Amphastar Pharmaceuticals, Inc.
Form 10-Q
August 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

or

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

For the transition period from to

Commission file number 001-36509

AMPHASTAR PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	33-0702205
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11570 6th Street

Rancho Cucamonga, CA 91730

(Address of principal executive offices, including zip code)

(909) 980-9484

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

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

The number of shares outstanding of the Registrant’s only class of common stock as of August 2, 2016 was 45,121,158.

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FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

Special Note About Forward-Looking Statements

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, or Quarterly Report, contains "forward-looking statements" that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by the following words: "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "p "continue," "ongoing" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements relate to future events or our future financial performance or condition and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievement to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements include, but are not limited to, statements about:

- our expectations regarding the sales and marketing of our products, including our enoxaparin product during and following termination of our profit sharing agreement with Actavis;
- our expectations regarding our manufacturing and production and the integrity of our supply chain for our products, including the risks associated with our single source suppliers;
- the timing and likelihood of FDA approvals and regulatory actions on our product candidates, manufacturing activities and product marketing activities;
- our ability to advance product candidates in our platforms into successful and completed clinical trials and our subsequent ability to successfully commercialize our product candidates;
- our ability to compete in the development and marketing of our products and product candidates;
- the potential for adverse application of environmental, health and safety and other laws and regulations on our operations;
- our expectations for market acceptance of our new products and proprietary drug delivery technologies, as well as those of our API customers;
- the potential for our marketed products to be withdrawn due to patient adverse events or deaths, or if we fail to secure FDA approval for products subject to the Prescription Drug Wrap-Up program;
- our expectations in obtaining insurance coverage and adequate reimbursement for our products from third-party payers;

- the amount of price concessions or exclusion of suppliers adversely affecting our business;

- our ability to establish and maintain intellectual property protection from our products and our ability to successfully defend our intellectual property in cases of alleged infringement;

- the implementation of our business strategies, product development strategies and technology utilization;

- the potential for exposure to product liability claims;

- future acquisitions or investments, including the anticipated benefits of such acquisitions or investments;

- our ability to expand internationally;

- economic and industry trends and trend analysis;

- our ability to remain in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally;

- our remediation efforts for a material weakness in our internal control over financial reporting; and

- our financial performance expectations, including our expectations regarding our revenue, cost of revenue, gross profit or gross margin, operating expenses, including changes in research and development, sales and marketing and general and administrative expenses, and our ability to achieve and maintain future profitability.

You should read this Quarterly Report and the documents that we reference elsewhere in this Quarterly Report completely and with the understanding that our actual results may differ materially from what we expect as expressed or implied by our forward-looking statements. In light of the significant risks and uncertainties to which our forward-looking statements are subject, you should not place undue reliance on or regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all. We discuss many of these risks and uncertainties in greater detail in this Quarterly Report and in our Annual Report on Form 10-K for the year ended December 31, 2015, particularly in Item 1A. “Risk Factors.” These forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report regardless of the time of delivery of this Quarterly Report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Quarterly Report.

Unless expressly indicated or the context requires otherwise, references in this Quarterly Report to “Amphastar,” “the Company,” “we,” “our,” and “us” refer to Amphastar Pharmaceuticals, Inc. and our subsidiaries, unless the context indicates otherwise.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMPHASTAR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 66,660	$ 66,074
Restricted cash and restricted short-term investments	1,390	1,285
Accounts receivable, net	23,128	33,233
Inventories, net	88,327	70,665
Income tax refund and deposits	56	238
Prepaid expenses and other assets	1,752	4,439
Total current assets	181,313	175,934
Property, plant, and equipment, net	148,647	142,161
Goodwill and intangible assets, net	43,298	39,901
Other assets	7,884	4,696
Deferred tax assets	27,444	27,444
Total assets	$ 408,586	$ 390,136
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 18,767	$ 13,872
Accrued liabilities	11,174	16,732
Income taxes payable	6,652	3,076
Accrued payroll and related benefits	14,992	12,840
Current portion of product return accrual	1,517	1,858
Current portion of deferred revenue	1,661	643
Current portion of long-term debt and capital leases	10,904	10,934
Total current liabilities	65,667	59,955
Long-term product return accrual	1,026	763
Long-term reserve for income tax liabilities	497	497

Long-term deferred revenue	166	1,339
Long-term debt and capital leases, net of current portion	31,742	30,165
Other long-term liabilities	2,024	1,907
Total liabilities	101,122	94,626
Commitments and Contingencies:		
Stockholders' equity:		
Preferred stock: par value $.0001; authorized shares—20,000,000; no shares issued and outstanding	—	—
Common stock: par value $.0001; authorized shares—300,000,000; issued and outstanding shares—46,515,928 and 45,091,332 at June 30, 2016 and 45,960,206 and 45,198,491 at December 31, 2015, respectively	5	5
Additional paid-in capital	258,786	247,829
Retained earnings	69,707	60,323
Accumulated other comprehensive loss	(2,690)	(2,475)
Treasury stock	(18,344)	(10,172)
Total stockholders' equity	307,464	295,510
Total liabilities and stockholders' equity	$ 408,586	$ 390,136

See Accompanying Notes to Condensed Consolidated Financial Statements.

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AMPHASTAR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	$ 68,033	$ 53,853	$ 127,399	$ 110,739
Cost of revenues	36,319	40,535	70,783	84,141
Gross profit	31,714	13,318	56,616	26,598
Operating expenses:				
Selling, distribution, and marketing	1,332	1,470	2,684	2,992
General and administrative	9,458	11,308	20,328	23,759
Research and development	10,480	10,726	18,868	17,294
Impairment of long-lived assets	114	74	331	74
Total operating expenses	21,384	23,578	42,211	44,119
Income (loss) from operations	10,330	(10,260)	14,405	(17,521)
Non-operating income (expense):				
Interest income	50	65	124	157
Interest expense	(305)	(210)	(689)	(551)
Other income (expense), net	(323)	176	(272)	1,489
Total non-operating income (expense), net	(578)	31	(837)	1,095
Income (loss) before income taxes	9,752	(10,229)	13,568	(16,426)
Income tax expense (benefit)	2,857	(3,582)	4,184	(9,114)
Net income (loss)	$ 6,895	$ (6,647)	$ 9,384	$ (7,312)
Net income (loss) per share:				
Basic	$ 0.15	$ (0.15)	$ 0.21	$ (0.16)
Diluted	$ 0.15	$ (0.15)	$ 0.21	$ (0.16)
Weighted-average shares used to compute net income (loss) per share:				
Basic	44,957	44,849	44,999	44,725
Diluted	45,968	44,849	45,712	44,725

See Accompanying Notes to Condensed Consolidated Financial Statements.

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AMPHASTAR PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	$ 6,895	$ (6,647)	$ 9,384	$ (7,312)
Accumulated other comprehensive income (loss)				
Foreign currency translation adjustment	(651)	513	(215)	(2,480)
Total accumulated other comprehensive income (loss)	(651)	513	(215)	(2,480)
Total comprehensive income (loss)	$ 6,244	$ (6,134)	$ 9,169	$ (9,792)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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AMPHASTAR PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income (loss)	$ 9,384	$ (7,312)
Reconciliation to net cash provided by operating activities:		
Impairment of long-lived assets	331	74
Loss (gain) on disposal of property, plant, and equipment	598	(9)
Depreciation of property, plant, and equipment	5,995	5,632
Amortization of product rights, trademarks, and patents	1,050	979
Imputed interest accretion	36	56
Employee share-based compensation expense	7,234	5,757
Non-employee share-based compensation expense	815	173
Reserve for income tax liabilities	—	16
Changes in deferred taxes	—	(3,547)
Changes in operating assets and liabilities:		
Accounts receivable, net	10,164	2,450
Inventories, net	(17,352)	564
Income tax refund and deposits	185	—
Prepaid expenses and other assets	3,175	(4,989)
Income taxes payable	3,574	(387)
Accounts payable and accrued liabilities	(1,933)	4,384
Net cash provided by operating activities	23,256	3,841
Cash Flows From Investing Activities:		
Acquisition of business	(4,761)	—
Purchases of property, plant, and equipment	(8,457)	(6,740)
Capitalized labor, overhead, and interest on self-constructed assets	(887)	(875)
Proceeds from the sale of property, plant and equipment	—	33
Decrease (increase) in restricted cash	(105)	210
Deposits and other assets, net	(3,216)	(1,392)
Net cash used in investing activities	(17,426)	(8,764)
Cash Flows From Financing Activities:		
Repurchase of common stock	(1,242)	(741)
Net proceeds from equity plans	4,168	10,723
Purchase of treasury stock	(8,190)	(2,715)
Proceeds from issuance of long-term debt	6,607	6,786
Principal payments on long-term debt	(6,414)	(2,524)
Net cash provided by (used in) financing activities	(5,071)	11,529

Effect of exchange rate changes on cash	(173)	29
Net increase in cash and cash equivalents	586	6,635
Cash and cash equivalents at beginning of period	66,074	67,828
Cash and cash equivalents at end of period	$ 66,660	$ 74,463

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	Six Months Ended June 30,	
	2016	2015
Noncash Investing and Financing Activities:		
Equipment acquired under capital leases	$ 1,237	$ 150
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 947	$ 897
Income taxes paid	$ 553	$ —

See Accompanying Notes to Condensed Consolidated Financial Statements.

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AMPHASTAR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Amphastar Pharmaceuticals, Inc., a California corporation, was incorporated on February 29, 1996, and merged with and into Amphastar Pharmaceuticals, Inc., a Delaware corporation, in July 2004 (together with its subsidiaries, hereinafter referred to as "the Company"). The Company is a specialty pharmaceutical company that primarily develops, manufactures, markets, and sells generic and proprietary injectable, inhalation, and intranasal products including products with high technical barriers to market entry. Additionally, the Company sells insulin active pharmaceutical ingredient, or API products. Most of the Company's products are used in hospital or urgent care clinical settings and are primarily contracted and distributed through group purchasing organizations and drug wholesalers. The Company's insulin API products are sold to other pharmaceutical companies for use in their own products and are being used by the Company in the development of injectable finished pharmaceutical products. The Company's inhalation products will be primarily distributed through drug retailers once they are brought to market.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2015, and the notes thereto as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles, or GAAP, have been condensed or omitted from the accompanying condensed consolidated financial statements. The accompanying year-end condensed consolidated balance sheet was derived from the audited financial statements. The accompanying interim financial statements are unaudited, but reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the Company's consolidated financial position, results of operations, comprehensive income (loss) and cash flows for the periods presented. Unless otherwise noted, all such adjustments are of a normal, recurring nature. The Company's results of operations, comprehensive income (loss) and cash flows for the interim periods are not necessarily indicative of the results of operations and cash flows that it may achieve in future periods.

2. Summary of Significant Accounting Policies

Basis of Presentation

All significant intercompany activity has been eliminated in the preparation of the condensed consolidated financial statements. The unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Some information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles, or GAAP, have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations, and cash flows of the Company.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: International Medication Systems, Limited, or IMS; Armstrong Pharmaceuticals, Inc., or Armstrong; Amphastar Nanjing Pharmaceuticals Co., Ltd., or ANP; Nanjing Letop Fine Chemistry Co., Ltd., or Letop, and Amphastar France Pharmaceuticals, S.A.S., or AFP.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The principal accounting estimates include: determination of allowances for doubtful accounts and discounts, provision for chargebacks, liabilities for product returns, reserves for

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AMPHASTAR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

excess or unsellable inventory, impairment of long-lived and intangible assets and goodwill, self-insured claims, workers' compensation liabilities, litigation reserves, stock price volatilities for share-based compensation expense, fair market values of the Company's common stock, valuation allowances for deferred tax assets, and liabilities for uncertain income tax positions.

Foreign Currency

The functional currency of the Company and its domestic and Chinese subsidiary, ANP is the U.S. dollar, or USD. ANP maintains its books of record in Chinese Yuan. These books are remeasured into the functional currency of USD using the current or historical exchange rates. The resulting currency remeasurement adjustments and other transactional foreign exchange gains and losses are reflected in the Company's statement of operations.

The Company's French subsidiary, AFP, maintains its books of record in Euros, which is the local currency in France and has been determined to be its functional currency. These books are translated into USD using average exchange rates during the period. Assets and liabilities are translated at the rate of exchange prevailing on the balance sheet date. Equity is translated at the prevailing rate of exchange at the date of the equity transactions. Translation adjustments are reflected in stockholders' equity and are included as a component of other comprehensive income (loss).

Additionally, the Company does not undertake hedging transactions to cover its foreign currency exposure.

Comprehensive Income (Loss)

For the three and six months ended June 30, 2016 and 2015, the Company included its foreign currency translation adjustment as part of its comprehensive income (loss).

Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, and short-term borrowings approximate fair value due to the short maturity of these items. A majority of the Company's long-term obligations consist of variable rate debt, and their carrying value approximates fair value as the stated borrowing rates are comparable to rates currently offered to the Company for instruments with similar maturities. However, the Company has one fixed-rate, long-term mortgage for which the carrying value differs from the fair value and is not remeasured on a recurring basis (see Note 12).

Deferred Income Taxes

The Company utilizes the liability method of accounting for income taxes, under which deferred taxes are determined based on the temporary differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that the deferred tax assets will not be realized. The Company has adopted the with-and-without methodology for determining when excess tax benefits from the exercise of share based awards are realized. Under the with-and-without methodology, current year operating loss deductions and prior-year operating loss carryforwards are deemed to be utilized prior to the utilization of current-year excess tax benefits from share based awards.

Business Combinations

Business combinations are accounted for in accordance with Accounting Standards Codification, or ASC 805, Business Combinations, using the acquisition method of accounting, which requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. Fair value determinations are based on discounted cash flow analyses or other valuation techniques. In determining the fair value of the assets

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

acquired and liabilities assumed in a material acquisition, the Company may utilize appraisals from third party valuation firms to determine fair values of some or all of the assets acquired and liabilities assumed, or may complete some or all of the valuations internally. In either case, the Company takes full responsibility for the determination of the fair value of the assets acquired and liabilities assumed. The value of goodwill reflects the excess of the fair value of the consideration conveyed to the seller over the fair value of the net assets received.

Acquisition-related costs are costs the Company incurs to effect a business combination. The Company accounts for acquisition-related costs as expenses in the periods in which the costs are incurred.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued an accounting standards update that creates a single source of revenue guidance for companies in all industries. The new standard provides guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers, unless the contracts are within the scope of other accounting standards. It also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets. This guidance must be adopted using either a full retrospective approach for all periods presented or a modified retrospective approach and will be effective for fiscal years beginning after December 15, 2017, which will be the Company's fiscal 2018. The Company has not yet evaluated the potential impact of adopting the guidance on the Company's consolidated financial statements.

In August 2014, the FASB issued an accounting standards update that will require management to evaluate if there is substantial doubt about the Company’s ability to continue as a going concern and, if so, to disclose this in both interim and annual reporting periods. This guidance will become effective for the Company’s annual filing for the period ending December 31, 2016, and interim periods thereafter, and allows for early adoption. The Company does not expect the adoption of the guidance will have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued an accounting standards update which requires entities to measure most inventories at the lower of cost or net realizable value, or NRV, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under the new guidance, inventory is measured at the lower of cost or net realizable value, which eliminates the need to determine replacement cost and evaluate whether it is above the

ceiling (NRV) or below the floor (NRV less a normal profit margin). The guidance defines NRV as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. The standard will be effective for the Company for the first quarter of the Company's fiscal 2017. Early application is permitted. The new guidance must be applied prospectively. The Company does not believe the adoption of this accounting guidance will have a material impact on the Company's consolidated financial statements and related disclosures.

In November 2015, the FASB issued an accounting standards update to the balance sheet classification of deferred taxes. Under existing standards, deferred taxes for each tax-paying jurisdiction are presented as a net current asset or liability and net long-term asset or liability. To simplify presentation, the new guidance will require that all deferred tax assets and liabilities, along with related valuation allowances, be classified as long-term on the balance sheet. As a result, each tax-paying jurisdiction will now only have one net long-term deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The new guidance may be applied prospectively or retrospectively. The Company has elected to adopt the guidance early and apply the guidance prospectively, therefore, prior periods were not retrospectively adjusted. The reclassification of the Company's deferred tax assets and liabilities does not have any impact to the Company's net income or cash flow, thus the adoption of the guidance does not have a material impact on the Company's consolidated financial statements.

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(Unaudited)

In February 2016, the FASB issued an accounting standards update that is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. This guidance will become effective for the Company's interim and annual reporting periods during the year ending December 31, 2019, and all annual and interim reporting periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued an accounting standards update that is aimed to improve the employee share-based payment accounting. The standard update simplifies the accounting for employee share-based payments and involves several aspects of the accounting for share-based transactions, including the potential timing of expenses, the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued an accounting standards update that is aimed to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. The standard update changes the impairment model for financial assets measured at amortized cost, requiring presentation at the net amount expected to be collected. The measurement of expected credit losses requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Available-for-sale debt securities with unrealized losses will be recorded through an allowance for credit losses. The guidance is effective for the Company's interim and annual reporting periods during the year ending December 31, 2020. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and related disclosures.

3. Business Acquisition and Product Acquisitions

Acquisition of fourteen injectable products from Hikma Pharmaceuticals PLC

In March 2016, the Company acquired fourteen abbreviated new drug applications, or ANDAs, representing eleven different injectable chemical entities from Hikma Pharmaceuticals PLC for $4.0 million. The Company plans to transfer the manufacturing of these products to its facilities in California, which will require FDA approval before the products can be launched. The Company has concluded that this transaction will be accounted for as a business combination in accordance with ASC 805.

The Company's accounting for this acquisition is preliminary. The fair value estimates for the $4.0 million assets acquired, which the Company allocated as intangible assets, were based upon preliminary calculations and valuations, and the Company's estimates and assumptions are subject to change as the Company obtains additional information for its estimates during the measurement period (up to one year from the acquisition date).

Acquisition of Nanjing Letop Medical Technology Co. Ltd.

In January 2016, the Company's Chinese subsidiary, ANP, acquired Nanjing Letop Medical Technology Co. Ltd., for $0.8 million. The Company recognized $0.4 million of goodwill, which represents the difference between the purchase price and the fair value of Letop's net assets at acquisition. Letop had previously supplied ANP with intermediates used in making various active pharmaceutical ingredients. In March 2016, this subsidiary was renamed Nanjing Letop Fine Chemistry Co., Ltd. The Company has concluded that this transaction will be accounted for as a business combination in accordance with ASC 805.

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AMPHASTAR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company's accounting for this acquisition is preliminary. The fair value estimates for the $1.4 million assets acquired, which excludes the $0.4 million of goodwill and the $1.0 million of liabilities assumed, were based upon preliminary calculations and valuations, and the Company's estimates and assumptions are subject to change as the Company obtains additional information for its estimates during the measurement period (up to one year from the acquisition date).

Acquisition of Merck's API Manufacturing Business

On April 30, 2014, the Company completed the acquisition of the Merck Sharpe & Dohme's API manufacturing business in Éragny-sur-Epte, France, or the Merck API Transaction, which manufactures porcine insulin API and recombinant human insulin API, or RHI API. The purchase price of the transaction totaled €24.8 million, or $34.4 million on April 30, 2014, subject to certain customary post closing adjustments and currency exchange fluctuations. The terms of the purchase include multiple payments over four years as follows (see Note 12):

	Euros	U.S. Dollars
	(in thousands)	
At Closing, April 2014	€ 13,252	$ 18,352
December 2014	4,899	5,989
December 2015	3,186	3,483
December 2016	3,186	3,538
December 2017	500	555
	€ 25,023	$ 31,917

In order to facilitate the acquisition, the Company established a subsidiary in France, AFP. The Company is continuing the current site manufacturing activities, which consist of the manufacturing of porcine insulin API and RHI API. As part of the transaction, the Company has entered into various additional agreements, including various supply agreements, as well as the assignment and/or licensing of patents under which Merck was operating at this facility. In addition, certain existing customer agreements have been assigned to AFP.

4. Revenue Recognition

Generally, revenue is recognized at the time of product delivery to the Company's customers. In some cases, revenue is recognized at the time of shipment when stipulated by the terms of the sale agreements. The Company also records profit-sharing revenue stemming from a distribution agreement with Actavis, Inc., or Actavis. This distribution agreement is in the process of being terminated (see Note 16). Profit-sharing revenue is recognized at the time Actavis sells the products to its customers. Revenues derived from contract manufacturing services are recognized when third-party products are shipped to customers, after the customer has accepted test samples of the products to be shipped.

The Company does not recognize product revenue unless the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) transfer of title has occurred, (iii) the price to the customer is fixed or determinable, and (iv) collection is reasonably assured. Furthermore, the Company does not recognize revenue until all customer acceptance requirements have been met. The Company estimates and records reductions to revenue for discounts, product returns, and pricing adjustments, such as wholesaler chargebacks, in the same period that the related revenue is recorded.

The Company's accounting policy is to review each agreement involving contract development and manufacturing services to determine if there are multiple revenue-generating activities that constitute more than one unit of accounting. Revenues are recognized for each unit of accounting based on revenue recognition criteria relevant to that unit. The Company does not have any revenue arrangements with multiple deliverables.

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Provision for Wholesaler Chargebacks

The provision for chargebacks is a significant estimate used in the recognition of revenue. As part of its sales terms with wholesale customers, the Company agrees to reimburse wholesalers for differences between the gross sales prices at which the Company sells its products to wholesalers and the actual prices of such products at the time wholesalers resell them under the Company's various contractual arrangements with third parties such as hospitals and group purchasing organizations. The Company estimates chargebacks at the time of sale to wholesalers based on wholesaler inventory stocking levels, historic chargeback rates, and current contract pricing.

The provision for chargebacks is reflected in net revenues and a reduction to accounts receivable. The following table is an analysis of the chargeback provision:

	Six Months Ended June 30,	
	2016	2015
	(in thousands)	
Beginning balance	$ 15,217	$ 11,872
Provision related to sales made in the current period	69,549	80,390
Credits issued to third parties	(72,965)	(80,957)
Ending balance	$ 11,801	$ 11,305

Changes in chargeback provision from period to period are primarily dependent on the Company's sales to its wholesalers, the level of inventory held by the wholesalers, and on the wholesaler's customer mix. The approach that the Company uses to estimate chargebacks has been consistently applied for all periods presented. Variations in estimates have been historically small. The Company continually monitors the provision for chargebacks and makes adjustments when it believes that the actual chargebacks may differ from the estimates. The settlement of chargebacks generally occurs within 30 days after the sale to wholesalers.

Accrual for Product Returns

The Company offers most customers the right to return qualified excess or expired inventory for partial credit; however, products sold to Actavis are non-returnable. The Company's product returns primarily consist of the returns of expired products from sales made in prior periods. Returned products cannot be resold. At the time product revenue is recognized, the Company records an accrual for estimated returns. The accrual is based, in part, upon the historical relationship of product returns to sales and customer contract terms. The Company also assesses other factors that could affect product returns including market conditions, product obsolescence, and the introduction of new competition. Although these factors do not normally give the Company's customers the right to return products outside of the regular return policy, the Company realizes that such factors could ultimately lead to increased returns. The Company analyzes these situations on a case-by-case basis and makes adjustments to the product return reserve as appropriate.

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The provision for product returns is reflected in net revenues. The following table is an analysis of product return liability:

	Six Months Ended June 30,	
	2016	2015
	(in thousands)	
Beginning balance	$ 2,621	$ 2,408
Provision for product returns	637	1,179
Credits issued to third parties	(715)	(977)
Ending balance	$ 2,543	$ 2,610

For the six months ended June 30, 2016 and 2015, the Company's aggregate product return rate was 1.1% and 1.1% of qualified sales, respectively.

5. Income (loss) per Share

Basic income (loss) per share is calculated based upon the weighted-average number of shares outstanding during the period and contingently issuable shares such as fully vested deferred stock units, or DSUs, and in 2015, such equity was issued as restricted stock units, or RSUs (such RSUs and DSUs are collectively referred to herein as RSUs), in addition to shares expected to be issued under the Company's employee stock purchase plan, or ESPP, as of the date all necessary conditions for issuance have been met. Diluted income per share gives effect to all potential dilutive shares outstanding during the period, such as stock options, nonvested RSUs and shares issuable under the Company's ESPP.

For the three and six months ended June 30, 2016, options to purchase 6,827,011 shares of stock with a weighted-average exercise price of $18.16 per share, were excluded in the computation of diluted net income per share because the effect from the assumed exercise of these options would be anti-dilutive.

As the Company reported a net loss for the three and six months ended June 30, 2015, the diluted net loss per share, as reported, is equal to the basic net loss per share since the effect of the assumed exercise of stock options vesting of nonvested RSUs and issuance of common shares under the Company's ESPP are anti-dilutive. Total stock options, nonvested RSUs, and shares issuable under the Company's ESPP, excluded from the three and six months ended June 30, 2015, net loss per share were 12,550,398, 896,693, and 165,167, respectively.

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The following table provides the calculation of basic and diluted net income (loss) per share for each of the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except per share data)			
Basic and dilutive numerator:				
Net income (loss)	$ 6,895	$ (6,647)	$ 9,384	$ (7,312)
Denominator:				
Shares outstanding	44,957	44,849	44,999	44,725
Weighted-average shares outstanding — basic	44,957	44,849	44,999	44,725
Net effect of dilutive securities:				
Incremental shares from equity awards	1,011	—	713	—
Weighted-average shares outstanding — diluted	45,968	44,849	45,712	44,725
Net income (loss) per share — basic	$ 0.15	$ (0.15)	$ 0.21	$ (0.16)
Net income (loss) per share — diluted	$ 0.15	$ (0.15)	$ 0.21	$ (0.16)

6. Segment Reporting

The Company’s business is the development, manufacture, and marketing of pharmaceutical products. The Company has established two reporting segments that each report to the Chief Operating Decision Maker, or CODM, as defined in ASC 280, Segment Reporting. The Company’s performance is assessed and resources are allocated by the CODM based on the following two reportable segments:

· Finished pharmaceutical products
· Active pharmaceutical ingredients, or API

The finished pharmaceutical products segment manufactures, markets and distributes enoxaparin, Cortrosyn®, Amphadase®, naloxone, lidocaine jelly, as well as various other critical and non-critical care drugs. The API segment manufactures and distributes RHI and porcine insulin. The Company also uses RHI for internal product development.

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Selected financial information by reporting segment is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net revenues:				
Finished pharmaceutical products	$ 63,756	$ 50,075	$ 122,310	$ 100,947
API	4,277	3,778	5,089	9,792
Total net revenues	68,033	53,853	127,399	110,739
Gross profit:				
Finished pharmaceutical products	30,598	12,634	56,422	25,487
API	1,116	684	194	1,111
Total gross profit	31,714	13,318	56,616	26,598
Operating expenses	21,384	23,578	42,211	44,119
Income (loss) from operations	10,330	(10,260)	14,405	(17,521)
Non-operating income (expenses)	(578)	31	(837)	1,095
Income (loss) before income taxes	$ 9,752	$ (10,229)	$ 13,568	$ (16,426)

The Company manages its business segments to the gross profit level and manages its operating and other costs on a company-wide basis. The Company does not identify total assets by segment for internal purposes, as the Company's CODM does not assess performance, make strategic decisions, or allocate resources based on assets.

Prior to the Merck API Transaction on April 30, 2014, Merck notified the Company of several environmental items that were not in alignment with Merck's own internal policies and procedures. None of these items were in violation of any French environmental law or regulation. The Company has assessed the nature of the remedial actions to be undertaken and since April 30, 2014, recorded the related expenses of €0.6 million as incurred in cost of sales within the API segment. Based on the letter of understanding signed in conjunction with the acquisition on April 30, 2014, the Company and Merck further entered into an agreement on May 11, 2016, pursuant to which Merck shall reimburse the Company for the costs to complete the remedial actions up to €6.0 million. Accordingly, in the three months and six months ended June 30, 2016, the Company recorded the reimbursement of €0.6 million for the expenses already

incurred as a reduction of cost of sales within the API segment.

Net revenues and carrying values of long-lived assets of enterprises by geographic regions are as follows:

	Net Revenue				Long-Lived Assets	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December 31,
	2016	2015	2016	2015	2016	2015
	(in thousands)					
U.S.	$ 67,550	$ 52,757	$ 126,089	$ 105,717	$ 101,430	$ 100,404
China	—	—	—	—	33,835	28,547
France	483	1,096	1,310	5,022	13,382	13,210
Total	$ 68,033	$ 53,853	$ 127,399	$ 110,739	$ 148,647	$ 142,161

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7. Customer and Supplier Concentration

Customer Concentrations

Three large wholesale drug distributors, AmerisourceBergen Corporation, or AmerisourceBergen, Cardinal Health, Inc. or Cardinal, and McKesson Corporation, or McKesson, are all distributors of the Company's products, as well as suppliers of a broad range of health care products. Actavis has exclusive marketing rights of the Company's enoxaparin product to the U.S. retail pharmacy market (see Note 16). MannKind Corporation began buying RHI API from the Company in December 2014. The Company considers these five customers to be its major customers, as each individually, and these customers collectively, represented a significant percentage of the Company's net revenue for the three and six months ended June 30, 2016 and 2015, and accounts receivable as of June 30, 2016 and December 31, 2015. The following table provides accounts receivable and net revenues information for these major customers:

	% of Total Accounts Receivable		% of Net Revenue			
			Three Months Ended		Six Months Ended	
	June 30, 2016	December 31, 2015	June 30, 2016	2015	June 30, 2016	2015
Actavis, Inc. (1)	8 %	12 %	18 %	21 %	20 %	22 %
AmerisourceBergen	12 %	12 %	20 %	18 %	19 %	17 %
Cardinal Health	19 %	20 %	20 %	17 %	20 %	17 %
MannKind Corporation	17 %	13 %	6 %	5 %	3 %	8 %
McKesson	18 %	21 %	19 %	23 %	20 %	21 %

(1) The distribution agreement with Actavis is in the process of being terminated (see Note 16).

Supplier Concentrations

The Company depends on suppliers for raw materials, active pharmaceutical ingredients, and other components that are subject to stringent U.S. Food and Drug Administration, or FDA, requirements. Some of these materials may only be available from one or a limited number of sources. Establishing additional or replacement suppliers for these materials may take a substantial period of time, as suppliers must be approved by the FDA. Furthermore, a significant portion of raw materials may only be available from foreign sources. If the Company is unable to secure, on a timely basis, sufficient quantities of the materials it depends on to manufacture and market its products, it could have a materially adverse effect on the Company's business, financial condition, and results of operations.

8. Fair Value Measurements

The accounting standards of the Financial Accounting Standards Board, or FASB, define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability at the measurement date (an exit price). These standards also establish a hierarchy that prioritizes observable and unobservable inputs used in measuring fair value of an asset or liability, as described below:

· Level 1 – Inputs to measure fair value are based on quoted prices (unadjusted) in active markets on identical assets or liabilities;

· Level 2 – Inputs to measure fair value are based on the following: a) quoted prices in active markets on similar assets or liabilities, b) quoted prices for identical or similar instruments in inactive markets, or c) observable (other than quoted prices) or collaborated observable market data used in a pricing model from which the fair value is derived; and

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· Level 3 – Inputs to measure fair value are unobservable and the assets or liabilities have little, if any, market activity; these inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities based on best information available in the circumstances.

The Company measures fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company classifies its cash equivalents and short-term investments as Level 1 assets, as they are valued on a recurring basis using quoted market prices with no valuation adjustments applied. The Company does not hold any Level 2 or Level 3 instruments that are measured for fair value on a recurring basis.

The fair values of the Company's financial assets and liabilities measured on a recurring basis, as of June 30, 2016 and December 31, 2015, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents:				
Money market accounts	$ 37,592	$ 37,592	$ —	$ —
Restricted short-term investments:				
Certificates of deposit	1,390	1,390	—	—
Fair value measurement as of June 30, 2016	$ 38,982	$ 38,982	$ —	$ —
Cash equivalents:				
Money market accounts	$ 42,486	$ 42,486	$ —	$ —

Restricted short-term investments:				
Certificates of deposit	1,285	1,285	—	—
Fair value measurement as of December 31, 2015	$ 43,771	$ 43,771	$ —	$ —

The fair value of the Company's cash equivalents includes money market funds and certificates of deposit with original maturities of three months or less. Short-term investments consist of certificate of deposit accounts that expire within 12 months for which market prices are readily available. The restrictions placed on the certificate of deposit accounts have a negligible effect on the fair value of these financial assets; these funds are restricted to meet the Company's obligation for workers' compensation claims.

The Company adopted the required fair value measurements and disclosures provisions related to nonfinancial assets and liabilities. These assets and liabilities are not measured at fair value on a recurring basis but are subject to fair value adjustments in certain circumstances. These items primarily include long-lived assets, goodwill, and intangible assets for which the fair value of assets is determined as part of the related impairment test. As of June 30, 2016 and December 31, 2015, there were no significant adjustments to fair value for nonfinancial assets or liabilities.

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9. Goodwill and Intangible Assets

The table below shows the weighted-average life, original cost, accumulated amortization, and net book value by major intangible asset classification as of the dates set forth below:

	Weighted-Average Life (Years)	Original Cost (in thousands)	Accumulated Amortization	Net Book Value
Definite-lived intangible assets				
Product rights	12	$ 27,134	$ 23,570	$ 3,564
Patents	10	293	122	171
Land-use rights	39	2,540	321	2,219
Acquired ANDAs(1)	15	4,000	89	3,911
Other intangible assets	1	575	526	49
Subtotal	12	34,542	24,628	9,914
Indefinite-lived intangible assets				
Trademark	*	29,225	—	29,225
Goodwill				
Finished pharmaceutical products	*	4,159	—	4,159
Subtotal	*	33,384	—	33,384
As of June 30, 2016	*	$ 67,926	$ 24,628	$ 43,298

	Weighted-Average Life (Years)	Original Cost (in thousands)	Accumulated Amortization	Net Book Value
Definite-lived intangible assets				
Product rights	12	$ 27,134	$ 22,679	$ 4,455
Patents	10	293	107	186

Land-use rights	39	2,540	288	2,252
Other intangible assets	1	590	533	57
Subtotal	12	30,557	23,607	6,950
Indefinite-lived intangible assets				
Trademark	*	29,225	—	29,225
Goodwill				
Finished pharmaceutical products	*	3,726	—	3,726
Subtotal	*	32,951	—	32,951
As of December 31, 2015	*	$ 63,508	$ 23,607	$ 39,901

*Intangible assets with indefinite lives have an indeterminable average life.

(1)In March 2016, the Company acquired fourteen ANDAs representing eleven different injectable chemical entities from Hikma Pharmaceuticals PLC for $4.0 million. The accounting for this transaction is preliminary. (See note 3).

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Goodwill

The changes in the carrying amounts of goodwill were as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Beginning balance	$ 3,726	$ 4,467
Goodwill related to acquisition of business	370	—
Currency translation and other adjustments	63	(741)
Ending balance	$ 4,159	$ 3,726

Primatene® Trademark

In January 2009, the Company acquired the exclusive rights to the trademark, domain name, website and domestic marketing, distribution and selling rights related to Primatene® Mist, an over-the-counter bronchodilator product, for a total consideration of $29.2 million, which is its carrying value as of June 30, 2016.

In determining the useful life of the trademark, the Company considered the following: the expected use of the intangible; the longevity of the brand; the legal, regulatory and contractual provisions that affect their maximum useful life; the Company's ability to renew or extend the asset's legal or contractual life without substantial costs; effects of the regulatory environment; expected changes in distribution channels; maintenance expenditures required to obtain the expected future cash flows from the asset; and considerations for obsolescence, demand, competition and other economic factors.

As a result of environmental concerns about Chlorofluorocarbons, or CFCs, the FDA issued a final ruling on January 16, 2009, that required the CFC formulation of its Primatene® Mist product to be phased out by December 31, 2011. The former formulation of Primatene® Mist contained CFCs as a propellant; however, the Company intends to use the trademark for a future version of Primatene® that utilizes hydrofluoroalkane, or HFA, as a propellant.

In 2013, the Company filed a new drug application, or NDA, for Primatene® HFA and received a Prescription Drug User Fee Act date set for May 2014. In May 2014, the Company received a complete response letter, or CRL, from the FDA, which requires additional non-clinical information, label revisions and follow-up studies (label comprehension, behavioral/human factors and actual use) to assess consumers' ability to use the device correctly to support approval of the product in the over-the-counter setting. The Company met with the FDA in October 2014 to discuss preliminary data results and to clarify the FDA requirements for further studies. The Company received further advice regarding its ongoing studies from the FDA in January 2016, and subsequently completed the human factor studies accordingly. The Company submitted the NDA amendment on June 28, 2016 and received a target response date of December 28, 2016. However, there can be no guarantee that any amendment to the Company's NDA will result in timely approval of Primatene® HFA or approval at all.

Based on the Company's filed version of Primatene® HFA, the Company's response to the CRL to address the FDA's concerns, the long history of the Primatene® trademark (marketed since 1963) and the Company's perpetual rights to the trademark, the Company has determined that the trademark has an indefinite useful life. If the HFA version is approved by the FDA, it will be marketed under the same trade name; therefore, an impairment charge would not be required.

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10. Inventories

Inventories are stated at the lower of cost or market, using the first-in, first-out method. Provisions are made for slow-moving, unsellable or obsolete items. Inventories consist of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Raw materials and supplies	$ 42,574	$ 31,878
Work in process	16,654	21,455
Finished goods	30,739	19,867
Total inventory	89,967	73,200
Less reserve for excess and obsolete inventories	(1,640)	(2,535)
Total inventory, net	$ 88,327	$ 70,665

11. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Buildings	$ 84,246	$ 82,309
Leasehold improvements	24,580	23,392
Land	6,915	6,895
Machinery and equipment	109,562	108,442
Furniture, fixtures, and automobiles	14,872	13,439
Construction in progress	25,178	19,942

Total property, plant, and equipment	265,353	254,419
Less accumulated depreciation	(116,706)	(112,258)
Total property, plant, and equipment, net	$ 148,647	$ 142,161

As of June 30, 2016, the Company had $2.7 million in capitalized manufacturing equipment that is intended to be used specifically for the manufacture of Primatene® HFA. The Company will continue to monitor developments with the FDA as it relates to its Primatene® HFA indefinite lived intangible asset in determining if there is an impairment of these related fixed assets (see Note 9).

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12. Debt

Debt consists of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Loans with East West Bank		
Mortgage payable due September 2016	$ 2,173	$ 2,211
Equipment loan due April 2017	1,072	1,700
Line of credit facility due September 2017	—	—
Equipment loan due January 2019	3,978	4,748
Mortgage payable due February 2021	3,699	3,725
Equipment credit line due September 2021	2,882	—
Loans with Cathay Bank		
Line of credit facility due May 2018	—	—
Acquisition loan due April 2019	18,055	19,012
Mortgage payable due April 2021	4,414	4,460
Loans with Seine-Normandie Water Agency		
French government loan 1 due March 2018	31	46
French government loan 2 due June 2020	103	128
French government loan 3 due July 2021	335	325
Payment Obligation to Merck	4,043	3,942
Equipment under Capital Leases	1,861	802
Total debt and capital leases	42,646	41,099
Less current portion of long-term debt and capital leases	10,904	10,934
Long-term debt and capital leases, net of current portion	$ 31,742	$ 30,165

Loans with East West Bank

Mortgage Payable—Due September 2016

In September 2006, the Company entered into a mortgage term loan in the principal amount of $2.8 million, which matures in September 2016. The loan is payable in monthly installments with a final balloon payment of $2.2 million plus interest. The loan is secured by one of the buildings at the Company's Rancho Cucamonga, California, headquarters complex. The variable interest rate is equal to the three-month LIBOR plus 2.50%.

Equipment Loan—Due April 2017

In March 2012, the Company entered into an $8.0 million revolving credit facility. In March 2013, the Company converted the outstanding principal balance of $4.9 million into an equipment loan. Borrowings under the facility are secured by equipment purchased with debt proceeds. Borrowings under the facility bear interest at the prime rate as published by The Wall Street Journal, plus 0.25%, with a minimum interest rate of 3.50%. This facility matures in April 2017.

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Line of Credit Facility—Due September 2017

In March 2012, the Company entered into a $10.0 million line of credit facility. Borrowings under the facility are secured by inventory and accounts receivable. Borrowings under the facility bear interest at the prime rate as published by The Wall Street Journal. This facility was to mature in March 2016. In March 2016, the Company amended the facility to increase the line of credit to $15.0 million and extended the maturity date to September 2017. As of June 30, 2016, the Company did not have any amounts outstanding under this facility.

Equipment Loan—Due January 2019

In July 2013, the Company entered into an $8.0 million line of credit facility. Borrowings under the facility were secured by equipment. The facility bore interest at the prime rate as published in The Wall Street Journal plus 0.25% and was to mature in January 2019.

In January 2015, the Company drew down $6.2 million from the line of credit facility. Subsequently, the facility was converted into an equipment loan with an outstanding principal balance of $6.2 million. Borrowings under the facility are secured by equipment purchased with the debt proceeds. The Company entered into a fixed interest rate swap contract on this facility to exchange the floating rate for a fixed interest payment over the life of the facility without the exchange of the underlying notional debt amount. The fair value of the derivative and unrealized loss was immaterial to the Company’s consolidated financial statement at June 30, 2016. The facility bears interest at a fixed rate of 4.48% and matures in January 2019. As of June 30, 2016, the loan had a book value of $4.0 million, which approximates fair value. The variable interest rate is deemed to be a Level 2 input for measuring fair value.

Mortgage Payable—Due February 2021

In December 2010, the Company refinanced an existing mortgage term loan, which had a principal balance outstanding of $4.5 million at December 31, 2010. The loan was payable in monthly installments with a final balloon payment of $3.8 million. The loan was secured by one of the buildings at the Company’s Rancho Cucamonga, California, headquarters complex, as well as one of its buildings at its Chino, California, complex. The loan had a

variable interest rate at the prime rate as published by The Wall Street Journal, with a minimum interest rate of 5.00%, and matured in January 2016.

The Company refinanced the existing mortgage term loan in January 2016, which had a principal balance outstanding of $3.7 million at December 31, 2015. The loan is payable in monthly installments with a final balloon payment of $3.3 million. The loan is secured by one of the buildings at the Company's Rancho Cucamonga, California, headquarters complex. The loan has a variable interest rate at the prime rate as published by The Wall Street Journal. Subsequently, the Company entered into a fixed interest rate swap contract on this loan to exchange the variable interest rate for a fixed interest payment over the life of the loan without the exchange of the underlying notional debt amount. The loan bears interest at a fixed rate of 4.39%, and matures in February 2021. The fair value of the derivative and unrealized loss was approximately $0.1 million at June 30, 2016. As of June 30, 2016, the loan had a book value of $3.7 million, which approximates fair value. The variable interest rate is deemed to be a Level 2 input for measuring fair value.

Equipment Credit Line – Due September 2021

In March 2016, the Company entered into a $5.0 million equipment credit line with an 18-month draw down period and interest payments due monthly through September 2017 at the prime rate as published by The Wall Street Journal. After the draw down period, the outstanding principal balance converts into a 48-month loan with principal and interest payments due monthly. Borrowings under the facility are secured by the equipment purchased with the debt proceeds, and bears interest at the prime rate as published by The Wall Street Journal. This facility matures in September 2021. As of June 30, 2016, the Company has drawn $2.9 million from the equipment line of credit.