ELITE PHARMACEUTICALS INC /NV/
Form 10-Q
November 14, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period ended to

Commission File Number: 001-15697

ELITE PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Nevada	22-3542636
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
165 Ludlow Avenue, Northvale, New Jersey	07647
(Address of principal executive offices)	(Zip Code)

(201) 750-2646
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 4, 2013, the issuer had outstanding 507,937,469 shares of common stock, $0.001 par value (exclusive of 100,000 shares held in treasury).

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	March 31, 2013 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 766,201	$ 369,023
Accounts receivable (net of allowance for doubtful accounts of -0-)	635,959	665,154
Inventories (net of reserve of -0- and $93,338, respectively)	1,719,673	1,358,146
Prepaid expenses and other current assets	156,916	151,051
Total Current Assets	3,278,749	2,543,374
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $5,283,619 and $5,068,522, respectively	3,940,211	4,028,943
INTANGIBLE ASSETS net of accumulated amortization of $-0-	6,314,004	694,426
OTHER ASSETS		
Investment in Novel Laboratories, Inc.	3,329,322	3,329,322
Security deposits	14,314	14,314
Restricted cash debt service for EDA bonds	295,462	267,820
EDA bond offering costs, net of accumulated amortization of $114,608 and $107,519, respectively	239,845	246,934
Total Other Assets	3,878,943	3,858,390
TOTAL ASSETS	$ 17,411,907	$ 11,125,133

The accompanying notes are an integral part of the condensed consolidated financial statements

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	March 31, 2013 (Audited)
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
EDA bonds payable	$ 3,385,000	$ 3,385,000
Short term loans and current portion of long-term debt	2,916	6,296
Convertible Note Payable (net of debt discount of $4,219,292 and -0-, respectively)	5,780,708	-0-
Related Party Line of Credit	600,000	600,000
Accounts payable and accrued expenses	1,925,375	1,325,126
Deferred revenues	13,333	13,333
Preferred share derivative interest payable	16,365	27,500
Total Current Liabilities	11,723,697	5,357,255
LONG TERM LIABILITIES		
Deferred revenues	145,556	152,223
Other long term liabilities	96,078	91,571
Derivative liability preferred shares	203,008	6,334,621
Derivative liability warrants	11,095,970	7,862,848
Total Long Term Liabilities	11,540,612	14,441,263
TOTAL LIABILITIES	23,264,309	19,798,518
STOCKHOLDERS' DEFICIT		
Common stock par value $0.001, Authorized 690,000,000 shares. Issued 494,811,263 shares and 374,493,959 shares, respectively. Outstanding 494,711,263 shares and 374,393,959 shares, respectively	494,812	374,495
Additional paid-in-capital	131,106,847	119,690,336
Accumulated deficit	(137,147,220)	(128,431,375)
Treasury stock at cost (100,000 common shares)	(306,841)	(306,841)
TOTAL STOCKHOLDERS' DEFICIT	(5,852,402)	(8,673,385)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 17,411,907	$ 11,125,133

The accompanying notes are an integral part of the condensed consolidated financial statements

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED September 30, 2013	2012	SIX MONTHS ENDED September 30, 2013	2012
REVENUES				
Manufacturing Fees	$ 921,347	$ 466,020	$ 1,464,780	$ 845,716
Royalties & Profit Splits	231,578	154,168	404,833	282,663
Lab Fee Revenues	5,972	14,329	10,972	84,693
Total Revenues	1,158,897	634,517	1,880,585	1,213,072
COSTS OF REVENUES	616,635	479,631	1,195,647	933,995
Gross Profit	542,262	154,886	684,938	279,077
OPERATING EXPENSES				
Research and Development	854,777	228,475	1,424,268	425,357
General and Administrative	272,561	401,174	649,018	766,135
Non-cash compensation through issuance of stock options	18,937	15,133	28,424	21,246
Depreciation and Amortization	82,567	25,372	245,399	67,370
Total Operating Expenses	1,228,842	670,154	2,347,109	1,280,108
(LOSS) FROM OPERATIONS	(686,580)	(515,268)	(1,662,171)	(1,001,031)
OTHER INCOME / (EXPENSES)				
Interest expense, net	(255,945)	(61,247)	(330,723)	(119,784)
Change in fair value of warrant derivatives	(6,129,579)	2,093,653	(3,233,122)	(2,995,081)
Change in fair value of preferred share derivatives	(2,565,495)	(187,383)	(3,466,332)	(4,830,866)
Interest expense attributable to preferred share derivatives	(17,476)	(28,823)	(41,060)	(83,901)
Discount in Series E issuance attributable to beneficial conversion features		(250,000)		(437,500)
Other Income	19,831		19,831	
Total Other Income / (Expense)	(8,948,664)	1,566,200	(7,051,406)	(8,467,132)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(9,635,244)	1,050,932	(8,713,577)	(9,468,163)
	(2,269)	(1,023)	(2,269)	(4,023)

PROVISION FOR INCOME TAXES								
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$	(9,637,513)	$	1,049,909	$	(8,715,846)	$	(9,472,186)
NET (LOSS) PER SHARE								
Basic	$	(0.02)	$	0.00	$	(0.02)	$	(0.03)
Diluted	$	(0.02)	$	0.00	$	(0.02)	$	(0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING								
Basic		421,991,654		348,298,807		405,073,773		342,712,859
Diluted		421,991,654		505,759,554		405,073,773		342,712,859

The accompanying notes are an integral part of the condensed consolidated financial statements

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)

	Common Stock			Treasury Stock			
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Stockholders' Deficit
Balance at March 31, 2013	374,493,959	$ 374,495	$ 119,690,336	100,000	$ (306,841)	$ (128,431,375)	$ (8,673,385)
Net Loss						(8,715,845)	(8,715,845)
Common shares sold pursuant to the Lincoln Park Capital purchase agreement	25,856,021	25,856	1,874,144				1,900,000
Common shares issued in lieu of cash in payment of preferred share derivative interest expense	724,714	725	51,471				52,196
Conversion of Series C, Series E and Series G Preferred Shares into Common Shares	90,150,920	90,150	9,507,795				9,597,945
Non-cash compensation through the issuance of stock options			28,424				28,424
Costs associated with raising capital			(47,987)				(47,987)
Common shares issued as commitment shares pursuant to the Lincoln Park Capital purchase agreement	3,485,649	3,486	(3,486)				

Common shares issued pursuant to the exercise of cash warrants	100,000	100	6,150				6,250
Balance at September 30, 2013	494,811,263	$ 494,812	$ 131,106,847	100,000	$ (306,841)	$ (137,147,220)	$ (5,857,402)

The accompanying notes are an integral part of the condensed consolidated financial statements

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS ENDED SEPTEMBER 30 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (8,715,845)	$ (9,472,186)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	222,299	236,143
Change in fair value of warrant derivative liability	3,233,122	2,995,081
Change in fair value of preferred share derivative liability	3,466,332	4,830,866
Discount in Series E issuance attributable to embedded beneficial conversion feature		437,500
Preferred share derivative interest satisfied by the issuance of common stock	52,196	126,106
Non-cash compensation accrued	154,750	95,000
Non-Cash Interest Expense	183,391	
Non-cash compensation satisfied by the issuance of common stock and options	28,424	21,246
Non-cash rent expense	3,799	4,809
Non-cash lease accretion	708	667
Changes in Assets and Liabilities		
Accounts receivable	29,195	(166,096)
Inventories	(361,527)	(175,853)
Prepaid and other current assets	(5,865)	15,592
Accounts payable, accrued expenses and other current liabilities	442,119	(39,828)
Deferred revenues and Customer deposits	(6,667)	(6,669)
Derivative interest payable	(11,135)	(42,206)
NET CASH USED IN OPERATING ACTIVITIES	(1,284,704)	(1,139,828)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(120,396)	(96,156)
Cost of leasehold improvements	(6,082)	(20,082)
Costs incurred for intellectual property assets	(22,261)	(23,315)
Deposits to / (withdrawals from) restricted cash, net	(27,642)	6,554
NET CASH USED IN INVESTING ACTIVITIES	(176,381)	(132,999)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of Series E Convertible Preferred Stock		437,500
Proceeds from sale of common shares to Lincoln Park Capital	1,900,000	
Proceeds from exercise of cash warrants	6,250	187,500
Proceeds from draws against Treppel credit line		200,000
Other loan payments		(3,381)
Costs associated with raising capital	(47,987)	(9,856)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,858,263	811,763
NET CHANGE IN CASH AND CASH EQUIVALENTS	397,178	(461,064)

CASH AND CASH EQUIVALENTS	beginning of period		369,023		668,407
CASH AND CASH EQUIVALENTS	end of period	$	766,201	$	207,343
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Cash paid for interest		$	146,624	$	115,826
Cash paid for taxes					4,023
Non-Cash Financing Transactions					
Commitment shares issued to Lincoln Park Capital			260,538		
Conversion of Preferred Shares to Common Shares			9,597,945		
Acquisition of intellectual property			5,597,317		
Convertible Note Payable			5,597,317		

The accompanying notes are an integral part of the condensed consolidated financial statements

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(UNAUDITED)

NOTE 1 - DEFINITIONS

"Cash Reserves" are equal to the amount listed in Note 2

"Current Balance Sheet Date" means September 30, 2013

"Current Bond Liability" is equal to the amount listed in Note 2

"Current Fiscal Year" means the twelve months ended March 31, 2014

"Current Quarter" means the three months ended September 30, 2013

"Current YTD" means the six months ended September 30, 2013

"Derivative Interest Liability Common Shares" means the following Common Shares issued in lieu of cash in payment of Derivative Interest due and owing as of the Current Balance Sheet Date:

Common Shares Issued
148,804

"**FDA**" means the U.S. Food and Drug Administration

"Hakim Credit Line Limit" equals $1,000,000

"Hakim Credit Line Balance" equals zero

"Hakim Credit Line Interest Due" equals zero

"**Outstanding Bond Principal Payments"** means principal payments which were due and owing on the NJEDA Bonds on or before the Current Balance Sheet Date and not made, consisting of the following:

Payment Date	Amount
September 1, 2010	225,000
September 1, 2011	470,000
September 1, 2012	730,000
September 1, 2013	915,000

"**Prior Year Balance Sheet Date**" means September 30, 2012

"**Prior Fiscal Year**" means the twelve months ended March 31, 2013

"**Prior Year Quarter**" means the three months ended September 30, 2012

"**Restricted Cash Interest Payments**" means the following withdrawal of funds from the debt service reserve, with such funds being used to make interest payments due to holders of the NJEDA Bonds:

Payment Date	Amount
March 1, 2009	$ 120,775
September 1, 2009	120,775
March 1, 2010	113,075
September 1, 2010	113,075
March 1, 2011	113,075
September 1, 2011	113,075
March 1, 2012	113,075
September 1, 2012	113,075
March 1, 2013	113,075
September 1, 2013	113,075

"**Restricted Cash Principal Payments**" means the following withdrawal of funds from the debt service reserve, with such funds being used to make principal payments due to holders of the NJEDA Bonds:

Payment Date	Amount
September 1, 2009	210,000

"SEC" means the Securities and Exchange Commission

"Treppel Credit Line Balance" equals $600,000

"Treppel Credit Line Interest Due" equals $15,288

"Treppel Credit Line Limit" equals $1,000,000

"Working Capital Deficit" is equal to the amount listed in Note 2

NOTE 2 - BASIS OF PRESENTATION AND LIQUIDITY

The information in this quarterly report on Form 10-Q includes the results of operations of Elite Pharmaceuticals, Inc. and its consolidated subsidiaries (collectively the "Company" or "Elite") for the Current Quarter and Prior Year Quarter. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission in accordance with accounting principles generally accepted for interim financial statement presentation. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial position, results of operations and cash flows of the Company for the periods presented have been included.

The financial results for the interim periods are not necessarily indicative of the results to be expected for the full year or future interim periods.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended March 31, 2013 and filed with the SEC on June 21, 2012. There have been no changes in significant accounting policies since March 31, 2013.

The Company does not anticipate being profitable for the Current Fiscal Year; therefore a current provision for income tax was not established for the Current Quarter. Only the minimum liability required for state corporation taxes was considered.

The accompanying unaudited condensed consolidated financial statements were prepared on the assumption that the Company will continue as a going concern. As of the Current Balance Sheet Date, the Company had the following:

Cash reserves ("Cash Reserves")	$ 0.8 million
Working capital deficit ("Working Capital Deficit")	$ 8.4 million
Losses from operations for the Current Quarter	$ 0.7 million
Other loss for the Current Quarter	$ 8.9 million
Net loss for the Current Quarter	$ 9.6 million
NJEDA Bonds Payable ("Current Bond Liability")	$ 3.4 million

The financial statements do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation.

In addition, the Company has received Notice of Default from the Trustee of the NJEDA Bonds as a result of the utilization of the debt service reserve being used to pay semi-annual interest payments due on September 1st and March 1st of each year. The debt service reserve was first used to make such semi-annual interest payments on March 1, 2009 and has been utilized for all semi-annual interest payments due since then, with the Restricted Cash Interest Payments constituting such payments.

The Company has replenished all amounts withdrawn from the debt service reserve for the payment of semi-annual interest payments, as required, and in accordance with the applicable terms and conditions of such replenishments.

The Company did not have sufficient funds available to make the Restricted Cash Principal Payments and the Outstanding Principal Payments.

The debt service reserve was utilized to make the Restricted Cash Principal Payments, with the Company replenishing such amounts withdrawn from the debt service reserve, as required and in accordance with the applicable terms and conditions of such replenishments.

The Company requested that the Trustee utilize the debt service reserve to pay the principal payment due on September 1, 2010. This request was denied and accordingly the principal payment due on September 1, 2010 was not made.

The Company did not have sufficient funds available to make the principal payments due on September 1, 2011, 2012 and 2013, with such amount due including principal payments due in the prior year but not paid. There were not sufficient funds available in the debt service reserve and the payment was not made.

Please refer to the definition of Outstanding Bond Principal Payments for details on the amounts of the principal payments which were due and not made.

Resolution of the Company's default on the NJEDA Bonds and our request for postponement of principal payments will have a significant effect on our ability to operate in the future.

Please refer to Note 6 to our financial statements for a more detailed discussion of the NJEDA Bonds and Notice of Default.

Please also note that the Working Capital Deficit includes the Current Bond Liability. This amount was first classified as a current liability as of March 31, 2010, due to the Notice of Default received from the Trustee in relation to the NJEDA Bonds. Please refer to the balance sheet and note 6 to our financial statements for details on the Current Bond Liability.

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As of the Current Balance Sheet Date, we had Cash Reserves.

On June 12, 2012, Elite entered into a bridge loan agreement, as amended on December 5, 2012, and August 2, 2013, (the “Treppel Credit Line Agreement”) with Jerry Treppel, the Company’s Chairman. Under the terms of the Treppel Credit Line Agreement, Elite has the right, in its sole discretion to a line of credit (the “Treppel Credit Line”) in the maximum principal amount of up to the Treppel Credit Line Limit, at any one time. Mr. Treppel provided the Treppel Credit Line for the purpose of supporting the acceleration of Elite’s product development activities. The outstanding amount is evidenced by a promissory note which shall mature on July 31, 2014, at which time the entire unpaid principal balance, plus accrued interest thereon shall be due and payable in full. Elite may prepay any amounts owed without penalty. Any such prepayments shall first be due and owing and then to principal. Interest only shall be payable quarterly on July 1, October 1, January 1 and April 1 of each year. Prior to maturity or the occurrence of an Event of Default as defined in the Treppel Credit Line Agreement, the Company may borrow, repay and reborrow under the Treppel Credit Line through maturity. Amounts borrowed under the Treppel Credit Line bear interest at the rate of ten percent (10%) per annum. For more detailed information, please refer to the Current Reports on Form 8-K filed with the SEC on June 13, 2012 December 10, 2012 and August 6, 2013, with such filings being herein incorporated by reference.

As of the Current Balance Sheet Date, the principal balance of the Treppel Credit Line was equal to the Treppel Credit Line Balance and the interest due was equal to the Treppel Credit Line Interest Due.

On October 15, 2013, subsequent to the Current Balance Sheet Date, Elite entered into a bridge loan agreement (the “Hakim Credit Line Agreement”) with Nasrat Hakim, the Company’s CEO and President. Under the terms of the Hakim Credit Line Agreement, Elite has the right, in its sole discretion to a line of credit (the “Hakim Credit Line”) in the maximum principal amount of up to the Hakim Credit Line Limit, at any one time. Mr. Hakim provided the Hakim Credit Line for the purpose of supporting the acceleration of Elite’s product development activities. The outstanding amount is evidenced by a promissory note which shall mature on June 30, 2015, at which time the entire unpaid principal balance, plus accrued interest thereon shall be due and payable in full. Elite may prepay any amounts owed without penalty. Any such prepayments shall first be due and owing and then to principal. Interest only shall be payable quarterly on July 1, October 1, January 1 and April 1 of each year. Prior to maturity or the occurrence of an Event of Default as defined in the Hakim Credit Line Agreement, the Company may borrow, repay and reborrow under the Hakim Credit Line through maturity. Amounts borrowed under the Hakim Credit Line bear interest at the rate of ten percent (10%) per annum. For more detailed information, please refer to the Current Reports on Form 8-K filed with the SEC on October 16, 2013 and exhibit 10.16 to this quarterly report on Form 10-Q, with such filings being herein incorporated by reference.

As of the Current Balance Sheet Date, the principal balance of the Hakim Credit Line was equal to the Hakim Credit Line Balance and the interest due was equal to the Hakim Credit Line Interest Due.

On April 19, 2013, the Company entered into a purchase agreement (the “LPC Purchase Agreement”), together with a registration rights agreement (the “LPC Registration Rights Agreement”), with Lincoln Park Capital Fund, LLC (“LPC”).

Under the terms and subject to the conditions of the LPC Agreement, the Company has the right to sell to and LPC is obligated to purchase up to $10 million in shares of the Company’s Common Stock, subject to certain limitations, from time to time, over the 36 month period commencing on May 9, 2013, the date that the registration statement, which the Company agreed to file with the Securities and Exchange Commission (the “SEC”) pursuant to the LPC Registration Rights Agreement, was declared effective by the SEC. The Company may direct LPC, at its sole discretion and subject to certain conditions, to purchase stock in amounts of up to $80,000 on any single business day, so long as at least two business days have passed since the most recent purchase, increasing to up to $500,000 per purchase, depending upon the closing sale price of the Common Stock. The purchase price of the shares of Common Stock related to the future funding will be based on the prevailing market prices of such shares at the time of sales (or over a period of up to 12 business days leading up to such time), but in no event will shares be sold to LPC on a day the Common Stock closing price is less than the floor price of $0.07 per share, subject to adjustment. The Company's sales of shares of Common Stock to LPC under the LPC Purchase Agreement are limited to no more than the number of shares that would result in the beneficial ownership by LPC and its affiliates, at any single point in time, of more than 9.99% of the then outstanding shares of Common Stock.

A Current Report on Form 8-K was filed with the SEC on April 22, 2013 with regards to the LPC Purchase Agreement and LPC Registration Rights Agreement with such filing being herein incorporated by reference. A Securities Registration Statement on Form S-1 was filed with the SEC on April 25, 2013 and declared effective by the SEC on May 9, 2013. A post-effective amendment to the Registration Statement was filed with the SEC and declared effective on June 26, 2013.

Shares issued pursuant to the LPC Purchase Agreement are summarized as follows:

	Three Months Ended September 30,			Six Months Ended September 30,		
	2013		2012	2013		2012
Initial commitment shares issued					2,929,115	
Additional commitment shares issued		439,369			556,534	
Purchased shares issued		19,982,403			25,856,021	
Proceeds from purchased shares	$	1,500,000		$	1,900,000	$

Despite having entered into the Treppel Credit Line Agreement, the Hakim Credit Line Agreement and the LPC Purchase Agreement we still may be required to seek additional capital in the future and there can be no assurances that Elite will be able to obtain such additional capital on favorable terms, if at all.

Management has evaluated subsequent events or transactions occurring through the date the financial statements were issued (please see note 15).

Segment Reporting

FASB ASC 280-10-50, “Disclosure about Segments of an Enterprise and Related Information” requires use of the “management approach” model for segment reporting. The management approach is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. The Company operates in one segment for the three and six months ended September 30, 2013.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market instruments. The Company places its cash and cash equivalents with high-quality, U.S. financial institutions and, to date, has not experienced losses on any of its balances.

NOTE 4 - INVENTORIES

Inventories consist of raw materials, work in process and finished goods and are stated at the lower of cost (first-in, first-out basis) or market (net realizable value), and summarized as follows:

	September 30, 2013		March 31, 2013	
Raw Materials	$	910,187	$	774,758
Work-in-Process		809,486		676,726
Finished Goods				
Less: Inventory Reserve				(93,338)
Total Inventory	$	1,719,673	$	1,358,146

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NOTE 5 - INTANGIBLE ASSETS

Costs to acquire intangible assets, such as asset purchases of Abbreviated New Drug Applications ("ANDAs") which are approved by the FDA or costs incurred in the application of patents are capitalized and amortized on the straight-line method, based on their estimated useful lives ranging from five to fifteen years, commencing upon approval of the patent or site transfers required for commercialization of an acquired ANDA. Such costs are charged to expense if the patent application or ANDA site transfer is unsuccessful.

As of the Current Balance Sheet Date, the following costs were recorded as intangible assets on the Company's balance sheet:

	Patent Application Costs	ANDA Acquisitions	Total Intangible Assets
Intangible Assets as of March 31, 2013	$ 244,424	$ 450,000	$ 694,424
Costs Capitalized During Current Fiscal Year			
Three months ended June 30, 2013	18,498		18,498
Three months ended September 30, 2013	3,765	5,597,317	5,601,082
Total Costs Capitalized-six months ended September 30, 2013	22,263	5,597,317	5,619,580
Amortization of Intangible Assets During Current Fiscal Year			
Three months ended June 30, 2013			
Three months ended September 30, 2013			
Total Amortization three months ended September 30, 2013			
Intangible Assets as of September 30, 2013	$ 266,687	$ 6,047,317	$ 6,314,004

The costs incurred in patent applications for the Current YTD and Current Quarter, were related to our abuse resistant opioid product lines. Additional costs incurred in relation to such patent applications will be capitalized as intangible assets, with amortization of such costs to commence upon approval of the patents.

NOTE 6 - NJEDA BONDS

On August 31, 2005, the Company successfully completed a refinancing of a prior 1999 bond issue through the issuance of new tax-exempt bonds (the "Bonds") via the issuance of the following:

Description	Principal Amount On Issue Date	Interest Rate	Maturity
Series A Note	3,660,000	6.50 %	September 1, 2030
Series B Note	495,000	9.0 %	September 1, 2012

The net proceeds, after payment of issuance costs, were used (i) to redeem the outstanding tax-exempt Bonds originally issued by the Authority on September 2, 1999, (ii) refinance other equipment financing and (iii) for the purchase of certain equipment to be used in the manufacture of pharmaceutical products. As of the Current Balance Sheet Date, all of the proceeds were utilized by the Company for such stated purposes.

Interest is payable semiannually on March 1 and September 1 of each year. The Bonds are collateralized by a first lien on the Company's facility and equipment acquired with the proceeds of the original and refinanced Bonds. The related Indenture requires the maintenance of a Debt Service Reserve Fund as follows:

Description	Amount
Series A Note Proceeds	$ 366,000
Series B Note Proceeds	49,500
Total	$ 415,500

The Debt Service Reserve is maintained in restricted cash accounts that are classified in Other Assets.

Bond issue costs were paid from the bond proceeds and are being amortized over the life of the bonds. These costs and amortization activity are summarized as follows:

Description	Balances As of March 31, 2013	Amortization Expense Current YTD	Balances As of Current Balance Sheet Date
Bond Issue Costs	$ 354,453		$ 354,453
Accumulated Amortization	(107,519)	(7,089)	(114,608)
Unamortized Balance	$ 246,934		$ 239,845

The NJEDA Bonds require the Company to make an annual principal payment on September 1st of varying amounts as specified in the loan documents and semi-annual interest payments on March 1st and September 1st, equal to interest due on the outstanding principal at the applicable rate for the semi-annual period just ended.

Due to the Company not having sufficient funds, the following withdrawals were made from the debt service reserve, with the funds being used to make interest payments due to the holders of the NJEDA Bonds:

Payment Date	Amount
March 1, 2009	$ 120,775
September 1, 2009	120,775
March 1, 2010	113,075
September 1, 2010	113,075
March 1, 2011	113,075
September 1, 2011	113,075
March 1, 2012	113,075
September 1, 2012	113,075
March 1, 2013	113,075
September 1, 2013	113,075

Due to the Company not having sufficient funds, the following withdrawal was made from the debt service reserve, with the funds being used to make a principal payment due to the holders of the NJEDA Bonds:

Payment Date	Amount
September 1, 2009	$ 210,000

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Pursuant to the terms of the NJEDA Bonds, the Company is required to replenish any amounts withdrawn from the debt service reserve and used to make principal or interest payments in six monthly installments, each being equal to one-sixth of the amount withdrawn and with the first installment due on the 15th of the month in which the withdrawal from debt service reserve occurred and the remaining five monthly payments being due on the 15th of the five immediately subsequent months. The Company has, to date, made all payments required in relation to the withdrawals made from the debt service reserve in relation to the Restricted Cash Interest Payments and the Restricted Cash Principal Payment.

In addition, the Company did not have sufficient funds available to make the principal payments due on September 1, 2010, September 1, 2011, September 1, 2012 and September 1, 2013. These principal payments are summarized as follows:

Payment Date	Amount
September 1, 2010	$ 225,000 (1)
September 1, 2011	470,000 (2)
September 1, 2012	730,000 (3)
September 1, 2013	915,000(4)

(1) The Company request to withdraw funds from the debt service reserve to pay the amount due on September 1, 2010 was denied by the Trustee and accordingly, the principal payment due on such date was not made.
(2) The principal payment due on September 1, 2011, included the amount due and September 1, 2010 and not paid. There were not sufficient funds available in the debt service reserve and the principal payment due on September 1, 2011 was not made.
(3) The principal payment due on September 1, 2012, included the amount due and September 1, 2011 and not paid. There were not sufficient funds available in the debt service reserve and the principal payment due on September 1, 2012 was not made.
(4) The principal payment due on September 1, 2013, included the amount due and September 1, 2012 and not paid. There were not sufficient funds available in the debt service reserve and the principal payment due on September 1, 2013 was not made.

The Company has received Notice of Default from the Trustee of the NJEDA Bonds in relation to the withdrawals from the debt service reserve, and no payment of scheduled principal amounts. Resolution of the Company's default under the NJED Bonds will have a significant effect on our ability to operate in the future.

Due to issuance of a Notice of Default being received from the Trustee of the NJEDA Bonds, and until the event of default is waived or rescinded, the Company has classified the Current Bond Liability, as a current liability.

NOTE 7 - <u>DERIVATIVE LIABILITIES</u>

Accounting Standard Codification "ASC" 815 *Derivatives and Hedging*, which provides guidance on determining what types of instruments or embedded features in an instrument issued by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in the pronouncement on accounting for derivatives. These requirements can affect the accounting for warrants and convertible preferred instruments issued by the Company. As the conversion features within, and the detachable warrants issued with the Company's Series B, Series C, Series E and Series G Preferred Stock, do not have fixed settlement provisions because their conversion and exercise prices may be lowered if the Company issues securities at lower prices in the future, we have concluded that the instruments are not indexed to the Company's stock and are to be treated as derivative liabilities.

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Preferred Stock Derivative Liabilities

Preferred Stock Derivative Liability as of Current Balance Sheet Date

	Series C	Series E	Series G	Total
Preferred Shares Authorized	3,200	4,000	1,375	8,575
Preferred shares Outstanding	24		158	182
Underlying common shares into which Preferred may convert	160,000		1,478,479	1,638,479
Closing price on valuation date	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Preferred stock derivative liability at Current Balance Sheet Date	$ 19,824		$ 183,184	$ 203,008
Preferred stock derivative liability at March 31, 2013	$ 697,584	$ 5,637,037		$ 6,334,621

CHANGE IN VALUE OF PREFERRED STOCK DERIVATIVE LIABILITY

	Three months ended September 30, 2013	2012	Six months ended September 30, 2013	2012
Change in Preferred Stock Derivative Liability	$ (2,565,495)	$ (187,383)	$ (3,466,332)	$ (4,830,866)

Warrant Derivative Liabilities

The portion of derivative liabilities related to outstanding warrants was valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

FAIR VALUE OF WARRANT DERIVATIVE LIABILITY

	March 31 2013	June 30 2013	September 30 2013
Risk-Free interest rate	0.04% - 0.77%	0.02% - 1.41%	0.03% - 1.39%
Expected volatility	106% - 168%	35% - 97%	62% - 117%
Expected life (in years)	0.5 5.1	0.2 4.8	0.8 4.6
Expected dividend yield			
Number of warrants	139,344,939	139,344,939	120,491,539
Fair Value of Warrant Derivative Liability	$ 7,862,848	$ 4,966,391	$ 11,095,970

CHANGE IN VALUE OF WARRANT DERIVATIVE LIABILITY

	Three months ended September 30	Six months ended September 30

	2013	2012	2013	2012
Change in Warrant Derivative Liability	$ (6,129,579)	$ 2,093,653	$ (3,233,122)	$ (2,995,081)

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The risk free interest rate was based on rates established by the U.S. Treasury Department. The expected volatility was based on the historical volatility of the Company's share price for periods equal to the expected life of the outstanding warrants at each valuation date. The expected dividend rate was based on the fact that the Company has not historically paid dividends on common stock and does not expect to pay dividends on common stock in the future.

NOTE 8 - PREFERRED SHARE DERIVATIVE INTEREST PAYABLE

Preferred share derivative interest payable as of the Current Balance Sheet Date consisted of the amount reported on the liability section of the balance sheet and titled "Preferred Share Derivative Interest Payable". This amount was paid via the issuance of the Derivative Interest Liability Common Shares in October 2013.

NOTE 9 - OPERATING LEASES

The Company entered into a lease for a portion of a one-story warehouse, located at 135 Ludlow Avenue, Northvale, New Jersey, consisting of approximately 15,000 square feet of floor space. The lease term began on July 1, 2010 and is classified as an operating lease. The lease includes an initial term of 5 years and 6 months and the Company has the option to renew the lease for two additional terms, each of 5 years. The property related to this lease will be used for the storage of pharmaceutical finished goods, raw materials, equipment and documents as well as engaging in manufacturing, packaging and distribution activities.

This property required significant leasehold improvements and qualification as a prerequisite to achieving suitability for such intended future use and in January 2013, the Company began using the facility at 135 Ludlow Avenue for commercial production and commenced shipping packaged products from the facility.

Minimum 5 year payments* for the leasing of 15,000 square feet at 135 Ludlow are as follows:

Fiscal year ended March 31, 2014	83,259
Fiscal year ended March 31, 2015	85,344
Fiscal year ended March 31, 2016	87,363
Fiscal year ended March 31, 2017	89,112
Fiscal year ended March 31, 2018	90,894
Total Minimum 5 year lease payments	$435,972

* Minimum lease payments are exclusive of additional expenses related to certain expenses incurred in the operation and maintenance of the premises, including, without limitation, real estate taxes and common area charges which may be due under the terms and condition