, respectively.

As of September 30, 2013, the Company had 120,066 common stock options and 781,349 warrants exercisable for common stock outstanding.



**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**cont'd.**

**Stock Splits**

In July 2013, the Company's Board of Directors and stockholders approved a resolution to effect a one-for-six reverse stock split of the Company's common stock and Class C Special stock with no corresponding change to the par value. The number of authorized shares of common stock, Class C Special stock and blank check preferred stock was reduced proportionally. Common stock and Class C Special share numbers for all periods presented have been adjusted retrospectively to reflect the one-for-six reverse stock split.

**Redeemable Convertible Preferred Stock**

The carrying value of the Company's redeemable convertible preferred stock was increased by the accretion of any related discounts and accrued but unpaid dividends so that the carrying amount would equal the redemption amount at the dates the stock became redeemable. The Company's Series A, B, C and D preferred stock was redeemable at the option of the holders, subject to certain additional requirements. All of the Company's Series D preferred stock was exchanged for shares of BioSante common stock and all of the Company's Series A, B and C preferred stock were canceled in conjunction with the Merger (Note 2).

**Segment Information**

The Company currently operates in a single business segment.

**Recent Accounting Pronouncements**

The Company has evaluated all issued and unadopted Accounting Standards Updates and believes the adoption of these standards will not have a material impact on its results of operations, financial position, or cash flows.

**2. BUSINESS COMBINATION**

**Summary**

On June 19, 2013, BioSante acquired ANIP in an all-stock, tax-free reorganization. The Company is operating under the leadership of the ANIP management team and the board of directors is comprised of two former directors from BioSante and five former ANIP directors.

BioSante issued to ANIP stockholders shares of BioSante common stock such that the ANIP stockholders owned 57 percent of the combined company's shares outstanding, and the former BioSante stockholders owned 43 percent. In addition, immediately prior to the Merger, BioSante distributed to its then current stockholders contingent value rights ("CVR") providing payment rights arising from a future sale, transfer, license or similar transaction(s) involving BioSante's LibiGel® (female testosterone gel).

The Merger was accounted for as a reverse acquisition pursuant to which ANIP was considered the acquiring entity for accounting purposes. As such, ANIP's historical results of operations replace BioSante's historical results of operations for all periods prior to the Merger. BioSante, the accounting acquiree, was a pharmaceutical company

focused on developing high value, medically-needed products. ANIP entered into the Merger to secure additional capital and gain access to capital market opportunities as a public company.

**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**2. BUSINESS COMBINATION cont'd.**

The results of operations of both companies are included in the Company's financial statements for all periods after completion of the Merger.

**Transaction Costs**

In conjunction with the Merger, the Company incurred approximately \$7.1 million in transaction costs, which were expensed in the periods in which they were incurred. Costs incurred through September 30, 2013, include:

|                              |             |
|------------------------------|-------------|
| Category                     |             |
| Legal fees                   | \$1,226,535 |
| Accounting fees              | 121,748     |
| Consulting fees              | 119,194     |
| Monitoring and advisory fees | 390,000     |
| Transaction bonuses          | 4,801,364   |
| Other                        | 428,992     |
| Total transaction costs      | \$7,087,833 |

Of the total expenses, \$928,695 was incurred and expensed in 2012 and \$6,159,138 was incurred and expensed in the nine months ended September 30, 2013.

**Purchase Consideration and Net Assets Acquired**

The fair value of BioSante's common stock used in determining the purchase price was \$1.22 per share, the closing price on June 19, 2013. The fair value of the vested BioSante stock options was not material. The following presents the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed on June 19, 2013:

|   |              |
|---|--------------|
| Fair value of BioSante shares outstanding             | \$29,795,133 |
| Estimated fair value of vested BioSante stock options | -            |
| Total purchase consideration                          | \$29,795,133 |
| <br>  |              |
| Assets acquired                                       |              |
| Cash and cash equivalents                             | \$18,197,442 |
| Restricted cash                                       | 2,260,100    |
| Teva license intangible asset                         | 10,900,000   |
| Other tangible assets                                 | 79,261       |
| Deferred tax assets, net                              | -            |
| Goodwill  | 1,838,309    |
| Total assets  | 33,275,112   |
| <br>  |              |
| Liabilities assumed                                   |              |
| Accrued severance                                     | 2,964,962    |
| Other liabilities                                     | 515,017      |
| Total liabilities                                     | 3,479,979    |



|                           |              |
|---------------------------|--------------|
| Total net assets acquired | \$29,795,133 |
|---------------------------|--------------|

**ANI PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**2. BUSINESS COMBINATION cont'd.**

The above allocation of the purchase price is based upon certain preliminary valuations and other analyses that have not been completed as of the date of this filing. Any changes in the estimated fair values of the net assets recorded for this business combination upon the finalization of more detailed analyses of the facts and circumstances that existed at the date of the transaction will change the allocation of the purchase price. As such, the purchase price allocations for this transaction are preliminary estimates, which are subject to change within the measurement period. Any subsequent changes to the purchase allocation that are material will be adjusted retrospectively during the measurement period.

The Teva license is being amortized on a straight-line basis over its estimated useful life of 11 years. Goodwill, which is not tax deductible since the transaction was structured as a tax-free exchange, is considered an indefinite-lived asset and relates primarily to intangible assets that do not qualify for separate recognition.

Former BioSante operations did not generate any revenue or expense from the acquisition date through September 30, 2013.

**Pro Forma Condensed Combined Financial Information (unaudited)**

The following unaudited pro forma condensed combined financial information summarizes the results of operations for the periods indicated as if the Merger had been completed as of January 1, 2012. Pro forma information reflects adjustments relating to (i) elimination of the interest on ANIP's senior and convertible debt, (ii) elimination of monitoring and advisory fees payable to two ANIP investors, (iii) elimination of transaction costs, and (iv) amortization of intangibles acquired. The pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the Merger had occurred as of January 1, 2012 or that may be obtained in the future.

|              | Three months ended September 30,<br>2013 | 2012 | Nine months ended September 30,<br>2013 | 2012 |
|--------------|--|------|---|------|
| Net revenues |  |      |   |      |