SVB FINANCIAL GROUP
Form DEF 14A
March 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

SVB FINANCIAL GROUP

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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Notice of Annual Meeting of Stockholders

Thursday, April 24, 2008

4:00 P.M.

TO THE STOCKHOLDERS:

I am pleased to invite you to attend the 2008 Annual Meeting of Stockholders of SVB Financial Group, a Delaware corporation (the Company), which will be held at the Company s offices located at 3005 Tasman Drive, Santa Clara, California 95054, on Thursday, April 24, 2008 at 4:00 p.m., local time. The meeting will be broadcast live through a listen-only conference call and audio webcast. (Access instructions are included in the Proxy Statement accompanying this Notice.) The purposes of the meeting are to:

1. Elect twelve (12) directors to serve for the ensuing year and until their successors are elected.

2. Ratify the selection of KPMG LLP as the Company s independent registered public accounting firm for its fiscal year ending December 31, 2008.

3. Transact such other business as may properly come before the meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. To assure your representation at the meeting, you are encouraged to vote your shares as soon as possible. The enclosed Proxy Card contains instructions for voting over the Internet, by telephone and by returning your Proxy Card by mail. Any stockholder attending the meeting may vote in person even if such stockholder has previously returned a Proxy Card.

Only stockholders of record at the close of business on February 27, 2008 may vote at the meeting or any postponement or adjournment thereof.

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ Alex W. Hart
Alex W. Hart
Chairman of the Board

Santa Clara, California

March 17, 2008

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD, OR VOTE OVER THE TELEPHONE OR THE INTERNET AS INSTRUCTED IN THESE MATERIALS, AS PROMPTLY AS POSSIBLE, IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR YOUR CONVENIENCE. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. WE ENCOURAGE YOU TO VOTE FOR THE ELECTION OF ALL TWELVE (12) NOMINEES FOR DIRECTOR, AS WELL AS IN FAVOR OF THE REMAINING PROPOSAL ABOVE.

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* Indicates matters to be voted on at the Annual Meeting.

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Mailed to Stockholders on or about March 26, 2008

PROXY STATEMENT

OF

SVB FINANCIAL GROUP

3005 Tasman Drive

Santa Clara, California 95054

INFORMATION CONCERNING THE PROXY SOLICITATION

General

This Proxy Statement is furnished in connection with the solicitation of the enclosed Proxy by, and on behalf of, the Board of Directors of SVB Financial Group (the Company) for use at the 2008 Annual Meeting of Stockholders of the Company to be held at the Company s offices located at 3005 Tasman Drive, Santa Clara, California 95054, on Thursday, April 24, 2008 at 4:00 p.m. local time, and at all postponements or adjournments thereof (the Meeting). Only stockholders of record on February 27, 2008 (the Record Date) will be entitled to vote at the Meeting. At the close of business on the Record Date, there were 32,258,829 shares of the Company s Common Stock, $.001 par value (the Common Stock), outstanding.

The Company is a Delaware corporation and financial holding company for Silicon Valley Bank (the Bank) and its affiliates. The Company s principal executive offices are located at 3003 Tasman Drive, Santa Clara, California 95054 and its telephone number at that location is (408) 654-7400.

Access Instructions for Conference Call and Audio Webcast of Meeting

The Meeting will be broadcast live through a listen-only conference call and audio webcast, on Thursday, April 24, 2008 beginning at 4:00 p.m. (Pacific Time), unless the Meeting is postponed or adjourned.

Dial-In Information: The listen-only conference call can be accessed by dialing 1 (866) 916-4782 or (706) 902-0768, and referencing the conference ID #39803074.

Audio Webcast: The audio only webcast can be accessed at *www.svb.com* under Investor Relations.

Replay: A replay of the audio only webcast will be available on *www.svb.com* under Investor Relations, beginning Thursday, April 24, 2008, after 5:00 p.m. (Pacific Time).

Voting

Stockholders of the Company s Common Stock are entitled to one vote for each share held on all matters covered by this Proxy Statement, except for the election of directors. With respect to the election of directors, each stockholder has the right to invoke cumulative voting, which entitles each stockholder to as many votes as shall equal the number of shares held by such stockholder multiplied by the number of directors to be

elected. A stockholder may cast all of his or her votes for a single candidate or distribute such votes among as many of the candidates as he or she chooses (up to a maximum of the number of directors to be elected). However, no stockholder shall be entitled to cumulate votes for a candidate unless such candidate s name has been properly placed in nomination prior to the voting in accordance with Article Fifth of the Restated Certificate of Incorporation of the Company and the stockholder (or any other stockholder) has given notice at the meeting prior to the voting of the stockholder s intention to cumulate votes. If any stockholder has given such notice, all stockholders may cumulate their votes for candidates properly placed in nomination. If cumulative voting is properly invoked, the Proxy holders (the individuals named on the Proxy Card) are given discretionary authority

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under the terms of the Proxy to cumulate votes represented by shares for which they are named Proxy holders as they see fit among the nominees in order to assure the election of as many of such nominees as possible.

Whether you hold shares in your name or through a broker, bank or other nominee, you may vote without attending the meeting. You may vote by granting a Proxy or, for shares held through a broker, bank or other nominee, by submitting voting instructions to that nominee. Instructions for voting by telephone, by using the Internet or by mail are on your Proxy Card. For shares held through a broker, bank or other nominee, follow the instructions on the voting instruction card included with your voting materials. If you provide specific voting instructions, your shares will be voted as you have instructed for any item on which you provide instructions and as the Proxy holders may determine within their discretion for any other matters, including any additional matters, that properly come before the meeting.

If you hold shares in your name and you sign and return a Proxy Card without giving specific voting instructions, your shares will be voted as recommended by our Board on all matters set forth in this Proxy Statement and as the Proxy holders may determine in their discretion with respect to any other matters that properly come before the meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee may have authority to vote your shares on certain matters. See Quorum; Abstentions; Broker Non-Votes below.

Quorum; Abstentions; Broker Non-Votes

The required quorum for the transaction of business at the Meeting is a majority of the shares of Common Stock issued and outstanding on the Record Date. Shares that are voted FOR, AGAINST or WITHHELD FROM a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as shares represented and voting at the Meeting (the Votes Cast) with respect to such matter.

While there is no definitive statutory or case law authority in Delaware as to the proper treatment of abstentions, the Company believes that abstentions should be counted for purposes of determining both (i) the presence or absence of a quorum for the transaction of business, and (ii) the total number of Votes Cast with respect to a proposal (other than the election of directors). In the absence of controlling precedent to the contrary, the Company intends to treat abstentions in this manner. Accordingly, abstentions will have the same effect as a vote against the proposal.

Broker non-votes occur on a matter when a broker, bank or other nominee is not permitted to vote on that matter without instructions from the beneficial owner and the beneficial owner does not give instructions. Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business but will not be counted for purposes of determining the number of Votes Cast with respect to proposals on which brokers, bank or other nominees are prohibited from exercising their discretionary authority. Accordingly, broker non-votes will not affect the outcome of the voting on a proposal that requires a majority of the Votes Cast.

Revocability of Proxies

Any person giving a Proxy in the form accompanying this Proxy Statement has the power to revoke the Proxy at any time prior to its use. A Proxy is revocable prior to the Meeting by delivering either a written instrument revoking it or a duly executed Proxy bearing a later date to the Secretary of the Company or to the Company s transfer agent. A Proxy is also automatically revoked if the stockholder is present at the Meeting and votes in person.

Solicitation

This solicitation of Proxies is made by, and on behalf of, the Board of Directors of the Company. The Company will bear the entire cost of preparing, assembling, printing, and mailing Proxy materials furnished by the Board of Directors to stockholders. Copies of Proxy materials will be furnished to brokerage houses,

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fiduciaries and custodians to be forwarded to the beneficial owners of the Company s Common Stock. In addition to the solicitation of Proxies by mail, some of the officers, directors and employees of the Company may (without additional compensation) solicit Proxies by telephone or personal interview, the costs of which the Company will bear.

Unless otherwise instructed, each valid returned Proxy that is not revoked will be voted:

FOR each of the Company s nominees to the Board of Directors,

FOR ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2008, and

At the Proxy holders discretion on such other matters, if any, as may properly come before the Meeting (including any proposal to adjourn the Meeting).

Delivery of Voting Materials

You may receive more than one set of voting materials, including multiple copies of this Proxy Statement and multiple Proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one Proxy Card. Please complete, sign, date and return each Proxy Card and voting instruction card that you receive.

How to Obtain a Separate Set of Voting Materials

If you share an address with another stockholder, you may receive only one set of Proxy materials (including our 2007 Annual Report on Form 10-K and Proxy Statement) unless you have provided contrary instructions. If you wish to receive a separate set of Proxy materials now or in the future, you may write or call us to request a separate copy of these materials from:

SVB Financial Group

3003 Tasman Drive

Santa Clara, California 95054

Attention: Lisa Bertolet, Stock Administration

Telephone: (408) 654-7400

Facsimile: (408) 496-2405

Email: lbertolet@svb.com

Similarly, if you share an address with another stockholder and have received multiple copies of our Proxy materials, you may write or call us at the above address and phone number to request delivery of a single copy of these materials.

Electronic Availability of Proxy Materials

This Proxy Statement and our 2007 Annual Report on Form 10-K are available electronically at *www.svb.com/2008proxy.*

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CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Company is committed to having sound corporate governance principles. These principles are important to the way in which the Company manages its business and to maintaining the Company s integrity in the marketplace. The Company s Corporate Governance Guidelines adopted by the Company s Board of Directors and the charters of the Audit Committee, Compensation Committee, Directors Loan Committee, Finance Committee and Governance Committee of the Company s Board of Directors are available at *http://www.svb.com*. The contents of the website are not incorporated herein by reference and the website address provided above and throughout this Proxy Statement is intended to be an inactive textual reference only.

Board Independence

The Board has determined that, with the exception of Mr. Kenneth P. Wilcox, our President and Chief Executive Officer, all of our current directors, as well as all of our incumbent directors standing for re-election, are independent within the meaning of the director independence standards set by the Nasdaq Stock Market, Inc. (Nasdaq) and the Securities and Exchange Commission (SEC), as currently in effect. Furthermore, the Board has determined that each of the current members of the Audit Committee, Compensation Committee and Governance Committee are independent within the meaning of such director independence standards.

The Company s independent directors meet in regularly scheduled executive sessions at which only independent directors are present.

Audit Committee Independence and Financial Expert

The Board has determined that all of the current members of the Audit Committee, Messrs. Roger F. Dunbar, David M. Clapper and Joel P. Friedman, meet all of the requirements of independence, and that Messrs. Dunbar and Friedman meet all of the attributes of an audit committee financial expert, as those meanings are defined for purposes of audit committee members by the applicable rules and regulations of the SEC and Nasdaq.

Consideration of Director Nominees

Stockholder Nominees

The Company s Governance Committee will consider Board nominees proposed by stockholders. The Governance Committee has no formal policy with regard to stockholder nominees as it considers all nominees on their merits, as discussed below. Any stockholder nominations proposed for consideration by the Governance Committee should include the nominee s name and qualifications for Board membership and should be addressed to:

Corporate Secretary

SVB Financial Group

3005 Tasman Drive

Santa Clara, California 95054

Fax: (408) 496-2545

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In addition, the bylaws of the Company permit stockholders to nominate directors for consideration at an annual stockholder meeting. For a description of the process for nominating directors in accordance with the bylaws, please see Stockholder Proposals and Director Nominations below.

Selection and Evaluation of Director Candidates

The Governance Committee, with the participation of the full Board, is responsible for identifying candidates for membership on the Board. The Governance Committee makes determinations as to whether to recommend such candidates nomination to the Board based on their character, judgment, and business experience, as well as their ability to diversify and add to the Board s existing strengths. This assessment typically includes issues of expertise in industries important to the Company (such as technology, life sciences and premium wine), functional expertise in areas such as banking, investment banking, global markets, venture capital, private equity, law, accounting, finance and information technology, and an assessment of an individual s abilities to work constructively with the existing Board and management, all in the context of an assessment of the perceived needs of the Board at that point in time. The Governance Committee has not formally established any minimum qualifications for director candidates. All nominees to be considered at the Meeting were recommended by the Governance Committee.

Communications with the Board

Individuals who wish to communicate with the Company s Board may do so by sending an e-mail to the Company s Board at *bod@svb.com*. Any communications intended for non-management directors should be sent to the e-mail address above to the attention of the Chair of the Governance Committee.

Code of Ethics

The Company has a Code of Ethics that applies to our principal executive officer and our senior financial officers, including our principal financial officer and principal accounting officer. A copy of this Code of Ethics is available on the Company s website at *www.svb.com* under Corporate Governance, or can be obtained without charge by any person requesting it. To request a copy of our Code of Ethics, please contact: Lisa Bertolet, Stock Administration, SVB Financial Group, 3003 Tasman Drive, Santa Clara, California 95054, at telephone (408) 654-7400.

The Company intends to disclose any waivers from or changes in its Code of Ethics by posting such information on our website. No waivers or substantive changes were made during fiscal year 2007.

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Proposal No. 1

ELECTION OF DIRECTORS

The Board of Directors Recommends a Vote For All Nominees

The Company s bylaws currently provide for a range of eight (8) to twelve (12) authorized directors and permit the exact number to be fixed by the Board of Directors. As of the Record Date, the Board has fixed the number of authorized directors at twelve (12).

Pursuant to the Company s bylaws, the Board of Directors shall not have more than two directors who do not meet the definition of an Outside Director. An Outside Director is any director who meets the independence and experience requirements of the SEC and Nasdaq and who, in the opinion of the Board, has the ability to exercise independent judgment in carrying out the responsibilities of a director of the Company. Pursuant to the Company s bylaws, Outside Directors may not serve more than nine (9) consecutive one-year terms, beginning as of April 30, 2001; provided, however, that if in any one year, more than three Outside Directors are required to end their service on the Board of Directors because of the application of this term limit, the Board of Directors may extend the term of one or more such directors for successive one year terms so as to avoid requiring more than three Outside Directors to end their service in any one year. Any Outside Director who has served the maximum term or resigned prior to serving the maximum term may be eligible to stand for election for another maximum term after a one-year waiting period, during which the director may serve as an advisory director.

Nominees for Director

All Proxies will be voted FOR the election of the following twelve (12) nominees recommended by the Board of Directors for a term of one year, unless authority to vote for the election of directors (or for any particular nominee) is withheld. Except for Ms. Lata Krishnan, all of the nominees have served as directors of the Company since the last annual meeting of stockholders in April 2007. Ms. Krishnan was recommended to the Governance Committee as a potential director nominee by an employee of the Company and was appointed by the Board of Directors in February 2008. All incumbent directors are nominees for re-election to the Board.

If any of the nominees should unexpectedly decline or be unable to act as a director, the Proxies may be voted for a substitute nominee designated by the Board of Directors. As of the Record Date, the Board of Directors has no reason to believe that any nominee will become unavailable and has no present intention to nominate persons in addition to or in lieu of those listed below. Directors of the Company serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, resignation or removal.

The names of and certain biographical information about each of the Company s nominees for director as of the Record Date are set forth below.

Name of Director Nominee	Age	Biographical Information
Eric A. Benhamou	52	Mr. Benhamou is Chairman and CEO of Benhamou Global Ventures, LLC, which was formed in 2003. Benhamou Global Ventures, LLC invests and plays an active role in innovative high tech firms throughout the world. Mr. Benhamou is also the Chairman of the Boards of Directors of 3Com Corporation, a networking solutions provider (since 1990), and Cypress Semiconductor, a semiconductor company (since 1993). He also serves on the Boards of Directors of RealNetworks, Inc, a creator of digital media services and software

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Name of Director Nominee	Age	Biographical Information
		(since 2003), and Voltaire Ltd., a grid computing network solutions company (since 2007). Additionally, he serves on the Boards of Directors of several private companies, including ConteXtream, a carrier equipment vendor for intellectual property based media services (since 2007), Purewave Networks, a WiMax base station vendor for wireless carriers (since 2007), WisdomArk, Inc., a consumer web service company (since 2005), and Finjan, a global provider of proactive web security solutions (since 2006). Mr. Benhamou serves on the executive committees of TechNet, the Computer Science and Telecommunications Board (CSTB), Stanford University School of Engineering and Ben Gurion University of Negev. Additionally, he is a visiting professor at the INSEAD Business School and the Chairman of the Israel Venture Network, a venture philanthropy organization for a stronger Israeli society.
		Mr. Benhamou served as Chairman of the Board of Directors of Palm, Inc. (from 1999 to 2007). He served as Chief Executive Officer of 3Com Corporation (from 1990 to 2000), and served as interim Chief Executive Officer of Palm (from 2001 to 2003). Previously, he held a variety of senior management positions at 3Com. In 1981, Mr. Benhamou co-founded Bridge Communications, an early networking pioneer, and was Vice President of Engineering until its merger with 3Com in 1987. Mr. Benhamou has also served as a member of the Boards of Directors of Atrica, a provider of optical Ethernet solutions (from 2000 to 2008) and Go Networks, a wireless network hardware provider (from 2004 to 2007).
		Additionally in 2003, Mr. Benhamou was appointed to the Joint High Level Advisory Panel of the U.S.-Israel Science and Technology Commission by U.S. Commerce Secretary Donald Evans.
		Mr. Benhamou holds a diplôme d Ingenieur de l Ecole Nationale Supérieure d Arts et Métiers in Paris, France, a master s degree in Science from the School of Engineering at Stanford University and several honorary doctorates.
David M. Clapper	56	Mr. Clapper currently serves as President and Chief Executive Officer of SurgRx, Inc., a medical device manufacturer. He is also a member of the Boards of Directors of Dfine, Inc., an electrosurgical system developer (since 2007), and Sierra Medical, a surgical device company (since 2007).
		Prior to joining SurgRx in 2004, Mr. Clapper served as president and chief executive officer and a member of the Board of Directors of Novacept, a medical device company (from 1999 until its acquisition by Cytyc Corporation in 2004). Mr. Clapper also served as president and chief executive officer and a member of the Board of Directors of Focal, Inc., a developer of surgical sealant (from 1994 to 1999). Prior to joining Focal, Mr. Clapper was employed at various divisions of Johnson & Johnson (from 1977 until 1993).

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Name of Director Nominee	Age	Biographical Information
		Mr. Clapper has also served as a member of the Boards of Directors of St. Francis Medical Technology (in 2006), Conor Medsystems (from 2004 to 2007) and Pulmonx (from 2003 to 2006).
		Mr. Clapper holds a bachelor s degree in Marketing from Bowling Green State University.
Roger F. Dunbar	62	Mr. Dunbar retired from Ernst & Young in 2004, where he held the position of Global Vice Chairman, based in London, from 2000 to 2004. In his role as Global Vice Chairman, Mr. Dunbar was responsible for developing the Ernst & Young Strategic Growth Markets operations and Global Venture Capital Services. In addition, he was a member of Ernst & Young s Global Practice Council and Global Management Committee. From 1974 to 2000, Mr. Dunbar was a client service partner and held a variety of senior leadership roles, including Partner-in-Charge and Area Managing Partner, Silicon Valley and the Pacific Northwest Area.
		Mr. Dunbar has taught at Santa Clara University s Graduate School of Business and in Ernst & Young s National Education Program. Mr. Dunbar served as a member of the Advisory Board for Santa Clara University and as a member of Joint Venture Silicon Valley s 21st Century Education Board. Additionally, Mr. Dunbar served as an advisory member of the Company s Board (from 2001 to 2004).
		Mr. Dunbar holds a bachelor s degree in Business from San Francisco State University and holds a master s degree in Business Administration from Santa Clara University.
Joel P. Friedman	60	Mr. Friedman retired from his position as President of Accenture s Business Process Outsourcing (BPO) organization in 2005.
		Mr. Friedman is currently a member of the Boards of Directors of NeuStar, a provider of essential clearinghouse services to the communications industry (since 2006), and Endeca Technologies, Inc., a provider of enterprise search solutions (since 2006), as well as a member of the Advisory Boards of Corefino, Inc., an outsourced accounting and financial services firm (since 2008), and Financial Technology Ventures (since 2005). Additionally, he serves on the Boards of Directors of Community Gatepath, a non-profit organization dedicated to enabling persons with disabilities to live as fully integrated members of the community (since 1991), and Junior Achievement of the Bay Area, a non-profit organization that assists young people understand the economics of life (since 2004).
		Prior to his retirement as President of Accenture s BPO organization, Mr. Friedman was responsible for overseeing Accenture s portfolio of BPO businesses, as well as fueling new innovation and growth in BPO. He was a member of Accenture s Board of Directors (from 2001 to 2005) and also served on the company s Executive Committee and Global Leadership Council. Over the course of his 34-year career with Accenture,

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Name of Director Nominee	Age	Biographical Information
		Mr. Friedman held a variety of senior leadership roles. He was a partner in Accenture s Corporate Development Organization, served as a managing general partner of the company s former venture capital business, Accenture Technology Ventures, led Accenture s banking and capital markets program, and was instrumental in founding and managing Accenture s strategy consulting practice.
		Mr. Friedman was also a member of the Dean s Advisory Council for Stanford Graduate School of Business (from 1998 to 2004).
		Mr. Friedman holds a bachelor s degree in Economics from Yale University and a master s degree in Business Administration from Stanford University.
G. Felda Hardymon	60	Mr. Hardymon is currently Senior Partner at Bessemer Venture Partners, a venture capital firm located in Wellesley Hills, Massachusetts. Mr. Hardymon joined Bessemer in May 1981 and has also held the title of General Partner. Mr. Hardymon has been on the faculty at Harvard Business School since 1998 where he is currently the MBA Class of 1975 Professor of Management Practice.
		Mr. Hardymon is currently a member of the Boards of Directors of Endeca Technologies, Inc., a provider of enterprise search solutions (since 2000), Portrait Software, which specializes in customer interaction management (since 2002), First Index, which provides online sourcing and marketplace services to manufacturing companies (since 2000), Vertica, a software company (since 2006), Streambase, a company which processes and analyzes real-time streaming data (since 2006), and Axis Networks, a provider of re-configurable digital radio platforms (since 2007).
		Mr. Hardymon was also a member of the Boards of Directors of VideoServer (now known as Ezenia), a communications switch company, Davox Corp., a communications technology company, Parametric Technology, a product development solutions provider, Airtech Group, a telecommunications company, LBMS, a process management software developer, Summagraphics, a technology company, and Celtel International, a telecommunications company.
		Mr. Hardymon holds a bachelor s degree in Mathematics from Rose Polytechnic Institute, a master s degree in Mathematics from Duke University, a Ph.D. in Mathematics from Duke University, and a master s degree in Business Administration from Harvard University.
Alex W. Pete Hart	67	Mr. Hart has been an independent consultant to the financial services industry since 1997.

Mr. Hart is currently a member of the Boards of Directors of Fair Isaac Corporation, a predictive software company (since 2002), Global Payments, Inc., a payment services company (since 2001), eHarmony.com, an online compatibility service (since 2004), and

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Name of Director Nominee	Age	Biographical Information
		VeriFone Holdings, Inc., a electronics company (since 2006). He was also a member of the Boards of Directors of various companies, including HNC Software, Retek Inc., Shopping.com, Actrade Financial Technologies, Sanchez Computer Associates, US Encode, and Sequal Technologies, Inc.
		From 1995 to 1997, he served as Chief Executive Officer and from 1994 to 1996 as Executive Vice Chairman of Advanta Corporation, a diversified financial services company. From 1988 to 1994, he was President and Chief Executive Officer of MasterCard International, the worldwide payment service provider.
		Mr. Hart holds a bachelor s degree in Social Relations from Harvard University.
C. Richard Kramlich	72	Mr. Kramlich has been Co-Founder and General Partner of New Enterprise Associates, a venture capital firm, since 1978. Prior to joining NEA, Mr. Kramlich was a general partner of Arthur Rock & Associates (from 1969 to 1977) and Executive Vice President of Gardner & Preston Moss (from 1964 to 1969).
		Mr. Kramlich is currently a member of the Boards of Directors of Tabula, a semiconductor company (since 2005), NEXT HOP, a provider of networking software solutions (since 2005), Financial Engines, a creator of advice technology (since 1997), Force10 Networks, a developer of communication network routing and switching equipment (since 2000), Visual Edge Technologies, an imaging solutions company (since 2002), Xoom, a money transfer company (since 2004), Zhone Technologies, a provider of broadband access equipment (since 1999), Foveon, a innovator in the design and development of image sensors and image capture systems (since 2000), Kor Technology, a leading edge aerospace defense technology company (since 2006), Sierra Monitor Corporation, a provider of hazardous gas detection systems (since 1984), TriAlpha Energy, a nuclear fusion research company (since 2006), MaxiScale, a developer of software for controlling infrastructure costs (since 2007), and Movius, a messaging, collaboration, and mobile media solutions company (since 2007). He was also a member of the Boards of Directors of Celetronix, Decru, Chalone Wine Group, Silicon Graphics, 3Com Corporation, Ascend Communications, Dallas Semiconductor, Healtheon/WedMD, Immunex, InfoGear, Juniper Networks, Macromedia, NetSolve (which was acquired by Cisco), Semiconductor Manufacturing International, Fabric7 Systems, and Informative. He was Chairman and President of the National Venture Capital Association. Additionally, Mr. Kramlich served as an advisory member of the Company Board (from 2003 to 2005).
		Mr. Kramlich holds a bachelors of science degree in History from Northwestern University and a master s degree in Business Administration from Harvard University.

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Name of Director Nominee	Age	Biographical Information
Lata Krishnan	47	Ms. Krishnan is currently the Chief Financial Officer of Shah Capital Partners, a leading mid-market technology private equity fund that was founded in 2003. She is also the President and a director of the American India Foundation, an organization founded in 2001 to accelerate social and economic development in India (since 2001). She is also a charter member of TiE, a fellow of the American Leadership Forum (since 1998), and a member of the Boards of Directors of the America s Foundation for Chess, a foundation committed to children s education (since 2003), and The Commonwealth Club, a public affairs forum (since 2004), and the advisory boards of CEO Women, an organization that seeks to create economic opportunities for low-income immigrant and refugee women (since 2000), Narika, a shelter for abused women in the Asian community (since 1998), and the Global Philanthropy Forum, a council on world affairs (since 2006). In 1989, Ms. Krishnan co-founded SMART Modular Technologies, Inc. and served as its Chief Financial Officer until its merger with Solectron Corporation in 1999. Prior to founding SMART, Ms. Krishnan held various corporate accounting and finance positions with Montgomery Securities, Arthur Andersen & Company LLP, and Hill Vellacott & Company in London. Ms. Krishnan holds a bachelors of science degree with honors from the London School of Economics and is a member of the Institute of Chartered Accountants in England and Wales.
James R. Porter	72	Mr. Porter retired in 1998. He is currently a member of the Boards of Directors of Cardone Industries, a manufacturing company (since 1998), and Genesis Network Solutions, a telecommunications engineering company (since 2006), as well as a member of the Board of Regents of Pepperdine University (since 1993) and the Board of Trustees of Abilene Christian University (since 1990). Mr. Porter was also a member of the Boards of Directors of Activant Solutions (from 1985 to 2006), Firstwave Technologies (from 1993 to 2003) and the Advisory Board of American Central Gas Technologies (from 1999 to 2005). He was the president, chief executive officer and director of Triad Systems Corporation, a computer software company (from 1985 to 1997). He also served as Chairman of Firstwave Technologies, a software company (from 1993 to 2003), and as Chairman of Activant Solutions (formerly CCI/Triad), a computer services company (from 1997 to 1999). Mr. Porter holds a bachelor s degree in Industrial Engineering degree from Texas A&M University and attended graduate school at Harvard University.

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Name of Director Nominee	Age	Biographical Information
Michaela K. Rodeno	61	Ms. Rodeno is currently the Chief Executive Officer and only non-family director of Skalli Corporation (dba St. Supery Vineyards and Winery), located in Rutherford, California, where she has been serving since 1988. She and her family own Villa Ragazzi, a Napa Valley winery with a first vintage of 1988, and 60 acres of vineyards in the Napa Valley. Ms. Rodeno has been a director of the Wine Market Council, a U.S. wine industry trade organization, since its inception in 1994. She served as chairperson of the organization (from 2005 to 2006) and currently serves on the Executive Committee. She also served as the Chairman of the Meritage Association (from 1999 to 2005). She served on the Board of Directors of the Napa Valley Vintners Association (from 1989 to 1993) and has chaired the Napa Valley Wine Auction twice. Ms. Rodeno holds a bachelor s degree in French from the University of California, Davis, a master s degree in French Literature from the University of California, Davis, and a master s degree in Business Administration from the University of California, Berkeley.
Kyung H. Yoon	53	Ms. Yoon currently serves as Vice Chairman of Heidrick & Struggles, a world renowned executive search and leadership consulting firm. Ms. Yoon has held a variety of leadership roles at Heidrick & Struggles since joining the firm in 1994. Ms. Yoon is also Chairman of the Asia America MultiTechnology Association (AAMA), a business network promoting technology enterprises (since 2008). She is a member of the Board of Directors of AAMA (since 2003), and also served as its president (from 2006-2007). She also serves on the Board of Directors of Affinity Circles, Inc., a leading provider of trusted social networks for affinity-based organizations (since 2006) and Stanford University s SPRIE Greater China Networks Project Advisory Board (since 2004). Additionally, Ms. Yoon served on Harvard University s John F. Kennedy School of Government Women s Leadership Board (from 2005 to 2007) and as a Trustee of the San Jose Museum of Art (from 2006 to 2007). Prior to joining Heidrick & Struggles, Ms. Yoon was the president of Benten Investments, Inc. Previously, she was the president of Pacific Union Asset Management and vice president of Dillingham Development Company. Ms. Yoon started her career with Banque Nationale de Paris, one of the main banks in Europe and France.

Ms. Yoon holds a bachelor s degree in Economics from Goucher College in Baltimore, Maryland and a master s degree in Business Administration in Finance and Marketing from the University of Chicago.

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Name of Director Nominee	Age	Biographical Information
Kenneth P. Wilcox	60	Mr. Wilcox joined the Company in 1990 as Regional Vice President of the Bank s East Coast Technology Group. Mr. Wilcox held increasingly responsible positions with the Bank, including Manager of the East Coast Technology Group (from 1993 to 1995), Executive Vice President and Manager of the East Coast Technology Group (from 1995 to 1997), Chief Banking Officer (from 1997 to 1999), and President and Chief Operating Officer of the Bank (from 1999). Mr. Wilcox was appointed Chief Executive Officer of the Bank in 2000 and was named President and Chief Executive Officer of the Company in 2001. Mr. Wilcox serves on the Board of the Federal Reserve Bank of San Francisco (since 2005). He is also a member of the Board of Directors of Silicon Valley Leadership Group, an organization with an emphasis on issues of importance to employers, employees and residents of Silicon Valley (since 2001), Silicon Valley Education Foundation, an education foundation that focuses on improving public schools (since 2007), the Bay Area Council, a public policy advocacy organization (since 2007), and the Northern California Advisory Board of the Asia Society, the leading global organization working to strengthen relationships and promote understanding among the people, leaders and institutions of Asia and the United States (since 2007). Mr. Wilcox holds a bachelor s degree in German Studies from Oakland University, a Ph.D. in German studies from Ohio State University and a master s degree in Business Administration from Harvard University.

Vote Required

The twelve (12) nominees for director receiving the highest number of affirmative votes of the shares entitled to be voted for them shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum.

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BOARD COMMITTEES AND MEETING ATTENDANCE

As of the date of this Proxy Statement, the Company s Board of Directors (the Board) has the following committees, each of which meets on a regular basis: (1) Audit Committee, (2) Compensation Committee, (3) Directors Loan Committee, (4) Finance Committee and (5) Governance Committee. The charters for each of these committees are available on the Company s website at *http://www.svb.com*.

During fiscal year 2007, the Board held nine (9) meetings. Each director attended or participated telephonically in 75% or more of the total number of meetings of the Board, and of the committees on which he or she served, which were held during the period for which he or she was a director or committee member. It is the Board s policy that each director use his or her best efforts to attend each of the Company s annual stockholder meetings. All Board members then in office attended the annual meeting of stockholders in 2007.

Board Committees Members, Meetings and Oversight

The oversight responsibilities and members (as of the Record Date) of the Board s committees are as follows:

Audit Committee

The Audit Committee is comprised of Messrs. Roger Dunbar, who serves as Chair, David Clapper and Joel Friedman. During fiscal year 2007, the Audit Committee held twelve (12) meetings. The Audit Committee oversees the following:

- The Company s corporate accounting and financial reporting processes and the quality and integrity of the Company s financial statements and reports.
- The selection, engagement and termination of the Company s independent auditors.
- The qualification, independence and performance of the Company s independent auditors.
- The Company s internal auditing function and other risk management functions, including the Company s enterprise-wide risk management program and security program.

Compensation Committee

The Compensation Committee is comprised of Mmes. Michaela Rodeno, who serves as Chair, and Kyung Yoon and Messrs. Alex Pete Hart, C. Richard Kramlich and James Porter. During fiscal year 2007, the Compensation Committee held eight (8) meetings. The Compensation Committee oversees the following:

- The overall compensation strategies, plans, policies and programs of the Company.
- The approval of director and executive compensation.

Directors Loan Committee

The Directors Loan Committee is comprised of Messrs. James Porter, who serves as Chair, and David Clapper, and Mmes. Michaela Rodeno and Kyung Yoon. During fiscal year 2007, the Directors Loan Committee held five (5) meetings. The Directors Loan Committee oversees the following:

The credit and lending strategies and objectives of the Company.

The credit management and lending practices of the Company, including reviewing internal credit policies and establishing portfolio limits.

The quality and performance of the credit portfolio of the Company.

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Finance Committee

The Finance Committee is comprised of Messrs. Roger Dunbar, who serves as Chair, Joel Friedman, G. Felda Hardymon and C. Richard Kramlich. During fiscal year 2007, the Finance Committee held nine (9) meetings. The Finance Committee oversees the following:

- The financial strategies and objectives of the Company.
- The financial risk management of the Company.
- The capital management of the Company.
- The review of the Company s financial performance and compliance with applicable financial regulatory requirements.
- The review of certain corporate development matters, such as proposed mergers and acquisitions.

Governance Committee

The Governance Committee is comprised of Messrs. Alex Pete Hart, who serves as Chair, Eric Benhamou and G. Felda Hardymon. During fiscal year 2007, the Governance Committee held five (5) meetings. The Governance Committee oversees the following:

- The Company s general corporate governance practices, including review of the Company s Corporate Governance Guidelines.
- The annual performance review of the Company s Board and its committees.
- The identification and nomination of director candidates.
- The regulatory compliance function of the Company.

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD

The Report of the Audit Committee of the Board shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended (the Act), or under the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that the Company specifically incorporates the information contained in the report by reference, and shall not otherwise be deemed filed under such acts.

The Company s Audit Committee (the Audit Committee) has prepared the following report for inclusion in this Proxy Statement. The Audit Committee is governed by a charter, which specifies, among other things, the scope of its responsibilities and how those responsibilities are performed. The Audit Committee members are independent as defined by Nasdaq, the listing standard applicable to the Company.

The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is available on the Company s website at *http://www.svb.com.*

The primary responsibility of the Audit Committee is to act on behalf of the Board in fulfilling the Board s responsibility with respect to overseeing the Company s accounting and reporting practices and the quality and integrity of the Company s financial statements and reports, and to review the qualifications, independence, and performance of the certified public accountants engaged as the Company s independent auditors. Management has the primary responsibility for the financial statements and the reporting process. The Company s independent registered public accounting firm, KPMG LLP, is responsible for expressing an opinion on the conformity of the Company s audited financial statements with U.S. generally accepted accounting principles.

In this context, the Audit Committee has reviewed and discussed with management and the independent auditors the audited financial statements. The Audit Committee discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 114, *The Auditor s Communication with those Charged with Governance*, which supersedes Statement on Auditing Standards No. 61, *Communication with Audit Committee*s, as amended. In addition, the Audit Committee received from the independent auditors the written disclosures and letter required by Independence Standards Board Standard No.1, *Independence Discussions with Audit Committees*, and discussed with the independent auditors the auditors independence from the Company and its management.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Company s Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the SEC.

This report is included herein at the direction of the members of the Audit Committee.

AUDIT COMMITTEE

Roger F. Dunbar (Chair) olidated 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 U.S. GAAP have been omitted pursuant to instructions, rules, and regulations prescribed by the United States Securities and Exchange Commission. We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited interim condensed consolidated financial statements are read in conjunction with the audited financial statements and notes previously distributed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us 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 interim condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, accruals for chargebacks, administrative fees and rebates, government rebates, returns and other allowances, allowance for inventory obsolescence, valuation of financial instruments and intangible assets, accruals for contingent liabilities, fair value of long-lived assets, deferred taxes and valuation allowance, deferred tax valuation allowance, purchase price allocations, and the depreciable lives of long-lived assets. Because of the uncertainties inherent in such estimates, actual results may differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for reasonableness.

ANI PHARMACEUTICALS, INC. and subsidiarY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS – continued

Recent Accounting Pronouncements

Recent Accounting Pronouncements Not Yet Adopted

In June 2018, the Financial Accounting Standards Board ("FASB") issued guidance simplifying the accounting for nonemployee stock-based compensation awards. The guidance aligns the measurement and classification for employee stock-based compensation awards to nonemployee stock-based compensation awards. Under the guidance, nonemployee awards will be measured at their grant date fair value. Upon transition, the existing nonemployee awards will be measured at fair value as of the adoption date. The guidance is effective for reporting periods beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact, if any, that the adoption of this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued guidance with respect to measuring credit losses on financial instruments, including trade receivables. The guidance eliminates the probable initial recognition threshold that was previously required prior to recognizing a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of certain amendments of this guidance must be applied on a modified retrospective basis and the adoption of the remaining amendments must be applied on a prospective basis. We currently expect that the adoption of this guidance will likely change the way we assess the collectability of our receivables and recoverability of other financial instruments. We have not yet begun to evaluate the specific impacts of this guidance nor have we determined the manner in which we will adopt this guidance.

In February 2016, the FASB issued guidance for accounting for leases. The guidance requires lessees to recognize assets and liabilities related to long-term leases on the balance sheet and expands disclosure requirements regarding leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2018 and early

adoption is permitted. The guidance must be adopted on a modified retrospective basis and provides for certain practical expedients. We will adopt this guidance as of January 1, 2019. We are currently reviewing our leases and other contracts to determine the impact the adoption of this guidance will have on our consolidated financial statements. We currently expect that the adoption of this guidance will likely change the way we account for our operating leases and will likely result in recording the future benefits of those leases and the related minimum lease payments on our consolidated balance sheets.

We have evaluated all other issued and unadopted Accounting Standards Updates and believe the adoption of these standards will not have a material impact on our condensed consolidated statements of operations, balance sheets, or cash flows.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued guidance improving accounting for hedging activities. The guidance is intended to simplify hedge accounting by better aligning how an entity's risk management activities and hedging relationships are presented in its financial statements. The guidance also simplifies the application of hedge accounting guidance in certain situations. The guidance is effective for the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption was permitted, including adoption in an interim period. The guidance with respect to the cash flow and net investment hedge relationships existing on the date of adoption must be applied on a modified retrospective basis and the new disclosure requirements must be applied on a prospective basis. We adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements. However, the adoption of this guidance did impact how we accounted for the interest rate swap we entered into in April 2018. See Note 4 for further details regarding the interest rate swap.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS – continued

In May 2017, the FASB issued guidance clarifying when modification accounting should be used for changes to the terms or conditions of a share-based payment award. The guidance does not change the accounting for modifications, but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The guidance is effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption was permitted, including adoption in an interim period. We adopted this guidance as of January 1, 2018 on a prospective basis. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue arising from contracts with customers. In August 2015, the FASB issued guidance approving a one-year deferral, making the standard effective for reporting periods beginning after December 15, 2017, with early adoption permitted only for reporting periods beginning after December 15, 2016. In March 2016, the FASB issued guidance to clarify the implementation guidance on principal versus agent considerations for reporting revenue gross rather than net, with the same deferred effective date. In April 2016, the FASB issued guidance to clarify the implementation guidance on identifying performance obligations and the accounting for licenses of intellectual property, with the same deferred effective date. In May 2016, the FASB issued guidance rescinding SEC paragraphs related to revenue recognition, pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force meeting. In May 2016, the FASB also issued guidance to clarify the implementation guidance on assessing collectability, presentation of sales tax, noncash consideration, and contracts and contract modifications at transition, with the same effective date. In September 2017, the FASB issued guidance amending and rescinding prior SEC staff announcements and observer comments related to revenue recognition, pursuant to the SEC Staff Announcement at the July 20, 2017 Emerging Issues Task Force meeting.

We performed a comprehensive review of our existing revenue arrangements as of January 1, 2018 following the five-step model. Our analysis indicated that there were no significant changes to how the amount and timing of revenue is recognized under the new guidance as compared to existing guidance. Additionally, our analysis indicated that there were no significant changes to how costs to obtain and fulfill our customer contracts are recognized under the new guidance as compared to existing guidance. We adopted this guidance as of January 1, 2018 using the

modified retrospective method and the impact of adoption on our consolidated balance sheet, statement of operations, and statement of cash flows was not material. The adoption of the new guidance impacted the way we analyze, document, and disclose revenue recognition under customer contracts beginning on January 1, 2018 and resulted in additional disclosures in our financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES

Revenue Recognition

As of January 1, 2018, we adopted guidance for revenue recognition for contracts, using the modified retrospective method. The implementation of the guidance had no material impact on the measurement or recognition of revenue from customer contracts of prior periods. For our revenue recognition policies prior to adopting the guidance for revenue recognition for contracts, please see Item 8. Consolidated Financial Statements, Note 1, *Description of Business and Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 31, 2017.

Upon adoption of this new guidance, we recognize revenue using the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price, including the identification and estimation of variable consideration;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when we satisfy a performance obligation.

We derive our revenues primarily from sales of generic and branded pharmaceutical products. Revenue is recognized when our obligations under the terms of our contracts with customers are satisfied, which generally occurs when control of the products we sell is transferred to the customer. We estimate variable consideration after considering applicable information that is reasonably available. We generally do not have incremental costs to obtain contracts that would otherwise not have been incurred. We do not adjust revenue for the promised amount of consideration for the effects of a significant financing component because our customers generally pay us within 100 days.

All revenue recognized in the accompanying unaudited interim condensed consolidated statements of operations is considered to be revenue from contracts with customers. The following table depicts the disaggregation of revenue according to contract type as of:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Sales of generic pharmaceutical products	$ 30,202	$ 31,490	$ 53,429	$ 58,061
Sales of branded pharmaceutical products	10,530	11,671	27,125	19,711
Sales of contract manufactured products	1,679	1,529	2,624	3,322
Royalties from Licensing Agreements	4,769	-	10,151	-
Other[1]	88	74	422	298
Total net revenues	$ 47,268	$ 44,764	$ 93,751	$ 81,392

[1]Primarily includes laboratory services and royalties on sales of contract manufactured products

In the three and six months ended June 30, 2018, we did not incur, and therefore did not defer, any material incremental costs to obtain contracts. We recognized $6.8 million of net revenue from performance obligations satisfied in prior periods during the six months ended June 30, 2018, consisting primarily of royalties from licensing agreements and revised estimates for variable consideration, including chargebacks, rebates, returns, and other allowances, related to prior period sales.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

Revenue from Sales of Generic and Branded Pharmaceutical Products

Product sales consists of sales of our generic and brand pharmaceutical products. Our sole performance obligation in our contracts is to provide pharmaceutical products to customers. Our products are sold at pre-determined standalone selling prices and our performance obligation is considered to be satisfied when control of the product is transferred to the customer. Control is transferred to the customer upon delivery of the product to the customer, as our pharmaceutical products are sold on an FOB destination basis and because inventory risk and risk of ownership passes to the customer upon delivery. Payment terms for these sales are generally less than 100 days.

Sales of our pharmaceutical products are subject to variable consideration due to chargebacks, government rebates, returns, administrative and other rebates, and cash discounts. Estimates for these elements of variable consideration require significant judgment.

Chargebacks

Chargebacks, primarily from wholesalers, result from arrangements we have with indirect customers establishing prices for products which the indirect customer purchases through a wholesaler. Alternatively, we may pre-authorize wholesalers to offer specified contract pricing to other indirect customers. Under either arrangement, we provide a chargeback credit to the wholesaler for any difference between the contracted price with the indirect customer and the wholesaler's invoice price, typically Wholesale Acquisition Cost ("WAC").

Chargeback credits are calculated as follows:

Prior period chargebacks claimed by wholesalers are analyzed to determine the actual average selling price ("ASP") for each product. This calculation is performed by product by wholesaler. ASPs can be affected by several factors such as:

· A change in customer mix

· A change in negotiated terms with customers

· A change in the volume of off-contract purchases

· Changes in WAC

As necessary, we adjust ASPs based on anticipated changes in the factors above.

The difference between ASP and WAC is recorded as a reduction in both gross revenues in the consolidated statements of operations and accounts receivable in the consolidated balance sheets, at the time we recognize revenue from the product sale.

To evaluate the adequacy of our chargeback accruals, we obtain on-hand inventory counts from the wholesalers. This inventory is multiplied by the chargeback amount, the difference between ASP and WAC, to arrive at total expected future chargebacks, which is then compared to the chargeback accruals. We continually monitor chargeback activity and adjust ASPs when we believe that actual selling prices will differ from current ASPs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

Government Rebates

Our government rebates reserve consists of estimated payments due to governmental agencies for purchases made by third parties under various governmental programs. The two largest government programs that impact our net revenue and our government rebates reserve are federal and state Medicaid rebate programs and Medicare.

We participate in certain qualifying federal and state Medicaid rebate programs whereby discounts and rebates are provided to participating programs after the final dispensing of the product by a pharmacy to a Medicaid plan participant. Medicaid rebates are typically billed up to 120 days after the product is shipped. Medicaid rebate amounts per product unit are established by law, based on the Average Manufacturer Price (“AMP”), which is reported on a monthly and quarterly basis, and, in the case of branded products, best price, which is reported on a quarterly basis. Our Medicaid reserves are based on expected claims from state Medicaid programs. Estimates for expected claims are driven by patient usage, sales mix, calculated AMP or best price, as well as inventory in the distribution channel that will be subject to a Medicaid rebate. As a result of the delay between selling the products and rebate billing, our Medicaid rebate reserve includes both an estimate of outstanding claims for end-customer sales that have occurred but for which the related claim has not been billed, as well as an estimate for future claims that will be made when inventory in the distribution channel is sold through to plan participants.

Many of our products are also covered under Medicare. We, like all pharmaceutical companies, must provide a discount for any products sold under New Drug Applications (“NDAs”) to Medicare Part D participants. This applies to all products sold under NDAs, regardless of whether the products are marketed as branded or generic. Our estimates for these discounts are based on historical experience with Medicare rebates for our products. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future rebates. Medicare rebates are typically billed up to 120 days after the product is shipped. As a result of the delay between selling the products and rebate billing, our Medicare rebate reserve includes both an estimate of outstanding claims for end-customer sales that have occurred but for which the related claim has not been billed, as well as an estimate for future claims that will be made when inventory in the distribution channel is sold through to Medicare Part D participants.

To evaluate the adequacy of our government rebate reserves, we review the reserves on a quarterly basis against actual claims data to ensure the liability is fairly stated. We continually monitor our government rebate reserve and adjust our estimates if we believe that actual government rebates may differ from our established accruals. Accruals for government rebates are recorded as a reduction to gross revenues in the consolidated statements of operations and as an increase to accrued government rebates in the consolidated balance sheets.

Returns

We maintain a return policy that allows customers to return product within a specified period prior to and subsequent to the expiration date. Generally, product may be returned for a period beginning six months prior to its expiration date to up to one year after its expiration date. Our product returns are settled through the issuance of a credit to the customer. Our estimate for returns is based upon historical experience with actual returns. While such experience has allowed for reasonable estimation in the past, history may not always be an accurate indicator of future returns. We continually monitor our estimates for returns and make adjustments when we believe that actual product returns may differ from the established accruals. Accruals for returns are recorded as a reduction to gross revenues in the consolidated statements of operations and as an increase to the return goods reserve in the consolidated balance sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

Administrative Fees and Other Rebates

Administrative fees or rebates are offered to wholesalers, group purchasing organizations and indirect customers. We accrue for fees and rebates, by product by wholesaler, at the time of sale based on contracted rates and ASPs.

To evaluate the adequacy of our administrative fee accruals, we obtain on-hand inventory counts from the wholesalers. This inventory is multiplied by the ASPs to arrive at total expected future sales, which is then multiplied by contracted rates. The result is then compared to the administrative fee accruals. We continually monitor administrative fee activity and adjust our accruals when we believe that actual administrative fees will differ from the accruals. Accruals for administrative fees and other rebates are recorded as a reduction in both gross revenues in the consolidated statements of operations and accounts receivable in the consolidated balance sheets.

Prompt Payment Discounts

We often grant sales discounts for prompt payment. The reserve for prompt payment discounts is based on invoices outstanding. We assume, based on past experience, that all available discounts will be taken. Accruals for prompt payment discounts are recorded as a reduction in both gross revenues in the consolidated statements of operations and accounts receivable in the consolidated balance sheets.

The following table summarizes activity in the consolidated balance sheets for accruals and allowances for the six months ended June 30, 2018 and 2017, respectively:

(in thousands)	**Accruals for Chargebacks, Rebates, Returns, and Other Allowances**	
	Administrative	Prompt

	Chargebacks	Government Rebates	Returns	Fees and Other Rebates	Payment Discounts
Balance at December 31, 2016	$ 26,785	$ 5,891	$ 5,756	$ 3,550	$ 1,554
Accruals/Adjustments	88,973	5,110	5,220	10,646	3,842
Credits Taken Against Reserve	(83,757)	(7,467)	(3,418)	(8,593)	(3,448)
Balance at June 30, 2017	$ 32,001	$ 3,534	$ 7,558	$ 5,603	$ 1,948
Balance at December 31, 2017	$ 28,230	$ 7,930	$ 8,274	$ 5,226	$ 1,834
Accruals/Adjustments	104,331	4,199	6,227	14,855	4,157
Credits Taken Against Reserve	(82,145)	(6,873)	(4,737)	(13,365)	(3,859)
Balance at June 30, 2018	$ 50,416	$ 5,256	$ 9,764	$ 6,716	$ 2,132

ANI PHARMACEUTICALS, INC. and subsidiarY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

Contract Manufacturing Product Sales Revenue

Contract manufacturing arrangements consists of agreements in which we manufacture a pharmaceutical product on behalf of third party. Our performance obligation is to manufacture and provide pharmaceutical products to customers, typically pharmaceutical companies. The contract manufactured products are sold at pre-determined standalone selling prices and our performance obligations are considered to be satisfied when control of the product is transferred to the customer. Control is transferred to the customer when the product leaves our dock to be shipped to the customer, as our pharmaceutical products are sold on an FOB shipping point basis and the inventory risk and risk of ownership passes to the customer at that time. Payment terms for these sales are generally less than two months. We estimate returns based on historical experience. Historically, we have not had material returns for contract manufactured products.

As of June 30, 2018, the value of our unsatisfied performance obligations (or backlog) was $2.6 million, which consists of firm orders for contract manufactured products, for which our performance obligations remain unsatisfied and for which the related revenue has yet to be recognized. We anticipate satisfying these performance obligations within six months.

Royalties from Licensing Agreements

From time to time, we enter into transition agreements with the sellers of products we acquire, under which we license to the seller the right to sell the acquired products. Therefore, we recognize the revenue associated with sales of the underlying products as royalties. Because these royalties are sales-based, we recognize the revenue when the underlying sales occur, based on sales and gross profit information received from the sellers. Upon full transition of the products and upon launching the products under our own labels, we recognize revenue for the products as sales of generic or branded pharmaceutical products, as described above.

In addition, we receive royalties from a license for patent rights initially owned by Cell Genesys, which merged with BioSante in 2009. The royalties are the results of sales and milestones related to the Yescarta® product. We recognize revenue for sales-based royalties when the underlying sales occur. We estimate variable consideration related to milestones, which requires significant judgment.

Credit Concentration

Our customers are primarily wholesale distributors, chain drug stores, group purchasing organizations, and pharmaceutical companies.

During the three months ended June 30, 2018, three customers represented 32%, 23%, and 21% of net revenues, respectively. During the six months ended June 30, 2018, the same three customers represented 33%, 24%, and 20% of net revenues respectively. As of June 30, 2018, accounts receivable from these customers totaled 75% of accounts receivable, net. During the three months ended June 30, 2017, three customers represented 32%, 24%, and 23% of net revenues, respectively. During the six months ended June 30, 2017, these same three customers represented 32%, 22%, and 24% of net revenues, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. INDEBTEDNESS

Convertible Senior Notes

In December 2014, we issued $143.8 million of our Convertible Senior Notes due 2019 (the "Notes") in a registered public offering. The Notes pay 3.0% interest semi-annually in arrears starting on June 1, 2015 and are due December 1, 2019. The initial conversion price was $69.48 per share. Simultaneous with the issuance of the Notes, we entered into "bond hedge" (or purchased call) and "warrant" (or written call) transactions with an affiliate of one of the offering underwriters in order to synthetically raise the initial conversion price of the Notes to $96.21 per share and reduce the potential common stock dilution that may arise from the conversion of the Notes.

The Notes are convertible at the option of the holder under certain circumstances and upon conversion we may elect to settle such conversion in shares of our common stock, cash, or a combination thereof. As a result of our cash conversion option, we separately accounted for the value of the embedded conversion option as a debt discount (with an offset to Additional Paid in Capital ("APIC")) of $33.6 million. Deferred financing costs are recorded as a reduction of long-term debt in the consolidated balance sheets and are being amortized as additional non-cash interest expense on a straight-line basis over the term of the debt, since this method was not significantly different from the effective interest method.

The carrying value of the Notes is as follows as of:

(in thousands)	**June 30, 2018**	**December 31, 2017**
Principal amount	$143,750	$ 143,750
Unamortized debt discount	(10,427)	(13,924)
Deferred financing costs	(1,196)	(1,618)
Net carrying value	$132,127	$ 128,208

We had accrued interest of $0.4 million related to the Notes recorded in accrued expenses, other in our consolidated balance sheets at both June 30, 2018 and December 31, 2017.

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3. INDEBTEDNESS – continued

Credit Agreement

In December 2017, we entered into a five-year senior secured credit facility (the "Credit Agreement") with Citizens Bank, N.A. as a lender and administrative agent. As contemplated in the initial agreement, Citizens Bank, N.A. syndicated the facility to five additional lenders on February 5, 2018. The Credit Agreement is comprised of a $75.0 million five-year term loan (the "Term Loan") and a $50.0 million senior secured revolving credit facility (the "Revolving Credit Facility"), with availability subject to a borrowing base consisting of eligible accounts receivable and inventory and the satisfaction of conditions precedent specified in the agreement. We may repay borrowings under the Term Loan and Revolving Credit Facility without any premium or penalty, but must pay all borrowings thereunder by August 30, 2019 if we do not meet certain conditions relating to the repayment or refinance of our outstanding 3.0% Senior Convertible Notes due 2019, and in no event later than December 29, 2022.

The Term Loan includes a repayment schedule, pursuant to which $5.6 million of the loan will be paid in quarterly installments during the 12 months ended June 30, 2019. As a result, $5.6 million of the loan is recorded in current component of long-term borrowing, net of deferred financing in the accompanying unaudited interim condensed consolidated balance sheets. We deferred $2.9 million of total debt issuance costs related to the Credit Agreement, of which $1.8 million was allocated to the Term Loan and $1.1 million was allocated to the undrawn Revolving Credit Facility. In April 2018, we entered into an interest rate swap with Citizens Bank, N.A. to hedge the variable rate on our Term Loan balance with a fixed rate (Note 4).

The carrying value of the current and long-term components of the Term Loan as of June 30, 2018 and December 31, 2017 are:

(in thousands)	Current June 30, 2018	December 31, 2017
Current borrowing on secured term loan	$5,625	$ 3,750

Unamortized deferred financing costs	(408)	(397)
Current component of long-term borrowing, net of unamortized deferred financing costs	$5,217	$ 3,353

(in thousands)	Long-Term	
	June 30, 2018	December 31, 2017
Long-term borrowing on secured term loan	$68,438	$ 71,250
Unamortized deferred financing costs	(1,176)	(1,304)
Long-term borrowing, net of unamortized deferred financing costs and current borrowing component	$67,262	$ 69,946

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3. INDEBTEDNESS – continued

The Term Loan was accounted for as a modification of our existing Line of Credit and consequently, the remaining balance of the deferred issuance costs related to the Line of Credit are included with the Term Loan issuance costs and amortized as interest expense over the life of the Term Loan using the effective interest method. The issuance costs allocated to the Revolving Credit Facility will be deferred and amortized as interest expense on a straight-line basis over the term of the Revolving Credit Facility.

As of June 30, 2018, we had a $74.1 million balance on the Term Loan. As of June 30, 2018, we had not drawn on the Revolving Credit Facility. As of June 30, 2018, $0.8 million of unamortized deferred debt issuance costs is included in other long-term assets in the accompanying unaudited interim condensed consolidated balance sheets and $0.2 million is included in prepaid expenses and other current assets in the unaudited interim condensed consolidated balance sheets.

The following table sets forth the components of total interest expense related to the Notes and Term Loan recognized in the accompanying unaudited interim condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Contractual coupon	$ 1,752	$ 1,078	$ 3,476	$ 2,156
Amortization of debt discount	1,760	1,668	3,497	3,315
Amortization of finance fees	371	211	741	422
Capitalized interest	(105)	(134)	(297)	(224)
	$ 3,778	$ 2,823	$ 7,417	$ 5,669

As of June 30, 2018, the combined effective interest rate on the Notes and Term Loan was 6.8%, on an annualized basis.

4. DERIVATIVE FINANCIAL INSTRUMENT AND HEDGING ACTIVITY

We use derivative financial instruments to hedge our exposure to interest rate risks. All derivative financial instruments are recognized as either assets or liabilities at fair value on the consolidated balance sheet and are classified as current or long-term based on the scheduled maturity of the instrument.

When we enter into a hedge arrangement and intend to apply hedge accounting, we formally document the hedge relationship and designate the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. When we determine that a derivative financial instrument qualifies as a cash flow hedge and is effective, the changes in fair value of the instrument are recorded in accumulated other comprehensive income/(loss), net of tax in our consolidated balance sheets and will be reclassified to earnings when the hedged item affects earnings.

In April 2018, we entered into an interest rate swap arrangement, which is considered a derivative financial instrument, with Citizens Bank, N.A. to manage our exposure to changes in LIBOR-based interest rates underlying our Term Loan. The interest rate swap hedges the variable cash flows associated with the borrowings under our Term Loan (Note 3), effectively providing a fixed rate of interest throughout the life of the Term Loan.

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4. DERIVATIVE FINANCIAL INSTRUMENT AND HEDGING ACTIVITY – continued

The interest rate swap arrangement with Citizens Bank, N.A became effective on April 29, 2018, with a maturity date of December 29, 2022. The notional amount of the swap agreement at inception was $74.1 million and will decrease in line with our Term Loan. As of June 30, 2018, the notional amount of the interest rate swap was $74.1 million. The interest rate swap has a weighted average fixed rate of 2.60% and has been designated as an effective cash flow hedge and therefore qualifies for hedge accounting. As of June 30, 2018, the fair value of the interest rate swap asset was valued at $0.3 million and was recorded in other long-term assets in the accompanying unaudited condensed consolidated balance sheets. During the three months ended June 30, 2018, changes in the fair value of the interest rate swap of $0.3 million was recorded in accumulated other comprehensive income, net of tax in the accompanying unaudited condensed consolidated balance sheets. Differences between the hedged LIBOR rate and the fixed rate recorded as interest expense in the same period that the related interest is recorded for the Term Loan based on the LIBOR rate. In both the three and six-month periods ended June 30, 2018, $0.1 million of interest expense was recognized in relation to the interest rate swap.

5. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders 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, we calculate diluted earnings per share by dividing net income available to common shareholders by the weighted-average number of shares outstanding plus the impact of all potential dilutive common shares, consisting primarily of common stock options, shares to be purchased under our Employee Stock Purchase Plan (“ESPP”), unvested restricted stock awards, stock purchase warrants, and any conversion gain on our Notes (Note 3), using the treasury stock method. For periods of net loss, diluted loss per share is calculated similarly to basic loss per share.

Our unvested restricted shares contain non-forfeitable rights to dividends, and therefore are considered to be participating securities; in periods of net income, the calculation of basic and diluted earnings per share excludes from the numerator net income attributable to the unvested restricted shares, and excludes the impact of those shares from the denominator.

For purposes of determining diluted earnings per share, we have elected a policy to assume that the principal portion of the Notes (Note 3) is settled in cash. As such, the principal portion of the Notes has no effect on either the numerator or denominator when determining diluted earnings per share. Any conversion gain is assumed to be settled in shares and is incorporated in diluted earnings per share using the treasury method. The warrants issued in conjunction with the issuance of the Notes (Note 3) are considered to be dilutive when they are in-the-money relative to our average stock price during the period; the bond hedge purchased in conjunction with the issuance of the Notes is always considered to be anti-dilutive.

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5. EARNINGS PER SHARE – continued

Earnings per share for the three and six months ended June 30, 2018 and 2017 are calculated for basic and diluted earnings per share as follows:

(in thousands, except per share amounts)	Basic Three Months Ended June 30,		Diluted Three Months Ended June 30,		Basic Six Months Ended June 30,		Diluted Six Months Ended June 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
Net income	$2,777	$2,681	$2,777	$2,681	$5,027	$3,833	$5,027	$3,833
Net income allocated to restricted stock	(28)	(20)	(28)	(20)	(50)	(28)	(50)	(28)
Net income allocated to common shares	$2,749	$2,661	$2,749	$2,661	$4,977	$3,805	$4,977	$3,805
Basic Weighted-Average Shares Outstanding	11,679	11,546	11,679	11,546	11,634	11,536	11,634	11,536
Dilutive effect of stock options and ESPP			110	121			114	123
Diluted Weighted-Average Shares Outstanding			11,789	11,667			11,748	11,659
Earnings Per Share	$0.24	$0.23	$0.23	$0.23	$0.43	$0.33	$0.42	$0.33

The number of anti-dilutive shares, which have been excluded from the computation of diluted earnings per share, including the shares underlying the Notes, was 4.7 million and 4.8 million for the three months ended June 30, 2018 and 2017 and was 4.6 million and 4.7 million for the six months ended June 30, 2018 and 2017, respectively. Anti-dilutive shares consist of out-of-the-money Class C Special stock, out-of-the-money common stock options, common stock options that are anti-dilutive when calculating the impact of the potential dilutive common shares using the treasury stock method, underlying shares related to out-of-the-money bonds issued as convertible debt, and out-of-the-money warrants exercisable for common stock.

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6. INVENTORIES

Inventories consist of the following as of:

(in thousands)	June 30, 2018	December 31, 2017	
Raw materials	$25,766	$ 22,139	
Packaging materials	1,859	1,527	
Work-in-progress	639	510	
Finished goods	10,280	13,901	(1)
	38,544	38,077	
Reserve for excess/obsolete inventories	(788)	(350)	
Inventories, net	$37,756	$ 37,727	

(1) Includes finished goods acquired in asset purchases (Note 12).

Vendor Concentration

We source the raw materials for our products, including active pharmaceutical ingredients (“API”), from both domestic and international suppliers. Generally, only a single source of API is qualified for use in each product due to the cost and time required to validate a second source of supply. As a result, we are dependent upon our current vendors to reliably supply the API required for ongoing product manufacturing. During the three months ended June 30, 2018, we purchased approximately 40% of our inventory from three suppliers. As of June 30, 2018, the amounts payable to these suppliers was immaterial. During the six months ended June 30, 2018, we purchased approximately 15% of our inventory from one supplier. As of June 30, 2018, the amounts payable to this supplier was immaterial. During the three months ended June 30, 2017, we purchased approximately 27% of our inventory (exclusive of inventory acquired in asset purchases (Note 12)) from two suppliers. During the six months ended June 30, 2017, we purchased approximately 18% of our inventory (exclusive of inventory acquired in asset purchases (Note 12)) from one supplier.

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following as of:

(in thousands)	June 30, 2018	December 31, 2017
Land	$160	$ 160
Buildings	3,835	3,835
Machinery, furniture, and equipment	16,008	12,334
Construction in progress	9,878	10,663
	29,881	26,992
Less: accumulated depreciation	(7,039)	(6,589)
Property, Plant, and Equipment, net	$22,842	$ 20,403

Depreciation expense was $0.4 million and $0.3 million for the three months ended June 30, 2018 and 2017, respectively. Depreciation expense was $0.7 million and $0.6 million for the six months ended June 30, 2018 and 2017, respectively. During the three months ended June 30, 2018 and 2017, there was $0.2 million and $0.1 million of interest capitalized into construction in progress, respectively. During the six months ended June 30, 2018 and 2017, there was $0.4 million and $0.2 million of interest capitalized into construction in progress, respectively. Construction in progress consists of multiple projects, primarily related to new equipment to expand our manufacturing capability as our product lines continue to grow.

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8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As a result of our 2013 merger with BioSante Pharmaceuticals, Inc. ("BioSante"), we recorded goodwill of $1.8 million in our one reporting unit. We assess the recoverability of the carrying value of goodwill as of October 31st of each year, and whenever events occur or circumstances change that would, more likely than not, reduce the fair value of our reporting unit below its carrying value. There have been no events or changes in circumstances that would have reduced the fair value of our reporting unit below its carrying value during the six months ended June 30, 2018. No impairment losses were recognized during the three or six months ended June 30, 2018 or 2017.

Definite-lived Intangible Assets

Acquisition of Abbreviated New Drug Applications

In April 2018, we entered into an agreement with Impax Laboratories, Inc. (now Amneal Pharmaceuticals, Inc., or "Amneal") to purchase the approved ANDAs for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for $2.3 million in cash up front. The transaction closed in May 2018 and we made the $2.3 million payment using cash on hand. We also capitalized $0.1 million of costs directly related to the transaction. We accounted for this transaction as an asset purchase. The $1.0 million acquired ANDA intangible assets are being amortized in full over their estimated useful lives of 10 years. Please see Note 12 for further details regarding the transaction.

In April 2018, we entered into an agreement with IDT Australia, Limited to purchase the ANDAs for 23 previously-marketed generic drug products and API for four of the acquired products for $2.7 million in cash and a

single-digit royalty on net profits from sales of one of the products. The transaction closed in April 2018 and we made the $2.7 million payment using cash on hand. We also capitalized $18 thousand of costs directly related to the transaction. We accounted for this transaction as an asset purchase. The $2.5 million acquired ANDA intangible assets are being amortized in full over their estimated useful lives of 10 years. Please see Note 12 for further details regarding the transaction.

Acquisition of New Drug Applications and Product Rights

In December 2017, we entered into an agreement with AstraZeneca AB and AstraZeneca UK Limited to purchase the right, title, and interest in the NDAs and the U.S. rights to market Atacand, Atacand HCT, Arimidex, and Casodex, for $46.5 million in cash. We also entered into a license agreement for use of these trademarks in the U.S. We made the $46.5 million cash payment with funds from our Term Loan (Note 3). We also capitalized $0.2 million of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The $46.7 million product rights assets are being amortized in full over their estimated useful lives of 10 years. Please see Note 12 for further details regarding the transaction.

In February 2017, we entered into an agreement with Cranford Pharmaceuticals, LLC to purchase a distribution license, trademark, and certain finished goods inventory for Inderal XL for $20.2 million in cash. We made the $20.2 million cash payment using cash on hand. We accounted for this transaction as an asset purchase. We also capitalized $40 thousand of costs directly related to the transaction. The $15.1 million product rights intangible asset acquired in the asset purchase is being amortized in full over its estimated useful life of 10 years. Please see Note 12 for further details regarding the transaction.

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8. GOODWILL AND INTANGIBLE ASSETS – continued

In February 2017, we entered into an agreement with Holmdel Pharmaceuticals, LP to purchase the NDA, trademark, and certain finished goods inventory for InnoPran XL, including a license to an Orange Book listed patent, for $30.6 million in cash. We made the $30.6 million cash payment using $30.0 million of funds from our former Line of Credit and $0.6 million of cash on hand. We accounted for this transaction as an asset purchase. We also capitalized $0.1 million of costs directly related to the transaction. The $19.0 million product rights intangible asset acquired in the asset purchase is being amortized in full over its estimated useful life of 10 years. Please see Note 12 for further details regarding the transaction.

The components of net definite-lived intangible assets are as follows:

(in thousands)	June 30, 2018		December 31, 2017		Weighted Average Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Acquired ANDA intangible assets	$46,194	$ (14,787)	$42,076	$ (12,592)	10.0 years
NDAs and product rights	230,974	(49,656)	230,974	(37,091)	10.0 years
Marketing and distribution rights	10,423	(6,087)	11,042	(5,087)	4.6 years
Non-compete agreement	624	(201)	624	(156)	7.0 years
	$288,215	$ (70,731)	$284,716	$ (54,926)	

Definite-lived intangible assets are stated at cost, net of amortization, generally using the straight-line method over the expected useful lives of the intangible assets. In the case of the Inderal XL and InnoPran XL asset purchases, because we anticipate that the acquired assets will provide a greater economic benefit in the earlier years, we are amortizing 80% of the value of the intangible assets over the first five years of useful lives of the assets and amortizing the remaining 20% of the value of the intangible assets over the second five years of useful lives of the assets. Amortization expense was $7.9 million and $6.8 million for the three months ended June 30, 2018 and 2017, respectively. Amortization expense was $15.8 million and $13.2 million for the six months ended June 30, 2018 and 2017, respectively.

We test for impairment of definite-lived intangible assets when events or circumstances indicate that the carrying value of the assets may not be recoverable. No such triggering events were identified during the three and six months ended June 30, 2018 and 2017 and therefore no impairment loss was recognized in the three and six months ended June 30, 2018 or 2017.

Expected future amortization expense is as follows:

(in thousands)	
2018 (remainder of the year)	$15,880
2019	31,761
2020	31,279
2021	29,833
2022	26,428
2023 and thereafter	82,303
Total	$217,484

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9.STOCK-BASED COMPENSATION

In July 2016, we commenced administration of the ANI Pharmaceuticals, Inc. 2016 Employee Stock Purchase Plan. As of June 30, 2018, we have 0.2 million shares of common stock available under the ESPP. Under the ESPP, participants can purchase shares of our stock at a 15% discount. In the three and six months ended June 30, 2018, we recognized $2 thousand and $4 thousand of stock-based compensation expense related to the ESPP in cost of sales, $2 thousand, and $3 thousand of stock-based compensation expense related to the ESPP in research and development, and $14 thousand and $28 thousand of stock-based compensation expense related to the ESPP in sales, general, and administrative expense in our accompanying unaudited interim condensed consolidated statements of operations, respectively. In the three and six months ended June 30, 2017, we recognized $2 thousand and $4 thousand of stock-based compensation expense related to the ESPP in cost of sales and $26 thousand and $39 thousand of stock-based compensation expense related to the ESPP in sales, general, and administrative expense in our accompanying unaudited interim condensed consolidated statements of operations, respectively.

All equity-based service awards are granted under the ANI Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan (the “2008 Plan”). As of June 30, 2018, 0.6 million shares of our common stock remained available for issuance under the 2008 Plan.

The following table summarizes stock-based compensation expense incurred under the 2008 Plan and included in our accompanying unaudited interim condensed consolidated statements of operations:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of sales	$ 24	$ 26	$ 42	$ 49
Research and development	220	168	380	307
Selling, general, and adminstrative	1,520	1,585	2,702	2,794
	$ 1,764	$ 1,779	$ 3,124	$ 3,150

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9.STOCK-BASED COMPENSATION – continued

A summary of stock option and restricted stock activity under the 2008 Plan during the six months ended June 30, 2018 and 2017 is presented below:

(in thousands)	Options	RSAs
Outstanding December 31, 2016	578	63
Granted	185	50
Options Exercised/RSAs Vested	(2)	(27)[1]
Forfeited	(3)	-
Outstanding June 30, 2017	758	86
Outstanding December 31, 2017	767	86
Granted	151	65
Options Exercised/RSAs Vested	(111)	(33)[2]
Forfeited	(16)	-
Outstanding June 30, 2018	791	118

[1] Includes five thousand shares purchased from employees to cover employee income taxes related to income earned upon vesting of restricted stock. The shares purchased are held in treasury and the $259 thousand total purchase price for the shares is included in Treasury stock in our accompanying unaudited interim condensed consolidated balance sheets.

[2] Includes 11 thousand shares purchased from employees to cover employee income taxes related to income earned upon vesting of restricted stock. The shares purchased are held in treasury and the $659 thousand total purchase price for the shares is included in Treasury stock in our accompanying unaudited interim condensed consolidated balance sheets.

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10. INCOME TAXES

We use 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. The utilization of our NOL carryforwards will be limited in future years as prescribed by Section 382 of the U.S. Internal Revenue Code. As of both June 30, 2018 and December 31, 2017, we had provided a valuation allowance against certain state net operating loss (“NOL”) carryforwards of $0.3 million.

We use 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. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. We have not identified any uncertain income tax positions that could have a material impact on the consolidated financial statements. We recognize interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense; we did not have any such amounts accrued as of June 30, 2018 and December 31, 2017. We are subject to taxation in various jurisdictions and all of our income tax returns remain subject to examination by tax authorities due to the availability of NOL carryforwards.

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate expected for the entire year. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in temporary and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in temporary differences, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they occur. Our estimated annual effective tax rate changes throughout the year as our on-going estimates of pre-tax income, changes in temporary differences, and permanent differences are revised, and as discrete items occur.

The estimated consolidated effective tax rate for the three months ended June 30, 2018 was 20.7% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in the second quarter. Our effective tax rate for the three months ended June 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the three months ended June 30, 2017 was 32.1% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017 plus the effects of certain material discrete items that occurred in the second quarter. Our effective tax rate for the three months ended June 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

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10. INCOME TAXES – continued

The estimated consolidated effective tax rate for the six months ended June 30, 2018 was 20.8% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in 2018. Our effective tax rate for the six months ended June 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the six months ended June 30, 2017 was 31.9% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017 plus the effects of certain material discrete items that occurred in 2017. Our effective tax rate for the six months ended June 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

11. COMMITMENTS AND CONTINGENCIES

Government Regulation

Our products and facilities are subject to regulation by a number of federal and state governmental agencies. The FDA, in particular, maintains oversight of the formulation, manufacture, distribution, packaging, and labeling of all of our products. The Drug Enforcement Administration (“DEA”) maintains oversight over our products that are controlled substances.

Unapproved Products

Two of our products, Esterified Estrogen with Methyltestosterone (“EEMT”) and Opium Tincture, are marketed without approved NDAs or Abbreviated New Drug Applications (“ANDAs”). During the three months ended June 30, 2018 and 2017, net revenues for these products totaled $6.5 million and $6.7 million, respectively. During the six months ended June 30, 2018 and 2017, net revenues for these products totaled $12.1 million and $12.9 million, respectively.

The FDA's policy with respect to the continued marketing of unapproved products is stated in the FDA's September 2011 Compliance Policy Guide Sec. 440.100 titled “Marketed New Drugs without Approved NDAs or ANDAs.” Under this policy, the FDA has stated that it will follow a risk-based approach with regard to enforcement against such unapproved products. The FDA evaluates whether to initiate enforcement action on a case-by-case basis, but gives higher priority to enforcement action against products in certain categories, such as those marketed as unapproved drugs with potential safety risks or that lack evidence of effectiveness. We believe that, so long as we comply with applicable manufacturing standards, the FDA will not take action against us under the current enforcement policy. There can be no assurance, however, that the FDA will continue this policy or not take a contrary position with any individual product or group of products. If the FDA were to take a contrary position, we may be required to seek FDA approval for these products or withdraw such products from the market. If we decide to withdraw the products from the market, our net revenues for generic pharmaceutical products would decline materially, and if we decide to seek FDA approval, we would face increased expenses and might need to suspend sales of the products until such approval was obtained, and there are no assurances that we would receive such approval.

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11. COMMITMENTS AND CONTINGENCIES – continued

In addition, one group of products that we manufacture on behalf of a contract customer is marketed by that customer without an approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our contract manufacturing revenues for these unapproved products for the three months ended June 30, 2018 and 2017 were $0.6 million and $0.4 million, respectively. Our contract manufacturing revenues for these unapproved products for the six months ended June 30, 2018 and 2017 were $1.0 million and $0.9 million, respectively.

We receive royalties on the net sales of a group of contract-manufactured products, which are marketed by the contract customer without an approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our royalties on the net sales of these unapproved products for the three and six months ended June 30, 2018 and 2017 were less than 1% of total revenues.

Louisiana Medicaid Lawsuit

On September 11, 2013, the Attorney General of the State of Louisiana filed a lawsuit in Louisiana state court against numerous pharmaceutical companies, including us, under various state laws, alleging that each defendant caused the state's Medicaid agency to provide reimbursement for drug products that allegedly were not approved by the FDA and therefore allegedly not reimbursable under the federal Medicaid program. The lawsuit relates to three cough and cold prescription products manufactured and sold by our former Gulfport, Mississippi operation, which was sold in September 2010. Through its lawsuit, the state seeks unspecified damages, statutory fines, penalties, attorneys' fees, and costs. While we cannot predict the outcome of the lawsuit at this time, we could be subject to material damages, penalties, and fines. We intend to vigorously defend against all claims in the lawsuit.

Civil Action

In November of 2017, we were served with a complaint filed by Arbor Pharmaceuticals, LLC, in the United States District Court, District of Minnesota. The complaint alleges false advertising and unfair competition in violation of Section 43(a) of the Lanham Act, Section 1125(a) of Title 15 of the United States Code, and Minnesota State law, and seeks injunctive relief and damages. In December of 2017, we filed a motion to dismiss, which is currently pending before the Court. We intend to defend this action vigorously.

Other Commitments and Contingencies

All manufacturers of the drug Reglan and its generic equivalent metoclopramide, including ANI, have faced allegations from plaintiffs in various states, including California, New Jersey, and Pennsylvania, claiming bodily injuries as a result of ingestion of metoclopramide or its brand name, Reglan, prior to the FDA's February 2009 Black Box warning requirement. In August 2012, we were dismissed with prejudice from all New Jersey complaints. In August 2016, we settled the outstanding California short form complaints and in February 2018, we settled the remaining four complaints that were not captured in the 2016 settlement. We consider our exposure to this litigation to be limited due to several factors: (1) the only generic metoclopramide that we manufactured prior to the implementation of the FDA's warning requirement was an oral solution introduced after May 28, 2008; (2) our market share for the oral solution was a very small portion of the overall metoclopramide market; and (3) once we received a request for change of labeling from the FDA, we submitted our proposed changes within 30 days, and such changes were subsequently approved by the FDA.

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11. COMMITMENTS AND CONTINGENCIES – continued

At the present time, we are unable to assess the likely outcome of the cases in the remaining states. Our insurance company has assumed the defense of this matter and paid all losses in settlement of the California cases. We cannot provide assurances that the outcome of these matters will not have an adverse effect on our business, financial condition, and operating results. Furthermore, like all pharmaceutical manufacturers, we may be exposed to other product liability claims in the future, which could limit our coverage under future insurance policies or cause those policies to become more expensive, which could harm our business, financial condition, and operating results.

We launched Erythromycin Ethylsuccinate ("EES") on September 27, 2016 under a previously approved ANDA. In August 2016, we filed with the FDA to reintroduce this product under a Changes Being Effected in 30 Days submission (a "CBE-30 submission"). Under a CBE-30 submission, certain defined changes to an ANDA can be made if the FDA does not object in writing within 30 days. The FDA's regulations, guidance documents, and historic actions support the filing of a CBE-30 for the types of changes that we proposed for our EES ANDA. We received no formal written letter from the FDA within 30 days of the CBE-30 submission date, and as such, launched the product in accordance with FDA regulations. On December 16, 2016, and nearly four months after our CBE-30 submission, the FDA sent us a formal written notice that a Prior Approval Supplement ("PAS") was required for this ANDA. Under a PAS, proposed changes to an ANDA cannot be implemented without prior review and approval by the FDA. Because we did not receive this notice in the timeframe prescribed by the FDA's regulations, we believe that our supplemental ANDA is valid, and as such continue to market the product. In addition, we filed a PAS which was accepted by the FDA and was originally assigned action date of June 2017. This date was later revised to October 2017 due to the election by the FDA to perform a Pre-Approval Inspection ("PAI") of our Baudette manufacturing facilities. The FDA conducted its PAI between May 15, 2017 and May 18, 2017. On July 31, 2017, we received an Establishment Inspection Report from the FDA documenting that no objectionable conditions resulted from the inspection and that no FDA-483 or verbal observations were issued. On September 21, 2017, we received a Major CR Letter (Complete Response Letter). In February 2018, we submitted our response to the letter. In March 2018, we received notification from the FDA that our response to the letter had received priority review status. On May 25, 2018, we received a second Major CR letter and we are currently in the process of responding to the letter. We continue to reserve all of our legal options in this matter.

On or about September 20, 2017, the Company and certain of its employees were served with search warrants and/or grand jury subpoenas to produce documents and possibly testify relating to a federal investigation of the generic pharmaceutical industry. The Company has been cooperating and intends to continue cooperating with the investigation. However, no assurance can be given as to the timing or outcome of the investigation.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. FAIR VALUE DISCLOSURES

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework that prioritizes and ranks the level of observability of inputs used in measuring fair value.

The inputs used in measuring the fair value of cash and cash equivalents are considered to be level 1 in accordance with the three-tier fair value hierarchy. The fair market values are based on period-end statements supplied by the various banks and brokers that held the majority of our funds. The fair value of short-term financial instruments (primarily accounts receivable, prepaid expenses, accounts payable, accrued expenses, borrowings under line of credit, and other current liabilities) approximate their carrying values because of their short-term nature. While our Notes are recorded on our accompanying unaudited interim condensed consolidated balance sheets at their net carrying value of $132.1 million as of June 30, 2018, the Notes are being traded on the bond market and their fair value is $161.0 million, based on their closing price on June 30, 2018, a Level 1 input.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our contingent value rights (“CVRs”), which were granted coincident with our merger with BioSante and expire in June 2023, are considered contingent consideration and are classified as liabilities. As such, the CVRs were recorded as purchase consideration at their estimated fair value, using level 3 inputs, and are marked to market each reporting period until settlement. The fair value of CVRs is estimated using the present value of our projection of the expected payments pursuant to the terms of the CVR agreement, which is the primary unobservable input. If our projection or expected payments were to increase substantially, the value of the CVRs could increase as a result. The present value of the liability was calculated using a discount rate of 15%. We determined that the fair value of the CVRs was immaterial as of June 30, 2018 and December 31, 2017. We also determined that the changes in such fair value were immaterial in the three and six months ended June 30, 2018 and 2017.

In April 2018, we entered into an interest rate swap (Note 4) to manage our exposure to the variable interest rate on our Term Loan (Note 3). The notional amount of our interest rate swap is set to match the balance of our Term Loan. Both the notional amount of the interest rate swap and the balance of our Term Loan were $74.1 million as of June 30,

2018. The fair value of our interest rate swap is estimated based on the present value of projected future cash flows using the LIBOR forward rate curve. The model used to value the interest rate swap includes inputs of readily observable market data, a Level 2 input. As described in detail in Note 4, the fair value of the interest rate swap was a $0.3 million asset at June 30, 2018.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. FAIR VALUE DISCLOSURES – continued

The following table presents our financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, by level within the fair value hierarchy:

(in thousands)

Description	Fair Value at June 30, 2018	Level 1	Level 2	Level 3
Assets				
Interest rate swap	$ 280	$ -	$ 280	$ -
Liabilities				
CVRs	$ -	$ -	$ -	$ -

Description	Fair Value at December 31, 2017	Level 1	Level 2	Level 3
Assets				
Interest rate swap	$ -	$ -	$ -	$ -
Liabilities				
CVRs	$ -	$ -	$ -	$ -

Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

We do not have any financial assets and liabilities that are measured at fair value on a non-recurring basis.

Non-Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

We do not have any non-financial assets and liabilities that are measured at fair value on a recurring basis.

Non-Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

We measure our long-lived assets, including property, plant, and equipment, intangible assets, and goodwill, at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. No such fair value impairment was recognized in the three and six months ended June 30, 2018 and 2017.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. FAIR VALUE DISCLOSURES – continued

Acquired Non-Financial Assets Measured at Fair Value

In April 2018, we entered into an agreement with Impax Laboratories, Inc. (now Amneal) to purchase the approved ANDAs for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for $2.3 million in cash (Note 8). At the same time, we entered into a supply agreement with Amneal under which we may elect to purchase the finished goods for one of the products for up to 17 months beginning October 1, 2019, under certain conditions. If we do elect to purchase the finished goods from Amneal for this period, we may be required to pay a milestone payment of up to $10.0 million upon launch, depending on the number of competitors selling the product at the time of launch. This milestone payment was determined to be contingent consideration and will be recognized when the contingency is resolved. When one of the approved ANDAs that have not yet been commercialized is launched, we could be required to pay a milestone of $25.0 million to Teva Pharmaceuticals (“Teva”), depending on the number of competitors selling the product at the time of launch. In addition, depending on the number of competitors selling the product one year after the launch date, we could be required to pay a second milestone of $15.0 million to Teva. These milestones are determined to be contingent liabilities and will be recognized if and when they are both estimable and probable. Because we believe that neither milestone is both estimable and probable, we did not record a contingent liability for the milestones. We made the $2.3 million cash payment using cash on hand and capitalized $0.1 million of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The $1.0 million acquired ANDA intangible assets were recorded at their relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the acquired ANDA intangible assets, we used the present value of the estimated cash flows related to the approved ANDAs, using discount rates of 10 to 15%. The acquired ANDAs will be amortized in full over their 10-year useful lives, and will be tested for impairment when events or circumstances indicate that the carrying value of the assets may not be recoverable. The $58 thousand of manufacturing equipment used to manufacture one of the products was recorded at its relative fair value, based on the estimated net book value of the equipment purchased. The equipment will be amortized in full over its 5-year useful life, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to June 30, 2018 and therefore no impairment loss was recognized for the six months ended June 30, 2018. The $1.3 million of in-process research and development was recorded at its relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the in-process research and development, we used the present value of the estimated cash flows related to the products, using a discount rate of 75%, reflective of the higher risk associated with these products. As the transaction was accounted for as an asset purchase, the $1.3 million of in-process research and development

was immediately recognized as research and development expense.

In April 2018, we entered into an agreement with IDT Australia, Limited to purchase the ANDAs for 23 previously-marketed generic drug products and API for four of the acquired products for $2.7 million in cash and a single-digit royalty on net profits from sales of one of the products (Note 8). We made the $2.7 million cash payment using cash on hand and capitalized $18 thousand of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The $2.5 million acquired ANDA intangible assets were recorded at their relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible assets, we used the present value of the estimated cash flows related to the product rights, using discount rates of 10% to 15%. The acquired ANDA intangible assets will be amortized in full over their 10-year useful lives, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to June 30, 2018 and therefore no impairment loss was recognized for the six months ended June 30, 2018. We also recorded $0.2 million of raw materials inventory, measured at fair value. The fair value of the raw materials inventory was determined based on the estimated replacement cost.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. FAIR VALUE DISCLOSURES – continued

In December 2017, we entered into an agreement with AstraZeneca AB and AstraZeneca UK Limited to purchase the right, title, and interest in the NDAs and the U.S. right to market Atacand, Atacand HCT, Arimidex, and Casodex, for $46.5 million in cash (Note 8). We also licensed these trademarks for use in the U.S. We made the $46.5 million cash payment with funds from our Term Loan (Note 3) and capitalized $0.2 million of costs directly related to the asset purchase. The agreement included a $3.0 million contingent payment due in early 2023 if the annual net sales of the Atacand and Atacand HCT products equals or exceeds certain threshold amounts in 2020, 2021, and 2022. Because we believe that the likelihood of meeting or exceeding the threshold amounts is not probable, we did not record a contingent liability in relation to the agreement. We accounted for this transaction as an asset purchase. The $46.7 million product rights intangible assets were recorded at their relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible assets, we used the present value of the estimated cash flows related to the product rights, using a discount rate of 10%. The product rights will be amortized in full over their 10-year useful lives, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to June 30, 2018 and therefore no impairment loss was recognized for the six months ended June 30, 2018.

In February 2017, we entered into an agreement with Cranford Pharmaceuticals, LLC to purchase a distribution license, trademark, and certain finished goods inventory for Inderal XL for $20.2 million in cash (Note 8). We made the $20.2 million cash payment using cash on hand and capitalized $40 thousand of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The $15.1 million product rights intangible asset was recorded at its relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible asset, we used the present value of the estimated cash flows related to the product rights, using a discount rate of 10%. The product rights will be amortized in full over its 10-year useful life, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to June 30, 2018 and therefore no impairment loss was recognized for the six months ended June 30, 2018. We also recorded $5.0 million of finished goods inventory. The fair value of the finished goods inventory was determined based on the estimated selling price to be generated from the finished goods, less costs to sell, including a reasonable margin.

In February 2017, we entered into an agreement with Holmdel Pharmaceuticals, LP to purchase the NDA, trademark, and certain finished goods inventory for InnoPran XL, including a license to an Orange Book listed patent, for $30.6 million in cash (Note 8). We made the $30.6 million cash payment using $30.0 million of funds from our former Line

of Credit and $0.6 million of cash on hand. We also capitalized $0.1 million of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The $19.0 million product rights intangible asset was recorded at its relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible asset, we used the present value of the estimated cash flows related to the product rights, using a discount rate of 10%. The product rights will be amortized in full over its 10-year useful life, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to June 30, 2018 and therefore no impairment loss was recognized for the six months ended June 30, 2018. We also recorded $11.6 million of finished goods inventory. The fair value of the finished goods inventory was determined based on the estimated selling price to be generated from the finished goods, less costs to sell, including a reasonable margin.

13. SUBSEQUENT EVENT

In August 2018, we acquired WellSpring Pharma Services, Inc. (“WellSpring”), a Canadian company that performs contract development and manufacturing of pharmaceutical products for a total purchase price of $18.0 million, subject to certain customary adjustments. As a result of the transaction, we acquired WellSpring’s pharmaceutical manufacturing facility, laboratory, and offices, current book of commercial business, as well as an organized workforce. We paid the purchase price from cash on hand.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes thereto included in Part I, Item 1 of this Form 10-Q quarterly report. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

EXECUTIVE OVERVIEW

ANI Pharmaceuticals, Inc. and its consolidated subsidiary, ANIP Acquisition Company (together, "ANI," the "Company," "we," "us," or "our") is an integrated specialty pharmaceutical company focused on delivering value to our customers by developing, manufacturing, and marketing high quality branded and generic prescription pharmaceuticals. We focus on niche and high barrier to entry opportunities including controlled substances, anti-cancer (oncolytics), hormones and steroids, and complex formulations. We have two pharmaceutical manufacturing facilities located in Baudette, Minnesota, which are capable of producing oral solid dose products, as well as liquids and topicals, controlled substances, and potent products that must be manufactured in a fully-contained environment.

Our strategy is to use our assets to develop, acquire, manufacture, and market branded and generic specialty prescription pharmaceuticals. By executing this strategy, we believe we will be able to continue to grow our business, expand and diversify our product portfolio, and create long-term value for our investors.

As of June 30, 2018, our products include both branded and generic pharmaceuticals, specifically:

Generic Products	**Branded Products**
Cholestyramine	Cortenema
Desipramine Hydrochloride	Inderal LA
Diphenoxylate Hydrochloride and Atropine Sulfate	Inderal XL
Erythromycin Ethylsuccinate	InnoPran XL

Esterified Estrogen with Methyltestosterone

Etodolac

Ezetimibe-Simvastatin

Felbamate

Fenofibrate

Flecainide

Fluvoxamine

Hydrocortisone Enema

Hydrocortisone Rectal Cream (1% and 2.5%)

Indapamide

Lithium Carbonate ER

Mesalamine Enema

Methazolamide

Metoclopramide Syrup

Nilutamide

Nimodipine

Opium Tincture

Oxycodone Capsules

Oxycodone Hydrochloride Oral Solution (5 mg/5 mL)

Oxycodone Hydrochloride Oral Solution (100 mg/5 mL)

Pindolol

Propafenone

Propranolol ER

Vancomycin

Lithobid

Reglan

Vancocin

We consider a variety of criteria in determining which products to develop, all of which influence the level of competition upon product launch. These criteria include:

- ***Formulation Complexity.*** Our development and manufacturing capabilities enable us to manufacture pharmaceuticals that are difficult to produce, including highly potent, extended release, combination, and low dosage products. This ability to manufacture a variety of complex products is a competitive strength that we intend to leverage in selecting products to develop or manufacture.

- ***Patent Status.*** We seek to develop products whose branded bioequivalents do not have long-term patent protection or existing patent challenges.

- ***Market Size.*** When determining whether to develop or acquire an individual product, we review the current and expected market size for that product at launch, as well as forecasted price erosion upon conversion from branded to generic pricing. We endeavor to manufacture products with sufficient market size to enable us to enter the market with a strong likelihood of being able to price our products both competitively and at a profit.

- ***Profit Potential.*** We research the availability and cost of active pharmaceutical ingredients in determining which products to develop or acquire. In determining the potential profit of a product, we forecast our anticipated market share, pricing, including the expected price erosion caused by competition from other generic manufacturers, and the estimated cost to manufacture the products.

- ***Manufacturing.*** We generally seek to develop and manufacture products at our own manufacturing plants in order to optimize the utilization of our facilities, ensure quality control in our products, and maximize profit potential.

- ***Competition.*** When determining whether to develop or acquire a product, we research existing and expected competition. We seek to develop products for which we can obtain sufficient market share, and may decline to develop a product if we anticipate significant competition. Our specialized manufacturing facilities provide a means of entering niche markets, such as hormone therapies, in which fewer generic companies are able to compete.

Recent Developments

In June 2018, we launched Cholestyramine for Oral Suspension. Cholestyramine for Oral Suspension USP is indicated as adjunctive therapy to diet for the reduction of elevated serum cholesterol in patients with primary hypercholesterolemia (elevated low density lipoprotein “LDL” cholesterol) who do not respond adequately to diet. It is also indicated for the relief of pruritus associated with partial biliary obstruction.

In April 2018, we entered into an agreement with Impax Laboratories, Inc. (now Amneal Pharmaceuticals, Inc., or "Amneal") to purchase the approved Abbreviated New Drug Applications ("ANDAs") for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for $2.3 million in cash up front. The transaction closed in May 2018 and we made the $2.3 million payment using cash on hand.

At the same time, we entered into a supply agreement with Amneal under which we may elect to purchase the finished goods for one of the products for up to 17 months beginning October 1, 2019, under certain conditions. If we do elect to purchase the finished goods from Amneal for this period, we may be required to pay a milestone payment of up to $10.0 million upon launch, depending on the number of competitors selling the product at the time of launch.

In April 2018, we entered into an agreement with IDT Australia, Limited to purchase the ANDAs for 23 previously-marketed generic drug products and active pharmaceutical ingredient ("API") of four of the acquired products for $2.7 million in cash and a single-digit royalty on net profits from sales of one of the products. The transaction closed in April 2018 and we made the $2.7 million payment using cash on hand.

In April 2018, we received approval from the Food and Drug Administration ("FDA") for our ANDA for Morphine Sulfate Oral Solution 10mg/5mL, 20mg/5mL and 100mg/5mL. Morphine Sulfate Oral Solution is indicated for the management of acute and chronic pain severe enough to require an opioid analgesic and for which alternative treatments are inadequate. Morphine Sulfate Oral Solution 100 mg per 5 mL (20 mg/mL) is indicated for the relief of acute and chronic pain in opioid-tolerant patients.

Cortrophin Gel Re-commercialization Update

In the second quarter of 2018, we continued to advance the manufacture of Corticotropin API, completing the manufacture of four successful pilot-scale API batches and initiating the manufacture of commercial scale batches of Corticotropin API. We are on track to initiate API process validation and registration batch manufacturing in the first quarter of 2019.

We have continued to manufacture Cortrophin Gel drug product, which has been placed on stability. The work has been valuable in identifying critical process parameters and manufacturing and quality attributes of the drug product. We intend to initiate commercial scale drug product manufacturing activities this year.

Following our request for a Type C meeting with the FDA in the fourth quarter of 2017, the FDA granted the meeting and provided an initial response in March 2018. Further oral and written communications with the FDA occurred in the second quarter of 2018. Based on these communications, the FDA's expectations for our supplemental New Drug Application ("NDA") filing have been further defined and incorporated into our regulatory plan. The FDA feedback has not fundamentally changed our regulatory strategy and has not altered the timeline for the project. As a result, we expect to file a supplemental NDA by the first quarter of 2020.

Vancocin Oral Solution Update

We are currently advancing a commercialization effort for Vancocin oral solution. Following completion of ongoing formulation and manufacturing optimization, we intend to file a prior approval supplement ("PAS") in September 2018. This product will be manufactured at our site in Baudette, Minnesota.

GENERAL

The following table summarizes our results of operations for the periods indicated:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	$ 47,268	$ 44,764	$ 93,751	$ 81,392
Operating expenses				
Cost of sales (exclusive of depreciation and amortization)	16,593	21,122	37,286	37,508
Research and development	5,137	2,167	7,239	3,785
Selling, general, and administrative	9,962	7,380	18,918	14,673
Depreciation and amortization	8,313	7,101	16,508	13,807
Operating income	7,263	6,994	13,800	11,619
Interest expense, net	(3,730)	(3,025)	(7,364)	(5,957)
Other expense, net	(30)	(19)	(91)	(37)
Income before provision for income taxes	3,503	3,950	6,345	5,625
Provision for income taxes	(726)	(1,269)	(1,318)	(1,792)
Net income	$ 2,777	$ 2,681	$ 5,027	$ 3,833

The following table sets forth, for all periods indicated, items in our unaudited interim condensed consolidated statements of operations as a percentage of net revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses				
Cost of sales (exclusive of depreciation and amortization)	35.1 %	47.2 %	39.8 %	46.1 %
Research and development	10.9 %	4.8 %	7.7 %	4.7 %
Selling, general, and administrative	21.1 %	16.5 %	20.2 %	18.0 %
Depreciation and amortization	17.6 %	15.9 %	17.6 %	16.9 %
Operating income	15.3 %	15.6 %	14.7 %	14.3 %
Interest expense, net	(7.8)%	(6.8)%	(7.9)%	(7.3)%
Other expense, net	(0.1)%	- %	(0.1)%	- %
Income before provision for income taxes	7.4 %	8.8 %	6.7 %	7.0 %
Provision for income taxes	(1.5)%	(2.8)%	(1.4)%	(2.2)%

Net income	5.9	%	6.0	%	5.3	%	4.8	%

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

Net Revenues

(in thousands)	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Generic pharmaceutical products	$ 30,202	$ 31,490	$(1,288)	(4.1	)%
Branded pharmaceutical products	10,530	11,671	(1,141)	(9.8	)%
Contract manufacturing	1,679	1,529	150	9.8	%
Royalty and other income	4,857	74	4,783	NM	(1)
Total net revenues	$ 47,268	$ 44,764	$2,504	5.6	%

(1) Not Meaningful

We derive substantially all of our revenues from sales of generic and branded pharmaceutical products, contract manufacturing, and contract services, which include product development services, laboratory services, and royalties on net sales of certain products. We adopted the Financial Accounting Standards Boards (“FASB’s”) guidance for revenue recognition for contracts on January 1, 2018, using the modified retrospective method. The adoption of this guidance did not have a material impact on our net revenues.

Net revenues for the three months ended June 30, 2018 were $47.3 million compared to $44.8 million for the same period in 2017, an increase of $2.5 million, or 5.6%, primarily as a result of the following factors:

- Net revenues for generic pharmaceutical products were $30.2 million during the three months ended June 30, 2018, a decrease of 4.1% compared to $31.5 million for the same period in 2017. The primary reason for the decrease was volume decreases for Fenofibrate and sales decreases for Propranolol ER driven by price, tempered by the impact a full quarter of sales of Diphenoxylate Hydrochloride and Atropine Sulfate and of the second quarter 2018 launch of Ezetimibe-Simvastatin.

As described in Note 11, *Commitments and Contingencies,* in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we market EEMT and Opium Tincture without FDA approved NDAs. The FDA's policy with respect to the continued marketing of unapproved products appears in the FDA's September 2011 Compliance Policy Guide Sec. 440.100 titled “Marketed New Drugs without Approved NDAs or ANDAs. Under this policy, the FDA has stated that it will follow a risk-based approach with regard to enforcement against marketing of unapproved products. The FDA evaluates whether to initiate enforcement

action on a case-by-case basis, but gives higher priority to enforcement action against products in certain categories, such as those with potential safety risks or that lack evidence of effectiveness. While we believe that, so long as we comply with applicable manufacturing standards, the FDA will not take action against us under the current enforcement policy, we can offer no assurances that the FDA will continue this policy or not take a contrary position with any individual product or group of products. Our combined net revenues for these products for the three months ended June 30, 2018 and 2017 were $6.5 million and $6.7 million, respectively.

- Net revenues for branded pharmaceutical products were $10.5 million during the three months ended June 30, 2018, a decrease of 9.8% compared to $11.7 million for the same period in 2017. The primary reason for this decrease was lower revenue from Inderal LA due to decreased unit sales, tempered by sales of Inderal XL and InnoPran XL, both of which were re-launched under our label in the first quarter of 2018.

- Contract manufacturing revenues were $1.7 million during the three months ended June 30, 2018, an increase of 9.8% compared to $1.5 million for the same period in 2017, due to timing of orders from contract manufacturing customers in the period. As described in Note 11, *Commitments and Contingencies,* in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we contract manufacture a group of products on behalf of a customer that are marketed by that customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our contract manufacturing revenues for the group of unapproved products for the three months ended June 30, 2018 and 2017 were $0.6 million and $0.4 million, respectively.

- Royalty and other income were $4.9 million during the three months ended June 30, 2018, an increase of $4.8 million from $0.1 million for the same period in 2017, due primarily to royalties on sales of Atacand, Atacand HCT, Casodex, and Arimidex. We acquired the right, title, and interest in the NDAs and the U.S. right to market these products in December 2017. In addition, during the three months ended June 30, 2018, we recognized S0.9 million of royalties from a license for patent rights initially owned by Cell Genesys, which merged with BioSante in 2009. The royalties stem from sales and milestones related to the Yescarta® product.

As described in Note 11, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we receive royalties on the net sales of a group of contract-manufactured products, which are marketed by the customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our royalties on the net sales of these unapproved products were less than 1% of total revenues for the three months ended June 30, 2018 and 2017.

Cost of Sales (Excluding Depreciation and Amortization)

(in thousands)	Three Months Ended June 30,			
	2018	2017	Change	% Change
Cost of sales (excl. depreciation and amortization)	$ 16,593	$ 21,122	$(4,529)	(21.4)%

Cost of sales consists of direct labor, including manufacturing and packaging, active and inactive pharmaceutical ingredients, freight costs, packaging components, and royalties related to profit-sharing arrangements. Cost of sales does not include depreciation and amortization expense, which is reported as a separate component of operating expenses on our unaudited interim condensed consolidated statements of operations.

For the three months ended June 30, 2018, cost of sales decreased to $16.6 million from $21.1 million for the same period in 2017, a decrease of $4.5 million or 21.4%, primarily due to lower sales of products subject to profit-sharing

arrangements. Cost of sales as a percentage of net revenues decreased to 35.1% during the three months ended June 30, 2018, from 47.2% during same period in 2017, primarily as a result of increased royalty income and lower sales of products subject to profit-sharing arrangements.

We source the raw materials for our products, including APIs from both domestic and international suppliers. Generally, only a single source of API is qualified for use in each product due to the cost and time required to validate a second source of supply. Changes in API suppliers usually must be approved by the FDA, which can take 18 months or longer. As a result, we are dependent upon our current vendors to reliably supply the API required for ongoing product manufacturing. In addition, certain of our API for our drug products, including those that are marketed without approved NDAs or ANDAs, are sourced from international suppliers. From time to time, we have experienced temporary disruptions in the supply of certain of such imported APIs due to FDA inspections.

During the three months ended June 30, 2018, we purchased 40% of our inventory from three suppliers. As of June 30, 2018, the amounts payable to these suppliers was immaterial. In the three months ended June 30, 2017, we purchased approximately 27% of our inventory (exclusive of inventory acquired in asset purchases as described in Note 12, *Fair Value Disclosures*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report) from two suppliers.

In order to manufacture Opium Tincture, Oxycodone capsules, and Oxycodone oral solution, we must receive approval from the Drug Enforcement Agency (“DEA”) for a quota to purchase the amount of opium and oxycodone needed to manufacture the respective products. Without approved quotas from the DEA, we would not be able to purchase these ingredients from our suppliers. As a result, we are dependent upon the DEA to annually approve a sufficient quota of API to support our continued manufacture of Opium Tincture, Oxycodone capsules, and Oxycodone oral solution.

Other Operating Expenses

(in thousands)	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Research and development	$ 5,137	$ 2,167	$2,970	137.1	%
Selling, general, and administrative	9,962	7,380	2,582	35.0	%
Depreciation and amortization	8,313	7,101	1,212	17.1	%
Total other operating expenses	$ 23,412	$ 16,648	$6,764	40.6	%

Other operating expenses consist of research and development costs, selling, general, and administrative expenses, and depreciation and amortization.

For the three months ended June 30, 2018, other operating expenses increased to $23.4 million from $16.6 million for the same period in 2017, an increase of $6.8 million, or 40.6%, primarily as a result of the following factors:

- Research and development expenses increased from $2.2 million to $5.1 million, an increase of 137.1%, due to timing of work on development projects, primarily the Cortrophin gel re-commercialization project and work on the ANDAs purchased in 2014 and 2015, as well as $1.3 million of expense related to in-process research and development acquired in the asset purchase with Impax Laboratories, Inc. We anticipate that research and development costs will continue to be greater in 2018 than in 2017, in support of our strategy to expand our product portfolio and as we continue to focus on the development of our Cortrophin product.

- Selling, general, and administrative expenses increased from $7.4 million to $10.0 million, an increase of 35.0%, primarily due to increases in personnel and related costs. We anticipate that selling, general, and administrative expenses will continue to be greater in 2018 than in 2017 as we support anticipated additional revenue growth.

- Depreciation and amortization increased from $7.1 million to $8.3 million, an increase of 17.1%, primarily due to the amortization of the rights, title, and interest in the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, which were acquired in December 2017. We anticipate that depreciation and amortization expense will continue to be greater in 2018 than in 2017 as a result of our amortization of the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, acquired in late December 2017 and the amortization of the ANDAs acquired in April and May 2018.

Other Expense, net

(in thousands)	Three Months Ended June 30,			
	2018	2017	Change	% Change
Interest expense, net	$ (3,730)	$ (3,025)	$ (705)	23.3 %
Other expense, net	(30)	(19)	(11)	57.9 %
Total other expense, net	$ (3,760)	$ (3,044)	$ (716)	23.5 %

For the three months ended June 30, 2018, we recognized other expense of $3.8 million versus other expense of $3.0 million for the same period in 2017, an increase of $0.7 million. Interest expense, net for 2018 consists primarily of interest expense on our convertible debt and interest expense on borrowings under our term loan. Interest expense, net for 2017 consisted primarily of interest expense on our convertible debt and interest expense on borrowings under our former line of credit. For the three months ended June 30, 2018 and 2017, there was $0.2 million and $0.1 million of interest capitalized into construction in progress, respectively.

Provision for Income Taxes

(in thousands)	Three Months Ended June 30,			
	2018	2017	Change	% Change
Provision for income taxes	$ (726)	$ (1,269)	$ 543	(42.8)%

Our provision for income taxes consists of current and deferred components, which include changes in our deferred tax assets, our deferred tax liabilities, and our valuation allowance.

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate expected for the entire year plus the effects of certain discrete items occurring in the quarter. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in temporary and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in temporary differences, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected

to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they occur. Our estimated annual effective tax rate changes throughout the year as our on-going estimates of pre-tax income, changes in temporary differences, and permanent differences are revised, and as discrete items occur.

For the three months ended June 30, 2018, we recognized income tax expense of $0.7 million, versus $1.3 million for the same period in 2017, a decrease of $0.5 million. The effective tax rate for the three months ended June 30, 2018 was 20.7% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in the second quarter. Our effective tax rate for the three months ended June 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the three months ended June 30, 2017 was 32.1% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017 plus the effects of certain discrete items occurring in the second quarter. Our effective tax rate for the three months ended June 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Net Revenues

(in thousands)	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Generic pharmaceutical products	$ 53,429	$ 58,061	$(4,632)	(8.0)	%
Branded pharmaceutical products	27,125	19,711	7,414	37.6	%
Contract manufacturing	2,624	3,322	(698)	(21.0)	%
Royalty and other income	10,573	298	10,275	NM	(1)
Total net revenues	$ 93,751	$ 81,392	$12,359	15.2	%

(1) Not Meaningful

Net revenues for the six months ended June 30, 2018 were $93.8 million compared to $81.4 million for the same period in 2017, an increase of $12.4 million, or 15.2%, primarily as a result of the following factors:

- Net revenues for generic pharmaceutical products were $53.4 million during the six months ended June 30, 2018, a decrease of 8.0% compared to $58.1 million for the same period in 2017. The primary reason for the decrease was volume decreases for Fenofibrate and sales decreases for Propranolol ER driven by price, tempered by the impact of the second quarter 2017 launch of Diphenoxylate Hydrochloride and Atropine Sulfate and the second quarter 2018 launch of Ezetimibe-Simvastatin.

As described in Note 11, *Commitments and Contingencies,* in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we market EEMT and Opium Tincture without FDA approved NDAs. The FDA's policy with respect to the continued marketing of unapproved products appears in the FDA's September 2011 Compliance Policy Guide Sec. 440.100 titled “Marketed New Drugs without Approved NDAs or Abbreviated New Drug Applications ANDAs.” Under this policy, the FDA has stated that it will

follow a risk-based approach with regard to enforcement against marketing of unapproved products. The FDA evaluates whether to initiate enforcement action on a case-by-case basis, but gives higher priority to enforcement action against products in certain categories, such as those with potential safety risks or that lack evidence of effectiveness. While we believe that, so long as we comply with applicable manufacturing standards, the FDA will not take action against us under the current enforcement policy, we can offer no assurances that the FDA will continue this policy or not take a contrary position with any individual product or group of products. Our combined net revenues for these products for the six months ended June 30, 2018 and 2017 were $12.1 million and $12.9 million, respectively.

- Net revenues for branded pharmaceutical products were $27.1 million during the six months ended June 30, 2018, an increase of 37.6% compared to $19.7 million for the same period in 2017. The primary reason for the increase was sales of Inderal XL and InnoPran XL, both of which were acquired in the first quarter of 2017, and which were re-launched under our label in the first quarter of 2018.

- Contract manufacturing revenues were $2.6 million during the six months ended June 30, 2018, a decrease of 21.0% compared to $3.3 million for the same period in 2017, due to timing of orders from contract manufacturing customers in the period. As described in Note 11, *Commitments and Contingencies,* in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we contract manufacture a group of products on behalf of a customer that are marketed by that customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our contract manufacturing revenues for the group of unapproved products for the six months ended June 30, 2018 and 2017 were $1.0 million and $0.9 million, respectively.

- Royalty and other income were $10.6 million during the six months ended June 30, 2017, an increase of $10.3 million from $0.3 million for the same period in 2017, due primarily to royalties on sales of Atacand, Atacand HCT, Casodex, and Arimidex. We acquired the right, title, and interest in the NDAs and the U.S. right to market these products in December 2017. In addition, during the six months ended June 30, 2018, we recognized S0.9 million of royalties from a license for patent rights initially owned by Cell Genesys, which merged with BioSante in 2009. The royalties stem from sales and milestones related to the Yescarta® product.

As described in Note 11, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we receive royalties on the net sales of a group of contract-manufactured products, which are marketed by the customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our royalties on the net sales of these unapproved products were less than 1% of total revenues for the six months ended June 30, 2018 and 2017.

Cost of Sales (Excluding Depreciation and Amortization)

(in thousands)	Six Months Ended June 30,			
	2018	2017	Change	% Change
Cost of sales (excl. depreciation and amortization)	$ 37,286	$ 37,508	$ (222)	(0.6)%

For the six months ended June 30, 2018, cost of sales decreased to S37.3 million from $37.5 million for the same period in 2017, a decrease of $0.2 million or 0.6%, primarily due to lower sales of products subject to profit-sharing arrangements, partially offset by $5.6 million of costs of sales related to the excess of fair value over cost on Inderal XL and InnoPran XL inventory and the write-off of remaining inventory acquired as part of the acquisition when we re-launched the products under our own label during the first quarter of 2018. Cost of sales as a percentage of net revenues decreased to 39.8% during the six months ended June 30, 2018, from 46.1% during same period in 2017, primarily as a change in product mix towards higher-margin brand products and lower sales of products subject to profit-sharing arrangements, tempered by the $5.6 million net impact on cost of sales (6.0% as a percent of net revenues) of the excess of fair value over the cost for Inderal XL and InnoPran XL inventory sold and written off during the period.

During the six months ended June 30, 2018, we purchased 15% of our inventory from one supplier. As of June 30, 2018, the amounts payable to this supplier was immaterial. During the six months ended June 30, 2017, we purchased 18% of our inventory (exclusive of inventory acquired in asset purchases as described in Note 12, *Fair Value Disclosures*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report) from one supplier.

Other Operating Expenses

(in thousands)	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Research and development	$ 7,239	$ 3,785	$3,454	91.3	%
Selling, general, and administrative	18,918	14,673	4,245	28.9	%
Depreciation and amortization	16,508	13,807	2,701	19.6	%
Total other operating expenses	$ 42,665	$ 32,265	$10,400	32.2	%

For the six months ended June 30, 2018, other operating expenses increased to $42.7 million from $32.3 million for the same period in 2017, an increase of $10.4 million, or 32.2%, primarily as a result of the following factors:

- Research and development expenses increased from $3.8 million to $7.2 million, an increase of 91.3%, due to timing of work on development projects, primarily the Cortrophin gel re-commercialization project and work on the ANDAs purchased in 2014 and 2015, as well as $1.3 million of expense related to in-process research and development acquired in the asset purchase with Impax Laboratories, Inc. We anticipate that research and development costs will continue to be greater in 2018 than in 2017, in support of our strategy to expand our product portfolio and as we continue to focus on the development of our Cortrophin product.

- Selling, general, and administrative expenses increased from $14.7 million to $18.9 million, an increase of 28.9%, primarily due to increases in personnel and related costs. We anticipate that selling, general, and administrative expenses will continue to be greater in 2018 than in 2017 as we support anticipated additional revenue growth.

- Depreciation and amortization increased from $13.8 million to $16.5 million, an increase of 19.6%, primarily due to the amortization of the rights, title, and interest in the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, which were acquired in December 2017. We anticipate that depreciation and amortization expense will continue to be greater in 2018 than in 2017 as a result of our amortization of the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, acquired in late December 2017 and the amortization of the ANDAs acquired in April and May 2018.

Other Expense, net

(in thousands)	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Interest expense, net	$ (7,364)	$ (5,957)	$(1,407)	23.6	%
Other expense, net	(91)	(37)	(54)	145.9	%
Total other expense, net	$ (7,455)	$ (5,994)	$(1,461)	24.4	%

For the six months ended June 30, 2018, we recognized other expense of $7.5 million versus other expense of $6.0 million for the same period in 2017, an increase of $1.5 million. Interest expense, net for 2018 consists primarily of interest expense on our convertible debt and interest expense on borrowings under our term loan. Interest expense, net for 2017 consisted primarily of interest expense on our convertible debt and interest expense on borrowings under our former line of credit. For the six months ended June 30, 2018 and 2017, there was $0.4 million and $0.2 million of interest capitalized into construction in progress, respectively.

Provision for Income Taxes

(in thousands)	Six Months Ended June 30,			
	2018	2017	Change	% Change
Provision for income taxes	$ (1,318)	$ (1,792)	$ 474	(26.5)%

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate expected for the entire year plus the effects of certain discrete items occurring in the quarter. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in temporary and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in temporary differences, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they occur. Our estimated annual effective tax rate changes throughout the year as our on-going estimates of pre-tax income, changes in temporary differences, and permanent differences are revised, and as discrete items occur.

For the six months ended June 30, 2018, we recognized income tax expense of $1.3 million, versus $1.8 million for the same period in 2017, a decrease of $0.5 million. The effective tax rate for the six months ended June 30, 2018 was 20.8% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in 2018. Our effective tax rate for the six months ended June 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the six months ended June 30, 2017 was 31.9% for the year ending December 31, 2017.

The effective tax rate for the six months ended June 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

LIQUIDITY AND CAPITAL RESOURCES

The following table highlights selected liquidity and working capital information from our balance sheets:

(in thousands)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$54,994	$ 31,144
Accounts receivable, net	56,115	58,788
Inventories, net	37,756	37,727
Prepaid income taxes	1,734	1,162
Prepaid expenses and other current assets	1,768	2,784
Total current assets	$152,367	$ 131,605
Accounts payable	$7,949	$ 3,630
Accrued expenses and other	1,863	1,571
Accrued royalties	8,219	12,164
Accrued compensation and related expenses	1,410	2,306
Accrued government rebates	5,256	7,930
Returned goods reserve	9,764	8,274
Current component of long-term borrowing, net of deferred financing costs	5,217	3,353
Total current liabilities	$39,678	$ 39,228

At June 30, 2018, we had $55.0 million in unrestricted cash and cash equivalents. At December 31, 2017, we had $31.1 million in unrestricted cash and cash equivalents. We generated $31.5 million of cash from operations in the six months ended June 30, 2018. In December 2017, we entered into a Credit Agreement with Citizens Bank, N.A. that includes a $75.0 million five-year Term Loan, as well as a $50.0 million Revolving Credit Facility, which remains undrawn at June 30, 2018. In April 2018, we entered into an interest rate swap to manage our exposure to the variable interest rate on our Term Loan. The interest rate swap hedges the variable cash flows associated with the Term Loan borrowings under the Term Loan, effectively providing a fixed rate of interest throughout the life of the Term Loan. In April 2018, we purchased from IDT Australia, Limited the ANDAs for 23 previously-marketed generic drug products and API for four of the acquired products for $2.7 million in cash and a single-digit royalty on net profits from sales of one of the products. We made the $2.7 million payment using cash on hand. In May 2018, we purchased from Impax Laboratories, Inc. (now Amneal) the approved ANDAs for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for $2.3 million in cash. We made the $2.3 million payment using cash on hand.

The Tax Cuts and Jobs Act, which was enacted on December 22, 2017, includes a number of changes to existing U.S. tax laws, most notably the reduction of the U.S. corporate income tax rate from 35% to 21%, beginning in 2018. We

anticipate that our cash tax payments will decrease in 2018 as a result of this reduction in income tax rate.

We believe that our financial resources, consisting of current working capital, anticipated future operating revenue, and our revolving line of credit facility, will be sufficient to enable us to meet our working capital requirements for at least the next 12 months.

The following table summarizes the net cash and cash equivalents provided by/(used in) operating activities, investing activities, and financing activities for the periods indicated:

(in thousands)	Six Months Ended June 30,	
	2018	2017
Operating Activities	$ 31,523	$ 6,530
Investing Activities	$ (8,533)	$ (55,398)
Financing Activities	$ 861	$ 29,872

Net Cash Provided by Operations

Net cash provided by operating activities was $31.5 million for the six months ended June 30, 2018, compared to $6.5 million during the same period in 2017, an increase of $25.0 million. This increase was principally due to changes in working capital, as well as increased sales volume and corresponding gross profit dollars.

Net Cash Used in Investing Activities

Net cash used in investing activities for the six months ended June 30, 2018 was $8.5 million, principally due to the April and May 2018 asset acquisition of ANDAs for $5.2 million and $3.4 million of capital expenditures during the period. Net cash used in investing activities for the six months ended June 30, 2017 was $55.4 million, principally due to the February 2017 payment of $20.2 million for the asset acquisition of the product rights for Inderal XL, the February 2017 payment of $30.6 million for the asset acquisition of the product rights for InnoPran XL, and $4.4 million of capital expenditures during the period, primarily related to new equipment to expand our manufacturing capability as our product lines continue to grow.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $0.9 million for the six months ended June 30, 2018, principally due to $2.6 million of proceeds from stock option exercises, partially offset by our $0.9 million of payments on the Term Loan and $0.2 million of debt issuance fees paid in relation to the Term Loan. Net cash provided by financing activities was $29.9 million for the six months ended June 30, 2017, principally due to the $30.0 million draw on the Citizens Agreement Line of Credit.

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CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires us 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 our unaudited interim condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, accruals for chargebacks, administrative fees and rebates, returns and other allowances, allowance for inventory obsolescence, accruals for contingent liabilities and litigation, fair value of long-lived assets, income tax provision, deferred taxes and valuation allowance, purchase price allocations, and the depreciable and amortizable lives of long-lived assets.

A summary of our significant accounting policies is included in Item 8. Consolidated Financial Statements, Note 1, *Description of Business and Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 31, 2017. Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often requiring the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2017.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A discussion of the recently issued accounting pronouncements is described in Note 1, *Business, Presentation, and Recent Accounting Pronouncements*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report and is incorporate herein by reference.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2018 and December 31, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risks include interest rate risk, equity risk, foreign currency exchange rate risk, commodity price risk, and other relevant market rate or price risks. Of these risks, interest rate risk and equity risk could have a significant impact on our results of operations.

As of June 30, 2018, our largest debt obligation was related to our Notes. In order to reduce the potential equity dilution that would result upon conversion of the Senior Convertible Notes issued in December 2014, we entered into note hedge transactions with a financial institution affiliated with one of the underwriters of the Senior Convertible Note offering. The note hedge transactions are expected generally, but not guaranteed, to reduce the potential dilution to our common stock and/or offset the cash payments we are required to make in excess of the principal amount upon any conversion of Senior Convertible Notes, in the event that the market price per share of our common stock, as measured under the terms of the Convertible Note Hedge Transactions, is greater than the conversion price of the Senior Convertible Notes, which is initially approximately $69.48. In addition, in order to partially offset the cost of the note hedge transactions, we issued warrants to the hedge counterparty to purchase approximately 2.1 million shares of our common stock at a strike price of $96.21. The warrants would separately have a dilutive effect to the extent that the market value per share of our common stock exceeds the strike price of the warrants. In addition, non-performance by the counterparties under the hedge transactions would potentially expose us to dilution of our common stock to the extent our stock price exceeds the conversion price.

Interest on the Notes accrues at a fixed rate of 3.0% on the outstanding principal amount of the Notes and is paid semi-annually every December 1st and June 1st until the Notes mature on December 1, 2019. Since the interest rate is fixed, we have no interest-rate market risk related to the Notes. However, if our stock price increases, the fair value of our Notes, and their likelihood of being converted, will change accordingly. As a result, we face equity risk in relation to our Notes.

On December 29, 2017, we entered into our five-year Credit Agreement with Citizens Bank, N.A. The Credit Agreement is comprised of a $75.0 million five-year Term Loan and a $50.0 million Revolving Credit Facility. Amounts drawn bear an interest rate equal to, at our option, either a LIBOR rate plus 1.50% to 2.25% per annum, depending on our total leverage ratio or an alternative base rate plus an applicable base rate margin, which varies within a range of 0.50% to 1.25%, depending our total leverage ratio. We will incur a commitment fee at a rate per annum that varies within a range of 0.25% to 0.35%, depending on our leverage ratio. In April 2018, we entered into an interest rate swap to manage our exposure to the variable interest rate on our Term Loan. The interest rate swap hedges the variable cash flows associated with the Term Loan borrowings under the Term Loan, effectively providing a fixed rate of interest throughout the life of the Term Loan. As a result of the interest rate swap, our exposure to interest rate volatility is minimized.

We are exposed to risks associated with changes in interest rates. The returns from certain of our cash and cash equivalents will vary as short-term interest rates change. A 100 basis-point adverse movement (decrease) in short-term interest rates would decrease the interest income earned on our cash balance in the three and six months ended June 30, 2018 by approximately $5 thousand.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management has carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2018. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 11, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, which is incorporated into this item by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, please carefully consider the factors described in our most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2017 under the heading "Part I — Item 1A. Risk Factors." The risks described are not the only risks facing us. Additional risks and uncertainties not currently known to us, or that our management currently deems to be immaterial, also may adversely affect our business, financial condition, and/or operating results. There have been no material changes to those risk factors since their disclosure in our most recent Annual Report on Form 10-K.

Item 2. Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

The following table contains information for shares of common stock repurchased and acquired from employees in lieu of amounts required to satisfy tax withholding requirements upon vesting of the employees' restricted stock during the three months ended June 30, 2018:

(in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or approximate dollar value) of Shares (or units) that May Yet be Purchased Under the Plans or Programs
April 1 - April 30, 2018	5	$ 58.39	-	$ -
May 1 - May 31, 2018	2	$ 61.68	-	$ -
June 1 - June 30, 2018	-	$ -	-	$ -
Total	7	$ 59.46	-	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

In August 2018, we acquired WellSpring Pharma Services, Inc. (“WellSpring”), a Canadian company that performs contract development and manufacturing of pharmaceutical products for a total purchase price of $18.0 million, subject to certain customary adjustments. As a result of the transaction, we acquired WellSpring’s pharmaceutical manufacturing facility, laboratory, and offices, current book of commercial business, as well as an organized workforce. We paid the purchase price from cash on hand.

Item 6. Exhibits

The exhibits listed in the Index to Exhibits, which is incorporated herein by reference, are filed or furnished as part of this Quarterly Report on Form 10-Q.

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANI Pharmaceuticals, Inc.
(Registrant)

Date: August 7, 2018 By: /s/ Arthur S. Przybyl
Arthur S. Przybyl
President and
Chief Executive Officer
(principal executive officer)

Date: August 7, 2018 By: /s/ Stephen P. Carey
Stephen P. Carey
Vice President, Finance and
Chief Financial Officer
(principal financial officer)