ABM INDUSTRIES INC /DE/
Form 10-Q
March 07, 2018

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2018
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: 1-8929
ABM INDUSTRIES INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	94-1369354
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Liberty Plaza, 7th Floor
New York, New York 10006
(Address of principal executive offices)

(212) 297-0200
(Registrant's telephone number, including area code)

None
(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 þ No o

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 þ No o

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

Large accelerated filer	þ	Accelerated filer	¨	Non-accelerated filer	¨	Smaller reporting company	¨	Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Number of shares of the registrant’s common stock outstanding as of March 1, 2018: 65,700,002

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains both historical and forward-looking statements regarding ABM Industries Incorporated ("ABM") and its subsidiaries (collectively referred to as "ABM," "we," "us," "our," or the "Company"). We make forward-loo statements related to future expectations, estimates, and projections that are uncertain and often contain words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "outlook," "plan," "predict," "shou similar words or phrases. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and assumptions that are difficult to predict. Particular risks and uncertainties that could cause our actual results to be materially different from those expressed in our forward-looking statements include those listed below.

- We may not realize the growth opportunities and cost synergies that are anticipated from the acquisition of GCA Services Group ("GCA").
- We have incurred a substantial amount of debt to complete the acquisition of GCA. To service our debt we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We also depend on the profitability of our subsidiaries to satisfy our cash needs. If we cannot generate the required cash, we may not be able to make the necessary payments required to service our indebtedness or we may be required to suspend certain discretionary payments, including our dividend.
- Changes to our businesses, operating structure, financial reporting structure, or personnel relating to the implementation of our 2020 Vision strategic transformation initiative, including our move to our Enterprise Services Center, may not have the desired effects on our financial condition and results of operations.
- Our success depends on our ability to gain profitable business despite competitive pressures and to preserve long-term client relationships.
- Our business success depends on our ability to attract and retain qualified personnel and senior management.
- Our use of subcontractors or joint venture partners to perform work under customer contracts exposes us to liability and financial risk.
- Our international business involves risks different from those we face in the United States that could have an effect on our results of operations and financial condition.
- Unfavorable developments in our class and representative actions and other lawsuits alleging various claims could cause us to incur substantial liabilities.
- We insure our insurable risks through a combination of insurance and self-insurance and we retain a substantial portion of the risk associated with expected losses under these programs, which exposes us to volatility associated with those risks, including the possibility that changes in estimates of ultimate insurance losses could result in a material charge against our earnings.
- Our risk management and safety programs may not have the intended effect of reducing our liability for personal injury or property loss.
- Impairment of goodwill and long-lived assets could have a material adverse effect on our financial condition and results of operations.
- Changes in general economic conditions, including changes in energy prices, government regulations, or changing consumer preferences, could reduce the demand for facility services and, as a result, reduce our earnings and adversely affect our financial condition.
- Our income tax provision and income tax liabilities could be adversely affected by the jurisdictional mix of earnings, changes in valuations of deferred tax assets and liabilities, and changes in tax treaties, laws, and regulations, including the U.S. Tax Cuts and Jobs Act of 2017, which effected significant changes to the U.S. corporate income tax system.
- We could be subject to cyber-security risks, information technology interruptions, and business continuity risks.
- A significant number of our employees are covered by collective bargaining agreements that could expose us to potential liabilities in relationship to our participation in multiemployer pension plans, requirements to make contributions to other benefit plans, and the potential for strikes, work slowdowns or similar activities, and union-organizing drives.
- If we fail to maintain proper and effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be negatively impacted, which could harm our operating results and investors' perceptions of our company and, as a result, the value of our common stock.

- Our business may be negatively impacted by adverse weather conditions.

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- Catastrophic events, disasters, and terrorist attacks could disrupt our services.
- Actions of activist investors could disrupt our business.

The list of factors above is illustrative and by no means exhaustive. Additional information regarding these and other risks and uncertainties we face is contained in our Annual Report on Form 10-K for the year ended October 31, 2017 and in other reports we file from time to time with the Securities and Exchange Commission (including all amendments to those reports).

We urge readers to consider these risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.
ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in millions, except share and per share amounts)	January 31, 2018	October 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 68.6	$ 62.8
Trade accounts receivable, net of allowances of $15.5 and $25.5 at January 31, 2018 and October 31, 2017, respectively	1,020.0	1,038.1
Prepaid expenses	97.4	101.8
Other current assets	32.1	32.8
Total current assets	1,218.1	1,235.5
Other investments	18.8	17.6
Property, plant and equipment, net of accumulated depreciation of $147.6 and $136.4 at January 31, 2018 and October 31, 2017, respectively	141.6	143.1
Other intangible assets, net of accumulated amortization of $206.1 and $189.1 at January 31, 2018 and October 31, 2017, respectively	404.3	430.1
Goodwill	1,871.2	1,864.2
Other noncurrent assets	143.1	122.1
Total assets	$ 3,797.0	$ 3,812.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt, net	$ 7.0	$ 16.9
Trade accounts payable	203.5	230.8
Accrued compensation	143.1	159.9
Accrued taxes—other than income	62.5	52.5
Insurance claims	114.1	112.5
Income taxes payable	5.0	13.4
Other accrued liabilities	164.4	171.8
Total current liabilities	699.6	757.8
Long-term debt, net	1,173.4	1,161.3
Deferred income tax liability, net	32.8	57.3
Noncurrent insurance claims	387.3	382.9
Other noncurrent liabilities	63.5	61.3
Noncurrent income taxes payable	23.7	16.3
Total liabilities	2,380.2	2,436.9
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value; 500,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 100,000,000 shares authorized; 65,686,394 and 65,502,568 shares issued and outstanding at January 31, 2018 and October 31, 2017, respectively	0.7	0.7
Additional paid-in capital	677.1	675.2
Accumulated other comprehensive income (loss), net of taxes	2.7	(20.3)
Retained earnings	736.2	720.1
Total stockholders' equity	1,416.8	1,375.7

Total liabilities and stockholders' equity	$ 3,797.0	$ 3,812.6

See accompanying notes to unaudited consolidated financial statements.

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended January 31,	
(in millions, except per share amounts)	2018	2017
Revenues	$1,588.3	$1,326.7
Operating expenses	1,429.3	1,195.1
Selling, general and administrative expenses	109.0	97.3
Restructuring and related expenses	14.3	5.0
Amortization of intangible assets	16.2	5.5
Operating profit	19.5	23.8
Income from unconsolidated affiliates, net	0.5	1.4
Interest expense	(14.3)	(3.2)
Income from continuing operations before income taxes	5.8	22.0
Income tax benefit (provision)	22.2	(5.9)
Income from continuing operations	28.0	16.1
Loss from discontinued operations, net of taxes	(0.1)	(72.9)
Net income (loss)	27.8	(56.8)
Other comprehensive income (loss)		
Unrealized gains on interest rate swaps, net of taxes of $5.0 and $1.1, respectively	13.6	1.6
Foreign currency translation	9.4	3.3
Comprehensive income (loss)	$50.9	$(51.9)
Net income (loss) per common share — Basic		
Income from continuing operations	$0.42	$0.29
Loss from discontinued operations	—	(1.30)
Net income (loss)	$0.42	$(1.01)
Net income (loss) per common share — Diluted		
Income from continuing operations	$0.42	$0.28
Loss from discontinued operations	—	(1.28)
Net income (loss)	$0.42	$(1.00)
Weighted-average common and common equivalent shares outstanding		
Basic	65.9	56.0
Diluted	66.3	56.6
Dividends declared per common share	$0.175	$0.170

See accompanying notes to unaudited consolidated financial statements.

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Three Months Ended January 31, 2018	2017
Cash flows from operating activities		
Net income (loss)	$27.8	$(56.8)
Loss from discontinued operations, net of taxes	0.1	72.9
Income from continuing operations	28.0	16.1
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities of continuing operations		
Depreciation and amortization	29.0	14.0
Deferred income taxes	(30.3)	9.9
Share-based compensation expense	3.8	3.6
Provision for bad debt	2.6	0.4
Discount accretion on insurance claims	0.2	0.1
Gain on sale of assets	(0.1)	(0.1)
Income from unconsolidated affiliates, net	(0.5)	(1.4)
Distributions from unconsolidated affiliates	—	0.8
Changes in operating assets and liabilities, net of effects of acquisitions		
Trade accounts receivable	15.7	(65.4)
Prepaid expenses and other current assets	1.4	(2.4)
Other noncurrent assets	(1.7)	(7.5)
Trade accounts payable and other accrued liabilities	(33.2)	18.1
Insurance claims	5.8	8.3
Income taxes payable	10.9	(11.0)
Other noncurrent liabilities	2.2	6.8
Total adjustments	5.8	(25.8)
Net cash provided by (used in) operating activities of continuing operations	33.8	(9.7)
Net cash used in operating activities of discontinued operations	(0.1)	(1.4)
Net cash provided by (used in) operating activities	33.7	(11.1)
Cash flows from investing activities		
Additions to property, plant and equipment	(10.6)	(11.0)
Proceeds from sale of assets	0.3	0.5
Adjustments to sale of business	(1.9)	—
Purchase of businesses, net of cash acquired	(2.4)	(18.6)
Investments in unconsolidated affiliates	(0.6)	—
Net cash used in investing activities	(15.3)	(29.1)
Cash flows from financing activities		
Taxes withheld from issuance of share-based compensation awards, net	(2.0)	(1.0)
Repurchases of common stock	—	(7.9)
Dividends paid	(11.5)	(9.4)
Deferred financing costs paid	(0.1)	—
Borrowings from credit facility	304.3	207.4
Repayment of borrowings from credit facility	(303.0)	(169.7)
Changes in book cash overdrafts	(1.2)	5.1
Financing of energy savings performance contracts	—	2.6
Repayment of capital lease obligations	(0.8)	(0.1)

Net cash (used in) provided by financing activities	(14.3)	27.0
Effect of exchange rate changes on cash and cash equivalents	1.7	0.5
Net increase (decrease) in cash and cash equivalents	5.8	(12.7)
Change in cash related to assets held for sale	—	(0.7)
Cash and cash equivalents at beginning of year	62.8	56.0
Cash and cash equivalents at end of period	$68.6	$42.6

See accompanying notes to unaudited consolidated financial statements.

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. THE COMPANY AND NATURE OF OPERATIONS

ABM Industries Incorporated, which operates through its subsidiaries (collectively referred to as “ABM,” “we,” “us,” “our,” or the “Company”), is a leading provider of integrated facility services with a mission to make a difference, every person, every day. We are organized into five industry groups and one Technical Solutions segment:

Through these groups, we offer janitorial, facilities engineering, parking, and specialized mechanical and electrical technical solutions, on a standalone basis or in combination with other services.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with (i) United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and (ii) the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of our management, our unaudited consolidated financial statements and accompanying notes (the “Financial Statements”) include all normal recurring adjustments that are necessary for the fair statement of the interim periods presented. Interim results of operations are not necessarily indicative of results for the full year. The Financial Statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. Unless otherwise indicated, all references to years are to our fiscal year, which ends on October 31.

Acquisition of GCA Services Group

On September 1, 2017 (the “Acquisition Date”), we completed the acquisition of GCA Services Group (“GCA”). Accordingly, our consolidated statements of comprehensive income (loss) and statements of cash flows include GCA’s results of operations in the three months ended January 31, 2018, but exclude GCA’s results of operations in the three months ended January 31, 2017, as that was prior to the Acquisition Date. See Note 3, “Acquisitions,” for further information on the acquisition of GCA.

Government Services

On May 31, 2017, we sold our Government Services business for $35.5 million and recorded a pre-tax gain of $1.2 million during the third quarter of 2017. The reported results for this business are through the date of sale. Future results could include run-off costs associated with this former business.

Discontinued Operations

Following the sale of our Security business in 2015, we record all costs associated with this former business in discontinued operations. Such costs generally relate to litigation we retained and insurance reserves.

Prior Year Reclassifications

Effective November 1, 2017, we made changes to our operating structure as a result of the GCA acquisition. To reflect these changes, certain prior year amounts, including operating segment data, have been reclassified to conform with our fiscal 2018 presentation. These changes had no impact on our previously reported consolidated balance sheets, statements of comprehensive income (loss), or statements of cash flows. See Note 12, “Segment Information,” for further details.

Rounding

We round amounts in the Financial Statements to millions and calculate all percentages and per-share data from the underlying whole-dollar amounts. Thus, certain amounts may not foot, crossfoot, or recalculate based on reported numbers due to rounding.

Management Reimbursement Revenue by Segment

We operate certain parking facilities under managed location arrangements. Under these arrangements, we manage the parking facility for a management fee and pass through the revenue and expenses associated with the facility to the owner. These revenues and expenses are reported in equal amounts as costs reimbursed from our managed locations:

	Three Months Ended January 31,	
(in millions)	2018	2017
Business & Industry	$63.0	$57.8
Aviation	25.5	16.5
Healthcare	4.9	4.6
Total	$93.4	$78.9

3. ACQUISITIONS

Acquisition of GCA during 2017

On September 1, 2017, we acquired all of the outstanding stock of GCA, a provider of integrated facility services to educational institutions and commercial facilities, for a purchase price of approximately $1.3 billion. As described in Note 12, “Segment Information,” we integrated GCA’s operations into our industry group model effective November 1, 2017. As a result of the acquisition, we are now a leading facilities services provider in the education market.

Consideration Transferred

(in millions, except per share data)	
Shares of ABM common stock, net of shares withheld for taxes	9.4
ABM common stock closing market price at acquisition date	$44.63
Fair value of ABM common stock at closing	421.3
Cash consideration	839.9
Total consideration transferred	$1,261.3

Preliminary Purchase Price Allocation

Our preliminary purchase price allocation is based on information that is currently available, and we are continuing to evaluate the underlying inputs and assumptions used in our valuations. Accordingly, consideration and purchase price allocations are subject to, among other items: working capital adjustments; further analysis of tax accounts, including deferred tax liabilities; and final valuation of identifiable intangible assets. During the first quarter of 2018, we refined our valuation of customer relationships and certain other estimates.

The following table presents our preliminary estimates of fair values of the assets we acquired and the liabilities we assumed on the date of acquisition as previously reported at year-end 2017 and at the end of the first quarter of 2018.

(in millions)	As reported at October 31, 2017	Adjustments	As reported at January 31, 2018
Cash and cash equivalents	$ 2.5	$ (2.4)	$ 0.1
Trade accounts receivable[1]	118.1		118.1
Prepaid expenses and other current assets	10.3		10.3
Property, plant and equipment	41.4		41.4
Customer relationships[2]	340.0	(10.0)	330.0
Trade name[2]	9.0		9.0
Goodwill[3]	933.9	0.4	934.3
Other assets	4.2		4.2
Trade accounts payable	(9.1)		(9.1)
Insurance reserves	(35.5)		(35.5)
Income taxes payable	(16.5)	8.2	(8.3)
Accrued liabilities	(36.5)	4.9	(31.6)
Deferred income tax liability, net	(92.6)	(1.0)	(93.6)
Other liabilities	(8.1)		(8.1)
Net assets acquired	$ 1,261.3	$ —	$ 1,261.3

[1] The gross amount of trade accounts receivable was $122.0 million, of which $3.9 million is expected to be uncollectible.

[2] The amortization periods for the acquired intangible assets are 15 years for customer relationships and 2 years for trade names.

[3] Goodwill is largely attributable to value we expect to obtain from long-term business growth, the established workforce, and buyer-specific synergies. This goodwill is not deductible for income tax purposes.

Financial Information

For the three months ended January 31, 2018, we recorded revenue related to GCA of $251.6 million and operating profit of $5.0 million. The following table presents our unaudited pro forma results as though the GCA acquisition occurred on November 1, 2015. The pro forma results include adjustments for the estimated amortization of intangible assets, interest expense, and the income tax impact of the pro forma adjustments at the statutory rate of 41%. These pro forma results do not reflect the cost of integration activities or benefits from expected revenue enhancements and synergies. Accordingly, the pro forma information is not necessarily indicative of the results that would have been achieved if the acquisition had been effective on November 1, 2015.

(in millions)	Three Months Ended January 31, 2017
Pro forma revenue	$ 1,578.9
Pro forma income from continuing operations	14.5

Other 2017 Acquisitions

Effective December 1, 2016, we acquired all of the outstanding stock of Mechanical Solutions, Inc. (“MSI”), a provider of specialized HVAC, chiller, and plumbing services, for a purchase price of $12.6 million. The purchase price includes up to $1.0 million of undiscounted contingent consideration that is based on the expected achievement of certain pre-established revenue goals. See Note 6, “Fair Value of Financial Instruments,” regarding our valuation of contingent consideration liabilities. As of December 1, 2016, the operations of MSI are included in our Technical Solutions segment.

Effective December 1, 2016, we also acquired all of the outstanding stock of OFJ Connections Ltd (“OFJ”), a provider of airport transportation services in the United Kingdom, for a purchase price of $6.3 million. As of December 1, 2016, the operations of OFJ are included in our Aviation segment.

Pro Forma and Other Supplemental Financial Information

Except for GCA, we do not present pro forma and other financial information for our other acquisitions, as they are not considered material business combinations individually or on a combined basis.

4. RESTRUCTURING AND RELATED COSTS

GCA Restructuring

Following the acquisition of GCA, during the first quarter of 2018 we initiated a restructuring program to achieve cost synergies from our combined operations. We expect our GCA restructuring and related activities to be complete by the second half of 2018.

2020 Vision Restructuring

During the fourth quarter of 2015, our Board of Directors approved a comprehensive strategy intended to have a positive transformative effect on ABM (the "2020 Vision"). As part of the 2020 Vision, we identified key priorities to differentiate ABM in the marketplace, accelerate revenue growth for certain industry groups, and improve our margin profile. We incurred additional expenses primarily related to external support fees during the first quarter of 2018 relating to this strategy. We do not expect to incur significant 2020 Vision restructuring and related expenses in the future, other than in connection with the continued consolidation of our real estate leases.

Rollforward of Restructuring and Related Liabilities

(in millions)	Balance, October 31, 2017	Costs Recognized[1]	Payments	Non-Cash Items	Balance, January 31, 2018
Employee severance	$ 2.7	$ 8.7	$ (3.3)	$ —	$ 8.1
External support fees	2.5	4.0	(2.5)	—	4.0
Lease exit	2.8	0.5	(0.3)	0.2	3.2
Other project fees	0.4	1.0	(0.6)	—	0.8
Total	$ 8.4	$ 14.3	$ (6.7)	$ 0.2	$ 16.1

[1] We include these costs within corporate expenses.

Cumulative Restructuring and Related Charges

(in millions)	External Support Fees	Employee Severance	Other Project Fees	Lease Exit Costs	Asset Impairment	Total
GCA	$ 2.0	$ 10.5	$ 0.8	$ —	$ —	$13.3
2020 Vision	30.0	13.7	10.6	6.3	4.7	65.1
Total	$ 32.0	$ 24.2	$ 11.4	$ 6.3	$ 4.7	$78.4

5. NET INCOME PER COMMON SHARE

Basic and Diluted Net Income Per Common Share Calculations

	Three Months Ended January 31,					
(in millions, except per share amounts)	2018			2017		
Income from continuing operations	$	28.0		$	16.1	
Loss from discontinued operations, net of taxes	(0.1		)	(72.9		)
Net income (loss)	$	27.8		$	(56.8	)
Weighted-average common and common equivalent shares outstanding — Basic	65.9			56.0		
Effect of dilutive securities						
Restricted stock units	0.2			0.3		
Stock options	0.1			0.2		
Performance shares	0.1			0.1		
Weighted-average common and common equivalent shares outstanding — Diluted	66.3			56.6		
Net income (loss) per common share — Basic						
Income from continuing operations	$	0.42		$	0.29	
Loss from discontinued operations	—			(1.30		)
Net income (loss)	$	0.42		$	(1.01	)
Net income (loss) per common share — Diluted						
Income from continuing operations	$	0.42		$	0.28	
Loss from discontinued operations	—			(1.28		)
Net income (loss)	$	0.42		$	(1.00	)

Anti-Dilutive Outstanding Stock Awards Issued Under Share-Based Compensation Plans

	Three Months Ended January 31,	
(in millions)	2018	2017
Anti-dilutive	0.2	—

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy of Our Financial Instruments

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

(in millions)	Fair Value Hierarchy	January 31, 2018	October 31, 2017
Cash and cash equivalents[1]	1	$ 68.6	$ 62.8
Insurance deposits[2]	1	10.2	11.2
Assets held in funded deferred compensation plan[3]	1	4.6	4.6
Credit facility[4]	2	1,192.5	1,191.2
Interest rate swaps[5]	2	21.5	2.9
Investments in auction rate securities[6]	3	8.0	8.0
Contingent consideration liability[7]	3	0.9	0.9

(1) Cash and cash equivalents are stated at nominal value, which equals fair value.

(2) Represents restricted deposits that are used to collateralize our insurance obligations and are stated at nominal value, which equals fair value. These insurance deposits are included in “Other noncurrent assets” on the accompanying unaudited consolidated balance sheets. See Note 8, “Insurance,” for further information.

(3) Represents investments held in a Rabbi trust associated with one of our deferred compensation plans, which we include in “Other noncurrent assets” on the accompanying unaudited consolidated balance sheets. The fair value of the assets held in the funded deferred compensation plan is based on quoted market prices.

(4) Represents gross outstanding borrowings under our syndicated line of credit and term loan. Due to variable interest rates, the carrying value of outstanding borrowings under our line of credit and term loan approximates the fair value. See Note 9, “Credit Facility,” for further information.

(5) Represents interest rate swap derivatives designated as cash flow hedges. The fair values of the interest rate swaps are estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates using observable benchmarks for LIBOR forward rates at the end of the period. These interest rate swaps are included in “Other noncurrent assets” on the accompanying unaudited consolidated balance sheets. See Note 9, “Credit Facility,” for further information.

(6) The fair value of investments in auction rate securities is based on discounted cash flow valuation models, primarily utilizing unobservable inputs, including assumptions about the underlying collateral, credit risks associated with the issuer, credit enhancements associated with financial insurance guarantees, and the possibility of the security being re-financed by the issuer or having a successful auction. These amounts are included in “Other investments” on the accompanying unaudited consolidated balance sheets. See Note 7, “Auction Rate Securities,” for further information.

(7) Certain of our acquisitions involve the payment of contingent consideration. The fair value of these liabilities is based on the expected achievement of certain pre-established revenue goals. Our contingent consideration liability is included in “Other accrued liabilities” and “Other noncurrent liabilities” on the accompanying unaudited consolidated balance sheets.

During the three months ended January 31, 2018, we had no transfers of assets or liabilities between any of the above hierarchy levels.

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

We measure certain assets at fair value on a non-recurring basis, which are subject to fair value adjustments in certain circumstances. These assets can include: goodwill; intangible assets; property, plant and equipment; and long-lived assets that have been reduced to fair value when they are held for sale.

On November 1, 2017, we reorganized our reportable segments and goodwill reporting units. In connection with this reorganization, we performed a qualitative goodwill impairment test immediately before and after the segment realignment. In analyzing the results of operations and business conditions of the goodwill reporting units, we determined the likelihood of a goodwill impairment did not reach the more-likely-than not threshold specified in U.S. GAAP for any of the reporting units that were evaluated. Accordingly, we concluded that goodwill related to those reporting units was not impaired and further quantitative testing was not required.

7. AUCTION RATE SECURITIES

At January 31, 2018 and October 31, 2017, we held investments in auction rate securities from two different issuers that had an aggregate original principal amount of $10.0 million and an amortized cost and fair value of $8.0 million. These two auction rate securities are debt instruments with stated maturities in 2036 and 2050. The interest rates for these securities are designed to be reset through Dutch auctions approximately every thirty days, but auctions for these securities have not occurred since August 2007.

At January 31, 2018 and October 31, 2017, there were no unrealized gains or losses on our auction rate securities included in accumulated other comprehensive income (loss), net of taxes ("AOCI"), and the total amount of other-than-temporary impairment credit loss on our auction rate security investments included in our retained earnings was $2.0 million.

Significant Assumptions Used to Determine the Fair Values of Our Auction Rate Securities

Assumption	January 31, 2018	October 31, 2017
Discount rates	L + 0.53% and L + 1.18%	L + 0.42% and L + 0.79%
Yields	2.15%, L + 2.00%	2.15%, L + 2.00%
Average expected lives	4 – 10 years	4 – 10 years

L – One Month LIBOR

8. INSURANCE

We use a combination of insured and self-insurance programs to cover workers' compensation, general liability, automobile liability, property damage, and other insurable risks. For the majority of these insurance programs, we retain the initial $1.0 million of exposure on a per-occurrence basis, either through deductibles or self-insured retentions. Beyond the retained exposures, we have varying primary policy limits ranging between $1.0 million and $5.0 million per occurrence. To cover general liability and automobile liability losses above these primary limits, we maintain commercial umbrella insurance policies that provide aggregate limits of $200.0 million. Our insurance policies generally cover workers' compensation losses to the full extent of statutory requirements. Additionally, to cover property damage risks above our retained limits, we maintain policies that provide per occurrence limits of $75.0 million. We are also self-insured for certain employee medical and dental plans. We maintain stop-loss insurance for our self-insured medical plan under which we retain up to $0.4 million of exposure on a per-participant, per-year basis with respect to claims.

The adequacy of our reserves for workers' compensation, general liability, automobile liability, and property damage insurance claims is based upon known trends and events and the actuarial estimates of required reserves considering the most recently completed actuarial reports. We use all available information to develop our best estimate of insurance claims reserves as information is obtained. The results of actuarial studies are used to estimate our insurance rates and insurance reserves for future periods and to adjust reserves, if appropriate, for prior years.

Actuarial Review Performed During the First Quarter of 2018

During the three months ended January 31, 2018, we performed an actuarial review of the majority of our casualty insurance programs that considered changes in claim developments and claim payment activity for the period commencing May 1, 2017 and ending October 31, 2017 for all policy years in which open claims existed.

The actuarial review indicated the claims reduction and safety initiatives we implemented have had a positive impact on our claims costs in the most recent years. Most notably, over the past two years there has been a decrease in claim frequency for workers' compensation lost-time claims and general liability bodily injury claims. However, there have been unfavorable developments in ultimate losses beyond our estimates for general liability and workers' compensation claims related to prior years, as described below.

The actuarial review indicated a continued decrease over the most recent years in the total number of reported claims related to our general liability program, particularly with respect to bodily injury claims. However, in prior year claims we experienced adverse developments that are largely attributable to adjustments related to certain bodily injury claims and to losses for property damage.

We are experiencing a reduced frequency of claims in our workers' compensation program. However, due to increases in projected costs and severity of claims in certain prior fiscal years, we increased our estimate of ultimate losses for workers' compensation claims. Statutory, regulatory, and legal developments have contributed to the increase in our estimated losses.

Based on the results of the actuarial review and subsequent developments, we increased our total reserves for known claims as well as our estimate of the loss amounts associated with incurred but not reported claims by $2.0 million during the three months ended January 31, 2018. This adjustment was $3.0 million lower than the total adjustment related to prior year claims of $5.0 million during the three months ended January 31, 2017. We will continue to assess ongoing developments, which may result in further adjustments to reserves.

Insurance Related Balances and Activity

(in millions)	January 31, 2018	October 31, 2017
Insurance claim reserves excluding medical and dental	$ 490.7	$ 485.6
Medical and dental claim reserves	10.7	9.8
Insurance recoverables	74.9	73.1

At January 31, 2018 and October 31, 2017, insurance recoverables are included in "Other current assets" and "Other noncurrent assets" on the accompanying unaudited consolidated balance sheets.

Instruments Used to Collateralize Our Insurance Obligations

(in millions)	January 31, 2018	October 31, 2017
Standby letters of credit	$ 136.7	$ 137.6
Surety bonds	77.5	77.5
Restricted insurance deposits	10.2	11.2
Total	$ 224.4	$ 226.3

9. CREDIT FACILITY

On September 1, 2017, we refinanced and replaced our then-existing $800.0 million credit facility with a new senior, secured five-year syndicated credit facility (the "Credit Facility"), consisting of a $900.0 million revolving line of credit and an $800.0 million amortizing term loan, scheduled to mature on September 1, 2022. The line of credit reduces to $800.0 million after one year. The Credit Facility also provides for the issuance of up to $300.0 million for standby letters of credit and the issuance of up to $75.0 million in swingline advances. The obligations under the Credit Facility are secured on a first-priority basis by a lien on substantially all of our assets and properties, subject to certain exceptions.

Borrowings under the Credit Facility bear interest at a rate equal to 1-month LIBOR plus a spread that is based upon our leverage ratio. The spread ranges from 1.00% to 2.25% for Eurocurrency loans and 0.00% to 1.25% for base rate loans. At January 31, 2018, the weighted average interest rate on our outstanding borrowings was 3.74%. We also pay a commitment fee, based on our leverage ratio and payable quarterly in arrears, ranging from 0.200% to 0.350% on the average daily unused portion of the line of credit. For purposes of this calculation, irrevocable standby letters of credit, which are issued primarily in conjunction with our insurance programs, and cash borrowings are included as outstanding under the line of credit.

The Credit Facility contains certain covenants, including a maximum leverage ratio of 4.75 to 1.0, which steps down to 3.50 to 1.0 by July 2020, and a minimum fixed charge coverage ratio of 1.50 to 1.0, as well as other financial and non-financial covenants. In the event of a material acquisition, as defined in the Credit Facility, we may elect to increase the leverage ratio to 3.75 to 1.0 for a total of four fiscal quarters, provided the leverage ratio had already been reduced to 3.50 to 1.0. Our borrowing capacity is subject to, and limited by, compliance with the covenants described above. At January 31, 2018, we were in compliance with these covenants.

The Credit Facility also includes customary events of default, including failure to pay principal, interest, or fees when due, failure to comply with covenants, the occurrence of certain material judgments, or a change in control of the Company. If an event of default occurs, including certain cross-defaults, insolvency, change in control, or violation of specific covenants, the lenders can terminate or suspend our access to the Credit Facility and declare all amounts outstanding (including all accrued interest and unpaid fees) to be immediately due and payable, and require that we

cash collateralize the outstanding standby letters of credit.
Total deferred financing costs related to the Credit Facility were $18.7 million, consisting of $13.4 million related to the term loan and $5.2 million related to the line of credit, which are being amortized to interest expense over the term of the Credit Facility.
Credit Facility Information

(in millions)	January 31, 2018	October 31, 2017
Current portion of long-term debt		
Gross term loan	$ 10.0	$ 20.0
Less: unamortized deferred financing costs	(3.0)	(3.1)
Current portion of term loan	$ 7.0	$ 16.9
Long-term debt		
Gross term loan	$ 770.0	$ 780.0
Less: unamortized deferred financing costs	(9.1)	(9.9)
Total noncurrent portion of term loan	760.9	770.1
Line of credit[1][2]	412.5	391.2
Long-term debt	$ 1,173.4	$ 1,161.3

[1] Standby letters of credit amounted to $145.5 million at January 31, 2018.

[2] At January 31, 2018, we had borrowing capacity of $330.5 million, however covenant restrictions limited our actual borrowing capacity to $245.5 million.

Term Loan Maturities

During the first quarter, we made $20.0 million of principal payments. As of January 31, 2018, the following principal payments are required under the term loan:

(in millions)	2019	2020	2021	2022
Debt maturities	$40.0	$60.0	$120.0	$560.0

Interest Rate Swaps

We enter into interest rate swaps to manage the interest rate risk associated with our floating-rate, LIBOR-based borrowings under our Credit Facility. Under these arrangements, we typically pay a fixed interest rate in exchange for LIBOR-based variable interest throughout the life of the agreement. We initially report the derivative's mark-to-market gain or loss as a component of AOCI and subsequently reclassify the gain or loss into earnings when the hedged transactions occur and affect earnings. Interest payables and receivables under the swap agreements are accrued and recorded as adjustments to interest expense. All of our interest rate swaps were designated and accounted for as cash flow hedges from inception. See Note 6, "Fair Value of Financial Instruments," regarding the valuation of our interest rate swaps.

Interest Rate Swaps Information

Notional Amounts	Fixed Interest Rates	Effective Dates	Maturity Dates
$ 105.0 million	1.05%	April 7, 2016 and May 11, 2016	April 7, 2021 and May 11, 2021
$ 215.0 million	1.65%	November 1, 2017	September 1, 2022
$ 285.0 million	1.69%	November 13, 2017	September 1, 2022

At January 31, 2018 and October 31, 2017, amounts recorded in AOCI were $15.7 million, net of taxes of $5.8 million, and $1.7 million, net of taxes of $1.2 million, respectively. Additionally, at January 31, 2018, the amount expected to be reclassified from AOCI to earnings during the next twelve months was $5.0 million.

10. COMMITMENTS AND CONTINGENCIES

Letters of Credit and Surety Bonds

We use letters of credit and surety bonds to secure certain commitments related to insurance programs and for other purposes. As of January 31, 2018, these letters of credit and surety bonds totaled $145.5 million and $470.0 million, respectively.

Guarantees

In some instances, we offer clients guaranteed energy savings under certain energy savings contracts. At January 31, 2018, total guarantees were $164.6 million and extend through 2038. We accrue for the estimated cost of guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. Historically, we have not incurred any material losses in connection with these guarantees.

In connection with an unconsolidated joint venture in which one of our subsidiaries has a 33% ownership interest, that subsidiary and the other joint venture partners have each jointly and severally guaranteed the obligations of the joint venture to perform under certain contracts extending through 2019. Annual revenues relating to the underlying contracts are approximately $35 million. Should the joint venture be unable to perform under these contracts, the joint venture partners would be jointly and severally liable for any losses incurred by the client due to the failure to perform.

Sales Tax Audits

We collect sales tax from clients and remit those collections to the applicable states. When clients fail to pay their invoices, including the amount of any sales tax that we paid on their behalf, in some cases we are entitled to seek a refund of that amount of sales tax from the applicable state. Sales tax laws and regulations enacted by the various states are subject to interpretation, and our compliance with such laws is routinely subject to audit and review by such states. Audit risk is concentrated in several states, and these states are conducting ongoing audits. The outcomes of ongoing and any future audits and changes in the states' interpretation of the sales tax laws and regulations could materially adversely impact our results of operations.

Legal Matters

We are a party to a number of lawsuits, claims, and proceedings incident to the operation of our business, including those pertaining to labor and employment, contracts, personal injury, and other matters, some of which allege substantial monetary damages. Some of these actions may be brought as class actions on behalf of a class or purported class of employees.

At January 31, 2018, the total amount accrued for all probable litigation losses where a reasonable estimate of the loss could be made was $10.0 million. This $10.0 million includes an accrual of $3.8 million in connection with the Hussein case discussed below.

Litigation outcomes are difficult to predict and the estimation of probable losses requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. If one or more matters are resolved in a particular period in an amount in excess of, or in a manner different than, what we anticipated, this could have a material adverse effect on our financial position, results of operations, or cash flows.

We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. The estimation of reasonably possible losses also requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. Our management currently estimates the range of loss for all reasonably possible losses for which a reasonable estimate of the loss can be made is between zero and $8 million. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

In some cases, although a loss is probable or reasonably possible, we cannot reasonably estimate the maximum potential losses for probable matters or the range of losses for reasonably possible matters. Therefore, our accrual for probable losses and our estimated range of loss for reasonably possible losses do not represent our maximum possible exposure.

While the results of these lawsuits, claims, and proceedings cannot be predicted with any certainty, our management believes that the final outcome of these matters will not have a material adverse effect on our financial position, results of operations, or cash flows.

Certain Legal Proceedings

Certain lawsuits to which we are a party are discussed below. In determining whether to include any particular lawsuit or other proceeding, we consider both quantitative and qualitative factors. These factors include, but are not limited to: the amount of damages and the nature of any other relief sought in the proceeding; if such damages and other relief are specified, our view of the merits of the claims; whether the action is or purports to be a class action, and our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; and the potential impact of the proceeding on our reputation.

The Consolidated Cases of Bucio and Martinez v. ABM Janitorial Services filed on April 7, 2006, in the Superior Court of California, County of San Francisco (the “Bucio case”)

The Bucio case is a class action pending in San Francisco Superior Court that alleges we failed to provide legally required meal periods and make additional premium payments for such meal periods, pay split shift premiums when owed, and reimburse janitors for travel expenses. On April 19, 2011, the trial court held a hearing on plaintiffs’ motion to certify the class. At the conclusion of that hearing, the trial court denied plaintiffs’ motion to certify the class. On May 11, 2011, the plaintiffs filed a motion to reconsider, which was denied. The plaintiffs appealed the class certification issues. The trial court stayed the underlying lawsuit pending the decision in the appeal. The Court of Appeal of the State of California, First Appellate District (the “Court of Appeal”), heard oral arguments on November 7, 2017. On December 11, 2017, the Court of Appeal reversed the trial court’s order denying class certification and remanded the matter for certification of a meal period, travel expense reimbursement, and split shift class. The case was remitted to the trial court for further proceedings on class certification, discovery, dispositive motions, and trial.

Hussein and Hirsi v. Air Serv Corporation filed on January 20, 2016, pending in the United States District Court for the Western District of Washington at Seattle (the “Hussein case”) and

Isse et al. v. Air Serv Corporation filed on February 7, 2017 in the Superior Court of Washington for King County (the “Isse” case)

The Hussein case was a certified class action involving a class of certain hourly Air Serv employees at Seattle-Tacoma International Airport in SeaTac, Washington. The plaintiffs alleged that Air Serv violated a minimum wage requirement in an ordinance applicable to certain employers in the local city of SeaTac (the “Ordinance”). Plaintiffs sought retroactive wages, double damages, interest, and attorneys’ fees. This matter was removed to federal court. In a separate lawsuit brought by Filo Foods, LLC, Alaska Airlines, and several other employers at SeaTac airport, the King County Superior Court issued a decision that invalidated the Ordinance as it applied to workers at SeaTac airport. Subsequently, the Washington Supreme Court reversed the Superior Court’s decision. On February 7, 2017, the Isse case was filed against Air Serv on behalf of 60 individual plaintiffs (who would otherwise be members of the Hussein class), who alleged failure to comply with both the minimum wage provision and the sick and safe time provision of the Ordinance. The Isse plaintiffs sought retroactive wages and sick benefits, double damages for wages and sick benefits, interest, and attorneys’ fees. The Isse case later expanded to approximately 220 individual plaintiffs.

In mediations on November 2 and 3, 2017, and without admitting liability in either matter, we agreed to settle the Hussein and Isse cases for a combined total of $8.3 million, inclusive of damages, interest, attorneys’ fees, and employer payroll taxes. Eligible employees will be able to participate in either the Hussein or Isse settlements, but cannot recover in both settlements. The settlements in both cases require court approval because of the nature of the claims being released. On December 8, 2017, the Superior Court of Washington for King County approved the settlement agreement for the 220 Isse plaintiffs, and we subsequently made a settlement payment of $4.5 million to the Isse plaintiffs. The Hussein settlement documents have not been finalized and will be subject to court approval.

Castro and Marmolejo v. ABM Industries, Inc., et al., filed on October 24, 2014, pending in the United States District Court for the Northern District of California (the “Castro” case)

On October 24, 2014, Plaintiff Marley Castro filed a class action lawsuit alleging that ABM did not reimburse janitorial employees in California for using their personal cell phones for work-related purposes, in violation of California Labor Code section 2802. On January 23, 2015, Plaintiff Lucia Marmolejo was added to the case as a named plaintiff. On October 27, 2017, plaintiffs moved for class certification seeking to represent a class of all employees who were, are, or will be employed by ABM in the State of California with the Employee Master Job Description Code “Cleaner” (hereafter referred to as “Cleaner Employees”) beginning from October 24, 2010. ABM filed its opposition to class certification on November 27, 2017. On January 26, 2018, the district court granted plaintiffs’ motion for class certification. The court rejected plaintiffs’ proposed class, instead certifying three classes that the court formulated on its own: (1) all employees who were, are, or will be employed by ABM in the State of California as Cleaner Employees who used a personal cell phone to punch in and out of the EPAY system and who (a) worked at an ABM facility that did not provide a biometric clock and (b) were not offered an ABM-provided cell phone during the period beginning on January 1, 2012, through the date of notice to the Class Members that a class has been certified in this action; (2) all employees who were, are, or will be employed by ABM in the State of California as Cleaner Employees who used a personal cell phone to report unusual or suspicious circumstances to supervisors and were not offered (a) an ABM-provided cell phone or (b) a two-way radio during the period beginning four years prior to the filing of the original complaint, October 24, 2014, through the date of notice to the Class Members that a class has been certified in this action; and (3) all employees who were, are, or will be employed by ABM in the State of California as Cleaner Employees who used a personal cell phone to respond to communications from supervisors and were not offered (a) an ABM-provided cell phone or (b) a two-way radio during the period beginning four years prior to the filing of the original complaint, October 24, 2014, through the date of notice to the Class Members that a class has been certified in this action. On February 9, 2018, ABM filed a petition for permission to appeal the district court’s order granting class certification with the United States Court of Appeals for the Ninth Circuit.

11. INCOME TAXES

The Tax Cuts and Jobs Act (the “Tax Act”), which was enacted on December 22, 2017, represents the most significant overhaul of the U.S. tax code in more than 30 years. Among other provisions, the Tax Act provides for a reduction of the federal corporate income tax rate from 35% to 21% and a “transition tax” to be levied on the deemed repatriation of indefinitely reinvested earnings of international subsidiaries. Since we have an October 31 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of 23.3% for fiscal 2018 and 21% for subsequent fiscal years. Other provisions under the Tax Act will not be effective for us until fiscal 2019, including limitations on deductibility of interest and executive compensation as well as anti-deferral provisions on Global Intangible Low-Taxed Income (“GILTI”). As a result, in 2019 we expect our effective tax rate to increase from the 2018 rate.

Due to the complexities of implementing the provisions of the Tax Act, the staff of the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for tax effects of the Tax Act and permits a measurement period not to exceed one year from the enactment date for companies to complete the required analyses and accounting. As permitted under SAB 118, some elements of the tax adjustments recorded in the first quarter of 2018 due to the enactment of the Tax Act, including the remeasurement of deferred tax assets and liabilities and the transition tax, are based on reasonable estimates and are considered provisional.

We remeasured certain deferred tax assets and liabilities based on the new rates at which they are expected to reverse in the future and recorded a net discrete tax benefit of $28.7 million during the three months ended January 31, 2018. In addition, we recorded an expense of $7.0 million for the one-time transition tax on the deemed repatriation of indefinitely reinvested earnings of our international subsidiaries. We plan to reinvest our foreign earnings to fund future non-U.S. growth and expansion. We do not anticipate remitting such earnings to the United States, and while U.S. federal tax expense has been recognized as a result of the Tax Act, no deferred tax liabilities with respect to state income taxes or foreign withholding taxes have been recognized.

We continue to analyze certain aspects of the Tax Act and refine our calculation of the impact on our deferred tax balances, which could potentially affect the measurement of these balances. The provisional amount recorded is based on our estimate of the expected reversals of certain tax assets and liabilities, which may be revised in future quarters during the one-year measurement period as additional information becomes available. The final impact related to the one-time transition tax may differ from our current estimate due to the complexity of calculating and supporting U.S. tax attributes involved in foreign tax credit calculations, such as accumulated foreign earnings and profits, foreign tax paid, and other tax components. Changes to our estimates over the one-year measurement period could be material, due to, among other things, changes in interpretations of the Tax Act, future legislative action to address questions that arise because of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates we have utilized to calculate the provisional amounts.

Beginning in fiscal year 2019, provisions under GILTI could result in incremental taxability of our foreign subsidiaries' income in excess of an allowed return on certain tangible property. The Financial Accounting Standards Board has determined that filers have a policy choice to account for this tax on either a period basis or a deferred tax basis. We are still evaluating the impacts of GILTI on our business model and have not yet made any accounting adjustments or policy decisions regarding this new source of incremental U.S. taxable income.

Our quarterly provision for income taxes from continuing operations is calculated using an estimated annual effective income tax rate, which is adjusted for discrete items that occur during the reporting period. During the three months ended January 31, 2018, we had an income tax benefit on income from continuing operations of $22.2 million. The three months ended January 31, 2018 was favorably impacted by a net discrete tax benefit of $21.7 million related to the enactment of the Tax Act.

During the three months ended January 31, 2017, we had an income tax provision on income from continuing operations of $5.9 million. The three months ended January 31, 2017 was favorably impacted by $2.0 million of excess tax benefits related to the vesting of share-based compensation awards and the 2017 work opportunity tax credit.

12. SEGMENT INFORMATION

Effective November 1, 2017, we reorganized our reportable segments to reflect the integration of GCA into our industry group model. Our reportable segments consist of Business & Industry ("B&I"), Aviation, Technology & Manufacturing ("T&M"), Education, Technical Solutions, and Healthcare, as further described below. Refer to Note 2, "Basis of Presentation and Significant Accounting Policies," for information related to our former Government Services business.

REPORTABLE SEGMENTS AND DESCRIPTIONS

B&I	B&I, our largest reportable segment, encompasses janitorial, facilities engineering, and parking services for commercial real estate properties and sports and entertainment venues. B&I also provides vehicle maintenance and other services to rental car providers ("Vehicle Services Contracts").
Aviation	Aviation supports airlines and airports with services ranging from parking and janitorial to passenger assistance, catering logistics, air cabin maintenance, and transportation.
T&M	T&M combines our legacy Industrial & Manufacturing business, which was previously included in our B&I segment, with our legacy High Tech industry group, which was previously reported as part of our Emerging Industries Group. T&M provides janitorial, facilities engineering, and parking services.
Education	Education delivers janitorial, custodial, landscaping and grounds, facilities engineering, and parking services for public school districts, private schools, colleges, and universities. This business was previously reported as part of our Emerging Industries Group.
Technical Solutions	Technical Solutions specializes in mechanical and electrical services. These services can also be leveraged for cross-selling across all of our industry groups, both domestically and internationally.
Healthcare	Healthcare offers janitorial, facilities management, clinical engineering, food and nutrition, laundry and linen, parking and guest services, and patient transportation services at traditional hospitals and non-acute facilities. This business was previously reported as part of our Emerging Industries Group.

Financial Information by Reportable Segment

	Three Months Ended January 31,	
(in millions)	2018	2017
Revenues		
Business & Industry	$722.1	$655.6
Aviation	256.2	231.9
Technology & Manufacturing	232.0	171.5
Education	206.3	67.0
Technical Solutions	104.0	107.7
Healthcare	67.7	61.7
Government Services	—	31.4
	$1,588.3	$1,326.7
Operating profit (loss)		
Business & Industry	$28.5	$27.1
Aviation	5.8	4.6
Technology & Manufacturing	16.9	12.6
Education	9.2	3.6
Technical Solutions	5.5	7.9
Healthcare	2.7	2.5
Government Services	(0.7)	1.9
Corporate	(47.4)	(34.6)
Adjustment for income from unconsolidated affiliates, net, included in Aviation and Government Services	(0.6)	(1.3)
Adjustment for tax deductions for energy efficient government buildings, included in Technical Solutions	(0.3)	(0.5)
	19.5	23.8
Income from unconsolidated affiliates, net	0.5	1.4
Interest expense	(14.3)	(3.2)
Income from continuing operations before income taxes	$5.8	$22.0

The accounting policies for our segments are the same as those disclosed within our significant accounting policies in Note 2, “Basis of Presentation and Significant Accounting Policies.” Our management evaluates the performance of each reportable segment based on its respective operating profit results, which include the allocation of certain centrally incurred costs. Corporate expenses not allocated to segments include certain CEO and other finance and human resource departmental expenses, certain information technology costs, share-based compensation, certain legal costs and settlements, restructuring and related costs, certain adjustments resulting from actuarial developments of self-insurance reserves, and direct acquisition costs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to facilitate an understanding of the results of operations and financial condition of ABM Industries Incorporated and its subsidiaries (collectively referred to as "ABM," "we," "us," "our," or the "Company"). This MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited consolidated financial statements and the accompanying notes ("Financial Statements") and our Annual Report on Form 10-K for the year ended October 31, 2017 ("Annual Report"), which has been filed with the Securities and Exchange Commission ("SEC"). This MD&A contains forward-looking statements about our business, operations, and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations, and intentions. Our future results and financial condition may be materially different from those we currently anticipate. See "Forward-Looking Statements" for more information.

Throughout the MD&A, amounts and percentages may not recalculate due to rounding. Unless otherwise indicated, all information in the MD&A and references to years are based on our fiscal year, which ends on October 31.

Business Overview

ABM is a leading provider of integrated facility services, customized by industry, with a mission to make a difference, every person, every day.

2020 Vision

In September 2015, we announced a comprehensive transformation initiative ("2020 Vision") intended to drive long-term profitable growth through an industry-based go-to-market approach. Our 2020 Vision involves three phases: During Phase 1, completed on November 1, 2016, we realigned our organization; in Phase 2, which is continuing today, we are focused on improvements to our operational framework to promote efficiencies and process enhancements; and in Phase 3, on the foundation of benefits realized from Phases 1 and 2, we anticipate accelerating growth with our industry-based, go-to-market service model.

2020 Vision Developments in 2018

During 2018, we expect to continue focusing on certain aspects of our business practices to further build the foundation upon which we deliver leading industry-based facility services. We anticipate that we will continue to roll out enterprise-wide standard operating procedures (the "ABM Way") and improve our account planning, labor management, manager development, and safety initiatives. To achieve this, we are focusing on long term, profitable growth relating to both existing clients and targeted opportunities, and we have launched a "Tag Pricer" tool that will help us capture work orders more efficiently. In addition, we continue consolidating our procurement activities and investing in technology platforms to help drive and sustain 2020 Vision performance.

Developments and Trends

United States Tax Reform

The Tax Cuts and Jobs Act (the "Tax Act"), which was enacted on December 22, 2017, represents the most significant overhaul of the U.S. tax code in more than 30 years. Among other provisions, the Tax Act provides for a reduction of the federal corporate income tax rate from 35% to 21% and a "transition tax" to be levied on the deemed repatriation of indefinitely reinvested earnings of international subsidiaries. Since we have an October 31 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of 23.3% for fiscal 2018 and 21% for subsequent fiscal years. Other provisions under the Tax Act will not be effective for us until fiscal 2019, including limitations on deductibility of interest and executive compensation as well as anti-deferral provisions on Global Intangible Low-Taxed Income ("GILTI"). As a result, in 2019 we expect our effective tax rate to increase from the 2018 rate. The estimated impact of the Tax Act, as summarized below for the three months ended January 31, 2018, is further described in Note 11, "Income Taxes," in the Financial Statements.

(in millions)	Three Months Ended January 31, 2018
Remeasurement of U.S. deferred tax assets and liabilities	$ 28.7

Transition tax on non-U.S. subsidiaries' earnings	(7.0)
Total impact of the Tax Act on the benefit for income taxes	$ 21.7

Due to the complexities of implementing the provisions of the Tax Act, the staff of the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for tax effects of the Tax Act and permits a measurement period not to exceed one year from the enactment date for companies to complete the required analyses and accounting. We continue to analyze certain aspects of the Tax Act and refine our calculation of the impact on our deferred tax balances, which could potentially affect the measurement of these balances. The provisional amount recorded is based on our estimate of the expected reversals of certain tax assets and liabilities, which may be revised in future quarters during the one-year measurement period as additional information becomes available. The final impact related to the one-time transition tax may differ from our current estimate due to the complexity of calculating and supporting U.S. tax attributes involved in foreign tax credit calculations, such as accumulated foreign earnings and profits, foreign tax paid, and other tax components. Changes to our estimates over the one-year measurement period could be material, due to, among other things, changes in interpretations of the Tax Act, future legislative action to address questions that arise because of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates we have utilized to calculate the provisional amounts.

Beginning in fiscal year 2019, provisions under GILTI could result in incremental taxability of our foreign subsidiaries' income in excess of an allowed return on certain tangible property. The Financial Accounting Standards Board has determined that filers have a policy choice to account for this tax on either a period basis or a deferred tax basis. We are still evaluating the impacts of GILTI on our business model and have not yet made any accounting adjustments or policy decisions regarding this new source of incremental U.S. taxable income.

GCA Services Group

On September 1, 2017, we acquired GCA Services Group ("GCA"), a provider of integrated facility services to educational institutions and commercial facilities, for approximately $1.3 billion, consisting of $839.9 million in cash and approximately 9.4 million shares of ABM common stock with a fair value of $421.3 million at closing. Refer to Note 3, "Acquisitions," in the Financial Statements for more information on this transaction.

Our consolidated statements of comprehensive income (loss) and statements of cash flows include GCA's results of operations in the three months ended January 31, 2018, but exclude GCA's results of operations in the three months ended January 31, 2017, as that was prior to the acquisition date. During the three months ended January 31, 2018, we recognized total incremental revenues from GCA of $251.6 million, as summarized below.

(in millions)	Three Months Ended January 31, 2018
Education	$ 140.5
Technology & Manufacturing	58.6
Business & Industry	40.7
Healthcare	7.5
Aviation	4.3
Total	$ 251.6

Following this acquisition, during 2018 we initiated a restructuring program to achieve cost synergies from our combined operations. We include these costs within corporate expenses. We do not expect to incur significant severance expenses related to GCA restructuring in the future.

(in millions)	Three Months Ended January 31, 2018
Employee Severance	$ 8.8
External Support Fees	2.0
Other Project Fees	0.8

Total	$ 11.7

Segment Reporting

Effective November 1, 2017, we reorganized our reportable segments to reflect the integration of GCA into our industry group model. Our reportable segments consist of Business & Industry ("B&I"), Aviation, Technology & Manufacturing ("T&M"), Education, Technical Solutions, and Healthcare, as further described below.

REPORTABLE SEGMENTS AND DESCRIPTIONS

B&I, our largest reportable segment, encompasses janitorial, facilities engineering, and parking services for commercial real estate properties and sports and entertainment venues. B&I also provides vehicle maintenance and other services to rental car providers ("Vehicle Services Contracts").

Aviation supports airlines and airports with services ranging from parking and janitorial to passenger assistance, catering logistics, air cabin maintenance, and transportation.

T&M combines our legacy Industrial & Manufacturing business, which was previously included in our B&I segment, with our legacy High Tech industry group, which was previously reported as part of our Emerging Industries Group. T&M provides janitorial, facilities engineering, and parking services.

Education delivers janitorial, custodial, landscaping and grounds, facilities engineering, and parking services for public school districts, private schools, colleges, and universities. This business was previously reported as part of our Emerging Industries Group.

Technical Solutions specializes in mechanical and electrical services. These services can also be leveraged for cross-selling across all of our industry groups, both domestically and internationally.

Healthcare offers janitorial, facilities management, clinical engineering, food and nutrition, laundry and linen, parking and guest services, and patient transportation services at traditional hospitals and non-acute facilities. This business was previously reported as part of our Emerging Industries Group.

Prior Year Reclassifications

Effective with the reorganization of our reportable segments, we have revised our prior period segment information to conform with our fiscal 2018 presentation. These changes had no impact on our previously reported consolidated balance sheets, statements of comprehensive income (loss), or statements of cash flows.

Government Services Business

We sold our Government Services business on May 31, 2017. The reported results for this business are through the date of sale and future results could include run-off costs. As this business has been sold and is no longer part of our ongoing operations, we have excluded a discussion of its results for the periods in this report.

Insurance

During the three months ended January 31, 2018, we performed an actuarial review of the majority of our casualty insurance programs that considered changes in claim developments and claim payment activity for the period commencing May 1, 2017 and ending October 31, 2017 for all policy years in which open claims existed. The actuarial review indicated the claims reduction and safety initiatives we implemented have had a positive impact on our claims costs in the most recent years. Most notably, there has been a decrease in claim frequency for workers' compensation lost-time claims and general liability bodily injury claims over the past two years. However, there have been unfavorable developments in ultimate losses beyond our estimates for general liability and workers' compensation claims related to prior years.

Based on the results of the actuarial review and subsequent developments, we increased our total reserves for known claims as well as our estimate of the loss amounts associated with incurred but not reported claims for prior years by $2.0 million during the three months ended January 31, 2018. This adjustment was $3.0 million lower than the total adjustment related to prior year claims of $5.0 million during the three months ended January 31, 2017. We will continue to assess ongoing developments, which may result in further adjustments to reserves.

Key Financial Highlights

- Revenues increased by $261.6 million, or 19.7%, including $253.9 million of incremental revenues primarily from the GCA acquisition, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017.
- Operating profit decreased by $4.3 million, or 18.2%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The decrease in operating profit is primarily attributable to higher amortization expense, incremental selling, general and administrative expenses, and restructuring and related costs associated with the GCA acquisition. This decrease was partially offset by higher operating profit in our Education and T&M segments associated with the GCA acquisition.
- Interest expense increased by $11.1 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017, primarily related to increased indebtedness incurred to fund the GCA acquisition and higher relative interest rates under our credit facility.
- Our income taxes from continuing operations for the three months ended January 31, 2018 were favorably impacted by a net discrete tax benefit of $21.7 million related to the Tax Act.
- Net cash provided by operating activities was $33.7 million during the three months ended January 31, 2018.
- Dividends of $11.5 million were paid to shareholders, and dividends totaling $0.175 per common share were declared during the three months ended January 31, 2018.
- At January 31, 2018, total outstanding borrowings under our credit facility were $1.2 billion, and we had up to $330.5 million of borrowing capacity under our credit facility; however, covenant restrictions limited our actual borrowing capacity to $245.5 million.

Results of Operations

Three Months Ended January 31, 2018 Compared with the Three Months Ended January 31, 2017
Consolidated

($ in millions)	Three Months Ended January 31, 2018	2017	Increase / (Decrease)	
Revenues	$1,588.3	$1,326.7	$261.6	19.7%
Operating expenses	1,429.3	1,195.1	234.2	19.6%
Gross margin	10.0 %	9.9 %	9 bps	
Selling, general and administrative expenses	109.0	97.3	11.7	12.1%
Restructuring and related expenses	14.3	5.0	9.3	NM*
Amortization of intangible assets	16.2	5.5	10.7	NM*
Operating profit	19.5	23.8	(4.3)	(18.2)%
Income from unconsolidated affiliates, net	0.5	1.4	(0.9)	(61.0)%
Interest expense	(14.3)	(3.2)	(11.1)	NM*
Income from continuing operations before income taxes	5.8	22.0	(16.2)	(73.8)%
Income tax benefit (provision)	22.2	(5.9)	28.1	NM*
Income from continuing operations	28.0	16.1	11.9	74.1%
Loss from discontinued operations, net of taxes	(0.1)	(72.9)	72.8	(99.8)%
Net income (loss)	27.8	(56.8)	84.6	NM*
Other comprehensive income (loss)				
Unrealized gains on interest rate swaps, net of taxes of $5.0 and $1.1, respectively	13.6	1.6	12.0	NM*
Foreign currency translation	9.4	3.3	6.1	NM*
Comprehensive income (loss)	$50.9	$(51.9)	$102.8	NM*

*Not meaningful

Revenues

Revenues increased by $261.6 million, or 19.7%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase in revenues was primarily attributable to $253.9 million of incremental revenues from acquisitions, including GCA, and organic growth in B&I and Aviation. This increase was partially offset by lower project revenues in our Technical Solutions business and the sale of our Government Services business on May 31, 2017.

Operating Expenses

Operating expenses increased by $234.2 million, or 19.6%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Gross margin increased slightly by 9 bps during the three months ended January 31, 2018. The increase in gross margin was primarily associated with a lower self-insurance adjustment related to prior year claims and favorable margins on certain U.S. Technical Solutions projects. This increase was partially offset by lower profit margins on certain B&I accounts and the loss of certain high margin contracts in our U.K. Technical Solutions business.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $11.7 million, or 12.1%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase in selling, general and administrative expenses was primarily related to $10.1 million of incremental expenses related to the GCA acquisition and a $3.7 million increase in costs primarily associated with 2020 Vision technology investments. This increase was partially offset by a $1.0 million decrease in sales tax reserve.

Restructuring and Related Expenses

Restructuring and related expenses increased by $9.3 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017, as a result of restructuring related to the GCA acquisition.

Amortization of Intangible Assets

Amortization of intangible assets increased by $10.7 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017, as a result of the amortization of acquired intangible assets associated with the GCA acquisition.

Interest Expense

Interest expense increased by $11.1 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017, primarily related to increased indebtedness incurred to fund the GCA acquisition and higher relative interest rates under our credit facility.

Income Taxes from Continuing Operations

During the three months ended January 31, 2018, we had an income tax benefit on income from continuing operations of $22.2 million, primarily due to a net discrete tax benefit of $21.7 million related to the Tax Act.

Loss from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes, decreased by $72.8 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017, in which a legal reserve was established in connection with certain legal settlement agreements.

Unrealized Gains on Interest Rate Swaps

Unrealized gains on interest rate swaps increased by $12.0 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase was primarily due to an increase in the notional amount of interest rate swaps and to changing interest rates. In November 2017, we entered into three additional interest rate swaps with a combined notional amount of $500.0 million and fixed interest rates of 1.65% and 1.69%.

Foreign Currency Translation

Foreign currency translation gain increased by $6.1 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. This increase was related to the weakening of the U.S. Dollar (“USD”) against the Great Britain Pound during the three months ended January 31, 2018. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of foreign currencies to the USD and the extent of our foreign assets and liabilities.

Segment Information

Financial Information for Each Reportable Segment

($ in millions)	Three Months Ended January 31, 2018	2017	Increase / (Decrease)	
Revenues				
Business & Industry	$722.1	$655.6	$66.5	10.1%
Aviation	256.2	231.9	24.3	10.5%
Technology & Manufacturing	232.0	171.5	60.5	35.3%
Education	206.3	67.0	139.3	NM*
Technical Solutions	104.0	107.7	(3.7)	(3.4)%
Healthcare	67.7	61.7	6.0	9.8%
Government Services	—	31.4	(31.4)	NM*
	$1,588.3	$1,326.7	$261.6	19.7%
Operating profit (loss)				
Business & Industry	$28.5	$27.1	$1.4	5.1%
Operating profit margin	3.9%	4.1%	(19) bps	
Aviation	5.8	4.6	1.2	25.5%
Operating profit margin	2.3%	2.0%	27 bps	
Technology & Manufacturing	16.9	12.6	4.3	33.6%
Operating profit margin	7.3%	7.4%	(9) bps	
Education	9.2	3.6	5.6	NM*
Operating profit margin	4.4%	5.4%	(99) bps	
Technical Solutions	5.5	7.9	(2.4)	(30.5)%
Operating profit margin	5.3%	7.3%	(205) bps	
Healthcare	2.7	2.5	0.2	10.1%
Operating profit margin	4.0%	4.0%	1 bps	
Government Services	(0.7)	1.9	(2.6)	NM*
Operating profit margin	NM*	6.0%	NM*	
Corporate	(47.4)	(34.6)	(12.8)	36.9%
Adjustment for income from unconsolidated affiliates, net, included in Aviation and Government Services	(0.6)	(1.3)	0.7	53.3%
Adjustment for tax deductions for energy efficient government buildings, included in Technical Solutions	(0.3)	(0.5)	0.2	(39.4)%
	$19.5	$23.8	$(4.3)	(18.2)%

*Not meaningful

Business & Industry

($ in millions)	Three Months Ended January 31, 2018	2017	Increase / (Decrease)	
Revenues	$722.1	$655.6	$66.5	10.1%
Operating profit	28.5	27.1	1.4	5.1%
Operating profit margin	3.9%	4.1%	(19) bps	

B&I revenues increased by $66.5 million, or 10.1%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase was primarily attributable to incremental revenues from the GCA acquisition of $40.7 million and to net new janitorial business, including new contract wins in the U.K., expansion of existing accounts, and additional tag revenue. Management reimbursement revenues for this segment totaled $63.0 million and $57.8 million for the three months ended January 31, 2018 and 2017, respectively. Operating profit increased by $1.4 million, or 5.1%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Operating profit margin decreased by 19 bps to 3.9% in the three months ended January 31, 2018 from 4.1% in the three months ended January 31, 2017. The decrease in operating profit margin was primarily associated with lower margins on certain janitorial accounts and Vehicle Services Contracts and with higher amortization expense related to the GCA acquisition. The decrease was partially offset by the management of selling, general and administrative expenses.

Aviation

	Three Months Ended January 31,			
($ in millions)	2018	2017	Increase	
Revenues	$256.2	$231.9	$24.3	10.5%
Operating profit	5.8	4.6	1.2	25.5%
Operating profit margin	2.3 %	2.0 %	27 bps	

Aviation revenues increased by $24.3 million, or 10.5%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase was primarily attributable to organic growth in parking, cabin cleaning, and catering logistics and to incremental revenues of $5.9 million primarily from the GCA acquisition. Management reimbursement revenues for this segment totaled $25.5 million and $16.5 million for the three months ended January 31, 2018 and 2017, respectively.

Operating profit increased by $1.2 million, or 25.5%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Operating profit margin increased by 27 bps to 2.3% in the three months ended January 31, 2018 from 2.0% in the three months ended January 31, 2017. The increase in operating profit margin was primarily attributable to the termination of an unprofitable contract at the end of 2017 and the management of selling, general and administrative expenses.

Technology & Manufacturing

	Three Months Ended January 31,			
($ in millions)	2018	2017	Increase / (Decrease)	
Revenues	$232.0	$171.5	$60.5	35.3%
Operating profit	16.9	12.6	4.3	33.6%
Operating profit margin	7.3 %	7.4 %	(9) bps	

T&M revenues increased by $60.5 million, or 35.3%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase was related to incremental revenues from the GCA acquisition of $58.6 million.

Operating profit increased by $4.3 million, or 33.6%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Operating profit margin decreased by 9 bps to 7.3% in the three months ended January 31, 2018 from 7.4% in the three months ended January 31, 2017. The decrease in operating profit margin was primarily attributable to higher amortization expense related to the GCA acquisition, partially offset by certain acquired higher margin contracts.

Education

	Three Months Ended January 31,			
($ in millions)	2018	2017	Increase / (Decrease)	
Revenues	$206.3	$67.0	$139.3	NM*
Operating profit	9.2	3.6	5.6	NM*
Operating profit margin	4.4 %	5.4 %	(99) bps	

*Not meaningful

Education revenues increased by $139.3 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase was attributable to incremental revenues from the GCA acquisition of $140.5 million.

Operating profit increased by $5.6 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Operating profit margin decreased by 99 bps to 4.4% in the three months ended January 31, 2018 from 5.4% in the three months ended January 31, 2017. The decrease in operating profit margin was primarily associated with higher amortization expense related to the GCA acquisition, partially offset by certain acquired higher margin contracts.

Technical Solutions

	Three Months Ended January 31,			
($ in millions)	2018	2017	Decrease	
Revenues	$104.0	$107.7	$(3.7)	(3.4)%
Operating profit	5.5	7.9	(2.4)	(30.5)%
Operating profit margin	5.3 %	7.3 %	(205) bps	

Technical Solutions revenues decreased by $3.7 million, or 3.4%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. This decrease was primarily attributable to the timing of new project bookings and the completion of certain bundled energy solutions projects.

Operating profit decreased by $2.4 million, or 30.5%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Operating profit margin decreased by 205 bps to 5.3% in the three months ended January 31, 2018 from 7.3% in the three months ended January 31, 2017. The decrease in operating profit margin was primarily attributable to higher compensation and related expenses due to investment in sales personnel and the loss of certain high margin contracts in our U.K. business. This decrease was partially offset by favorable margins on certain projects in our U.S. business.

Healthcare

	Three Months Ended January 31,			
($ in millions)	2018	2017	Increase	
Revenues	$67.7	$61.7	$6.0	9.8%
Operating profit	2.7	2.5	0.2	10.1%
Operating profit margin	4.0 %	4.0 %	1 bps	

Healthcare revenues increased by $6.0 million, or 9.8%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. This increase was primarily attributable to incremental revenues from the GCA acquisition of $7.5 million, the expansion of existing janitorial accounts, and new business. This increase was partially offset by the loss of a large facilities management contract.

Operating profit increased by $0.2 million or 10.1% during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. Operating profit margin remained flat at 4.0% in the three months ended January 31, 2018 and 2017.

Corporate

	Three Months Ended January 31,			
($ in millions)	2018	2017	Increase	
Corporate expenses	$47.4	$34.6	$12.8	36.9%

Corporate expenses increased by $12.8 million, or 36.9%, during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The increase in corporate expenses was primarily related to a $9.3 million increase in restructuring and related costs as a result of the GCA acquisition and a $3.7 million increase in costs primarily associated with 2020 Vision technology investments. This increase was partially offset by a $3.0 million lower self-insurance adjustment related to prior year claims as a result of an actuarial review completed in the three months ended January 31, 2018.

Liquidity and Capital Resources

Our primary sources of liquidity are operating cash flows and borrowing capacity under our credit facility. We assess our liquidity in terms of our ability to generate cash to fund our short- and long-term cash requirements. As such, we project our anticipated cash requirements as well as cash flows generated from operating activities to meet those needs.

In addition to normal working capital requirements, we anticipate that our short- and long-term cash requirements will include funding legal settlements, insurance claims, dividend payments, capital expenditures, and integration costs related to the GCA acquisition. We anticipate long-term cash uses will also include strategic acquisitions and share repurchases.

We believe that our operating cash flows and borrowing capacity under our credit facility are sufficient to fund our cash requirements for the next twelve months. In the event that our plans change or our cash requirements are greater than we anticipate, we may need to access the capital markets to finance future cash requirements. However, there can be no assurance that such financing will be available to us should we need it or, if available, that the terms will be satisfactory to us and not dilutive to existing shareholders.

On a long-term basis, we will continue to rely on our credit facility for working capital and long-term funding not provided by operating cash flows. In addition, we anticipate that future cash generated from operations will be augmented by working capital improvements driven by our 2020 Vision, such as the management of costs through consolidated procurement.

IFM Assurance Company ("IFM") is a wholly-owned captive insurance company that we formed in 2015. IFM is part of our enterprise-wide, multi-year insurance strategy that is intended to better position our risk and safety programs and provide us with increased flexibility in the end-to-end management of our insurance programs. IFM began providing coverage to us as of January 1, 2015. In 2018, we expect accelerated cash tax savings related to coverage provided by IFM will be between $5 million and $10 million.

Credit Facility

On September 1, 2017, we refinanced and replaced our then-existing $800.0 million credit facility with a new senior, secured five-year syndicated credit facility (the "Credit Facility"), consisting of a $900.0 million revolving line of credit and an $800.0 million amortizing term loan, scheduled to mature on September 1, 2022. The line of credit reduces to $800.0 million after one year. Initial borrowings under the Credit Facility were used to finance, in part, the cash portion of the purchase price related to the GCA acquisition, to refinance certain existing indebtedness of ABM, and to pay transaction costs.

Our ability to draw down available capacity under the Credit Facility is subject to, and limited by, compliance with certain financial covenants, which include a maximum leverage ratio of 4.75 to 1.0 that steps down to 3.50 to 1.0 by July 2020 and a minimum fixed charge coverage ratio of 1.50 to 1.0. Other covenants under the Credit Facility include limitations on liens, dispositions, fundamental changes, investments, and certain transactions and payments. At January 31, 2018, we were in compliance with these covenants and expect to be in compliance in the foreseeable future.

During the first quarter, we made $20.0 million of principal payments under the Credit Facility. At January 31, 2018, the total outstanding amounts under the Credit Facility in the form of cash borrowings and standby letters of credit were $1.2 billion and $145.5 million, respectively. At January 31, 2018, we had up to $330.5 million of borrowing capacity under the Credit Facility, however covenant restrictions limited our actual borrowing capacity to $245.5 million.

Reinvestment of Foreign Earnings

We plan to reinvest our foreign earnings to fund future non-U.S. growth and expansion. We do not anticipate remitting such earnings to the United States, and while U.S. federal tax expense has been recognized as a result of the

Tax Act, no deferred tax liabilities with respect to state income taxes or foreign withholding taxes have been recognized.

Share Repurchases

On September 2, 2015, our Board of Directors authorized a program to repurchase up to $200.0 million shares of our common stock. Purchases may take place on the open market or otherwise, and all or part of the repurchases may be made pursuant to Rule 10b5-1 plans or in privately negotiated transactions. The timing of repurchases is at our discretion and will depend upon several factors, including market and business conditions, future cash flows, share price, and share availability. Repurchased shares are retired and returned to an authorized but unissued status. The repurchase program may be suspended or discontinued at any time without prior notice. There were no share repurchases during the three months ended January 31, 2018. At January 31, 2018, authorization for $134.1 million of repurchases remained under our share repurchase program. We do not anticipate additional repurchases in the near future.

Cash Flows

In addition to revenues and operating profit, our management views operating cash flows as a good indicator of financial performance, because strong operating cash flows provide opportunities for growth both organically and through acquisitions. Net cash provided by operating activities was $33.7 million during the three months ended January 31, 2018. We expect operating activities of continuing operations to provide positive cash flows for 2018. Operating cash flows primarily depend on: revenue levels; the quality and timing of collections of accounts receivable; the timing of payments to suppliers and other vendors; the timing and amount of income tax payments; and the timing and amount of payments on insurance claims and legal settlements.

	Three Months Ended January 31,	
(in millions)	2018	2017
Net cash provided by (used in) operating activities	$33.7	$(11.1)
Net cash used in investing activities	(15.3)	(29.1)
Net cash (used in) provided by financing activities	(14.3)	27.0

Operating Activities

Net cash provided by operating activities was $33.7 million during the three months ended January 31, 2018, as compared to net cash used in operating activities of $11.1 million during the three months ended January 31, 2017, a change of $44.8 million. This change was primarily related to the timing of client receivable collections, but was partially offset by the timing of vendor payments.

Investing Activities

Net cash used in investing activities decreased by $13.8 million during the three months ended January 31, 2018, as compared to the three months ended January 31, 2017. The decrease was related to an $16.2 million year-over-year decrease in cash paid, net of cash acquired, for acquisitions.

Financing Activities

Net cash used in financing activities was $14.3 million during the three months ended January 31, 2018, as compared with net cash provided by financing activities of $27.0 million during the three months ended January 31, 2017, a change of $41.3 million. The change was related to lower net borrowings from our Credit Facility of $36.4 million.

Contingencies

We are a party to a number of lawsuits, claims, and proceedings incident to the operation of our business, including those pertaining to labor and employment, contracts, personal injury, and other matters, some of which allege substantial monetary damages. Some of these actions may be brought as class actions on behalf of a class or purported class of employees.

At January 31, 2018, the total amount accrued for all probable litigation losses where a reasonable estimate of the loss could be made was $10.0 million.

Litigation outcomes are difficult to predict and the estimation of probable losses requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. If one or more matters are resolved in a particular period in an amount in excess of, or in a manner different than, what we anticipated, this could have a material adverse effect on our financial position, results of operations, or cash flows.

We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. The estimation of reasonably possible losses also requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. Our management currently estimates the range of loss for all reasonably possible losses for which a reasonable estimate of the loss can be made is between zero and $8 million. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

In some cases, although a loss is probable or reasonably possible, we cannot reasonably estimate the maximum potential losses for probable matters or the range of losses for reasonably possible matters. Therefore, our accrual for probable losses and our estimated range of loss for reasonably possible losses do not represent our maximum possible exposure.

For additional information about our contingencies, see Note 10, “Commitments and Contingencies,” in the Financial Statements.

Critical Accounting Policies and Estimates

Our accompanying Financial Statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), which require us to make estimates in the application of our accounting policies based on the best assumptions, judgments, and opinions of our management. There have been no significant changes to our critical accounting policies and estimates. For a description of our critical accounting policies, see Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report.

Recent Accounting Pronouncements

Accounting Standard	Description		YEAR ENDING MARCH 31,	AMOUNT
2013	$	730,000		
2014		185,000		
2015		195,000		
2016		210,000		
2017		220,000		
Thereafter		1,845,000		
	$	3,385,000		

NOTE 8 - LOANS PAYABLE AND LONG TERM DEBT

Loans payable and long term debt consisted of the following:

	March 31, 2012		March 31, 2011	
	Current	Long-Term	Current	Long-Term
Note payable to First Niagara Bank in 60 monthly installments of $1,180, including interest at the rate of 9.00% per annum; Final payment in September 2012 ; Secured by vehicle purchased with proceeds of loan	$6,923	$—	$13,105	$6,717
Capital lease payable to Shimadzu Financial Services; 24 payments of $594; Final payment due in March 2014	6,393	6,295		
TOTAL	$13,316	$6,295	$13,105	$6,717

NOTE 9 - LEASES OF RENTAL PROPERTIES
The following leases for rental properties were operative during the year ended March 31, 2012:

	135 Ludlow Ave (see note 10)
Effective Date	July 1, 2010
Termination Date	December 31, 2015
Lease term	5 years with 2 tenant renewal options for 5 years each
Rent expense for the 2011 Fiscal Year	$67,753
Rent expense for the 2012 Fiscal Year	$90,338
Minimum 5 Year Lease Payments*	
Fiscal year ended March 31, 2013	81,228
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
	$426,306

* 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 conditions of the lease, but which are not quantifiable at the time of filing of this annual report on Form 10-K

Rent expense related to the operating lease at 135 Ludlow was recorded using the straight line method and summarized as follows:

Summary of Rent Expense – 135 Ludlow Avenue

	Fiscal Year Ended March 31, 2012	Fiscal Year Ended March 31, 2011
Rent Expense	$ 90,338	$ 67,753
Actual lease payments	79,248	19,689
Increase in deferred rent liability	11,090	48,064

Balance of deferred rent liability	59,154	48,064

NOTE 10 - LEASE OF 135 LUDLOW AVENUE

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 5 year terms. The property related to this lease will be used for the storage of pharmaceutical finished goods, raw materials, equipment and documents as well as pharmaceutical manufacturing, packaging and distribution activities.

This property requires significant leasehold improvements and qualification as a prerequisite to achieving suitability for such intended future use.

Leasehold improvements and qualification as suitable for manufacturing, packaging and distribution operations are expected to be achieved within two years from the beginning of the lease term. These are estimates based on current project plans, which are subject to change. There can be no assurance that the construction and qualification will be accomplished during the estimated time frames, or that the property located at 135 Ludlow Avenue, Northvale, New Jersey will ever achieve qualification for intended future utilization.

Please refer to Note 9 of these financial statements for details on minimum lease payments, rent expense and deferred rent liabilities.

NOTE 11 - LEASE TERMINATION COSTS - 135 LUDLOW AVENUE

The lease for the property located at 135 Ludlow Avenue, Northvale NJ, includes a requirement that, at termination, the Company return the property to its condition at the inception of the lease, with normal wear and tear excepted. Such requirement accordingly represents an unconditional obligation associated with the retirement of a long-lived asset and subject to ASC 410 of the Codification. The Company estimates such costs would amount to $50,000, at lease termination, and pursuant to ASC 410 has recorded a liability and offsetting asset equal to the present value, at lease inception, of such obligation. This liability is accreted over the term of the lease (including extensions), using the interest method.

NOTE 12 - EFERRED REVENUES

Deferred revenues in the aggregate amount of $178,891, consisting of a current component of $13,333 and a long term component of $165,558 represents the unamortized amount of a $200,000 advance payment received for a licensing agreement with a fifteen year term beginning in September 2010 and ending in August 2025. The advance payment was recorded as deferred revenue when received and is earned, on a straight line basis over the fifteen year life of the license. The current component is equal to the amount of revenue to be earned during the 12 month period immediately subsequent to the balance date and the long term component is equal to the amount of revenue to be earned thereafter.

NOTE 13 - PREFERRED SHARE DERIVATIVE INTEREST PAYABLE

Preferred share derivative interest payable as of March 31, 2012 consisted of $70,965 in derivative interest accrued as of March 31, 2012. The full amount of derivative interest payable as of March 31, 2012 was paid via the issuance of 802,789 shares of Common Stock, in lieu of cash, in April 2012.

Preferred share derivative interest payable as of March 31, 2011 consisted of $282,680 in derivative interest accrued as of March 31, 2011. The full amount of derivative interest payable as of March 31, 2011 was paid via the issuance of 4,775,017 shares of Common Stock, in lieu of cash, in April 2011.

NOTE 14 - DERIVATIVE LIABILITIES – PREFERRED SHARES

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 D and Series E 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.

The Preferred Stock Derivative Liabilities are measured at fair market value, using the market approach and a level 1 fair value hierarchy, on a recurring basis as of March 31, 2011 and March 31, 2011, in accordance with the valuation techniques discussed in ASC 820.

Preferred Stock Derivative Liabilities – Fiscal Year 2012

	Series B	Series C	Series D	Series E	Total
Preferred shares Outstanding as of March 31, 2012	797	2,666	—	1,750	5,213
Underlying common shares into which Preferred may convert	5,310,393	17,773,333	—	71,428,571	94,512,297
Closing price on valuation date	$0.09	$0.09	$0.09	$0.09	$ 0.09
Preferred stock derivative liability at March 31, 2012	$477,935	$1,599,600	$—	$6,428,571	$ 8,506,106

Change in preferred stock derivative liability for the 2012 Fiscal Year	$ 11,227,957

The change of $11,227,957 in value of the preferred stock derivative liability occurring during the 2012 Fiscal Year is included in the amount reported in the "Other Income/(Expense)" section of the statement of operations. Increases in value are reported as other expenses and decreases in value are reported as other income.

Preferred Stock Derivative Liabilities – Fiscal Year 2011

	Series B	Series C	Series D	Series E	Total
Preferred shares Outstanding as of March 31, 2011	896	5,418	4,063	3,062.5	13,439.5
Underlying common shares into which Preferred may convert	730,274	4,280,842	58,042,861	118,898,957	181,952,934
Closing price on valuation date	$0.078	$0.078	$0.078	$0.078	$0.078
Preferred stock derivative liability at March 31, 2011	$56,961	$333,906	$4,527,343	$9,274,119	$14,192,329
Change in preferred stock derivative liability for the 2011 Fiscal Year					$10,416,376

The change of $10,416,376 in value of the preferred stock derivative liability occurring during the 2011 Fiscal Year is included in the amount reported in the "Other Income/(Expense)" section of the statement of operations. Increases in value are reported as other expenses and decreases in value are reported as other income.

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NOTE 15 - DERIVATIVE LIABILITIES - WARRANTS

To date, the Company has authorized the issuance of Common Stock Purchase Warrants, with terms of five to seven years, to various corporations and individuals, in connection with the sale of securities, loan agreements and consulting agreements. Exercise prices range from \$0.0625 to \$3.00 per warrant. The warrants expire at various times through April 25, 2018.

A summary of warrant activity for the fiscal years indicated below is as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Warrant Shares	Weighted Average Exercise Price	Warrant Shares	Weighted Average Exercise Price
Balance at beginning of year	155,325,048	$ 0.15	125,299,740	$ 0.25
Warrants issued	4,000,000	$ 0.06	40,000,000	$ 0.06
Warrant Adjustments	3,379,551	—	—	—
Warrant exercises, forfeited or expired	1,225,620	$ 3.00	9,974,692	$ 0.69
Ending Balance	161,478,979	$ 0.09	155,325,048	$ 0.15

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 D and Series E 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.

The Warrant Derivative Liabilities are measured at fair market value, using the market approach and a level 3 fair value hierarchy, on a recurring basis as of March 31, 2012 and March 31, 2011, in accordance with the valuation techniques discussed in ASC 820.

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The portion of derivative liabilities related to outstanding warrants was valued using the Black-Scholes option valuation model, a level 3 fair value hierarchy using the following assumptions:

	March 31 2012	March 31 2011
Risk-Free interest rate	.05% - 1.3%	.09% - 2.9%
Expected volatility	57% - 181%	138% - 194%
Expected life (in years)	0.1 – 6.1	0.3 – 7.0
Expected dividend yield	—	—
Number of warrants	161,478,979	155,325,048
Fair value – Warrant Derivative Liability	$11,987,222	$10,543,145
Change in warrant derivative liability for the twelve months ended	$1,444,075	$1,297,998

The risk free interest rate was based on rates established by the US 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.

The changes of $1,444,075 and $ 1,297,998 in value of the warrant derivative liability occurring during the years ended March 31, 2012 and 2011, respectively, are included in the amounts reported in the "Other Income/(Expense)" section of the statement of operations. Increases in value are reported as other expenses and decreases in value are reported as other income.

The following table summarizes, as of March 31, 2012, the warrant activity subject to Level 3 inputs which are measured on a recurring basis:

Fair value measurements of warrants using significant unobservable inputs
(Level 3)

	Fiscal 2012	Fiscal 2011
Balance at March 31, 2011	$ 10,543,145	$ 8,499,423
Warrants Issued	815,761	2,951,297
Warrants Exercised	—	—
Change in fair value of warrant liability	628,316	(907,575)
Balance at March 31, 2012	$ 11,987,222	$ 10,543,145

NOTE 16 - BENEFICIAL CONVERSION FEATURES OF SERIES E PREFERRED SHARES

The Series E Preferred shares include an option, exercisable from the issuance date, to convert to common shares at prices which were less than the market price of the Company's Common Stock on the date such Series E Preferred shares were issued. The difference between the share price and option price represents a beneficial conversion feature existing on the issue date.

In accordance with GAAP, the beneficial conversion feature was valued separately and allocated to additional paid in capital. The valuations were calculated using the relative fair value method allocating the proceeds from each issuance of the Series E Preferred shares to the conversion option and detachable warrants, if such warrants were included with an issuance.

The beneficial conversion option is then required to be recognized as a discount and amortized over a period that begins on the date of issuance and ends on the earliest conversion date. As the conversion options were exercisable on their issue date, the full value assigned to the conversion option was immediately amortized and charged to interest expense.

During Fiscal Year 2012, the Company issued a total of 250 shares of Series E Preferred Stock which included a conversion option at a price that was less than the market price of the Company's Common Stock on the date of issuance of the Series E Preferred Stock.

The valuation of the beneficial conversion feature, and detachable warrants, where applicable, for Series E Preferred Share issuances during Fiscal Year 2012 and Fiscal Year 2011 is summarized as follows:

	Fiscal Year 2012	Fiscal Year 2011
Series E Shares Issued	250	1,062.5
Detachable Warrants Issued (March 2011 only)	—	40,000,000
Gross Proceeds Received	$ 250,000	$ 1,062,500
Gross Valuation of Warrants Issued	—	$ 2,951,297
Gross Valuation of Beneficial Conversion	$ 763,619	$ 2,067,416
Proceeds Allocated to Warrants	—	$ 746,919
Proceeds Allocated to Beneficial Conversion Feature	$ 250,000	$ 315,581
Total Allocation of Proceeds	$ 250,000	$ 1,062,500

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NOTE 17 - COMMON STOCK

During Fiscal Years 2012 and 2011, the Company issued a total of 151,104,071 shares and 96,595,489 shares of Common Stock, respectively, with such issuances of Common Stock being summarized as follows:

Description	Fiscal Year 2012	Fiscal Year 2011
Common Shares issued in lieu of cash payment in payment of preferred share derivative interest expenses totaling $636,179 and $1,283,240 for Fiscal Year 2012 and Fiscal Year 2011, respectively	8,410,374	21,241,590
Common Shares issued pursuant to the conversion of Series B, Series C, Series D and Series E Convertible Preferred Share derivatives, with such derivative liabilities totaling $17,164,181 and $4,465,584, for Fiscal Year 2012 and Fiscal Year 2011, respectively, at the time of their conversion.	140,439,195	70,649,154
Common Shares issued in payment of $75,000 due and payable pursuant to the Asset Purchase Agreement dated 5/18/2010.		937,500
Common Shares issued in lieu of cash in payment of consulting expenses totaling $13,737.		343,425
Common Shares issued in payment of Director’s fees totaling $145,894 and $99,743 for Fiscal Year 2012 and Fiscal Year 2011, respectively	1,505,613	2,493,589
Common shares issued in payment of employee salaries totaling $67,336 and $37,210 for Fiscal Year 2012 and Fiscal Year 2011, respectively.	694,889	930,231
Total Common Shares issued during Fiscal Years 2012 and 2011	151,104,071	96,595,489
Common Shares outstanding at March 31,	331,649,728	180,545,657

NOTE 18 - PER SHARE INFORMATION

Basic earnings per share of common stock (“Basic EPS”) is computed by dividing the net income(loss) by the weighted-average number of shares of common stock outstanding. Diluted earnings per share of common stock (“Diluted EPS”) is computed by dividing the net income(loss) by the weighted-average number of shares of common stock and dilutive common stock equivalents and convertible securities then outstanding. GAAP requires the presentation of both Basic EPS and Diluted EPS, if such Diluted EPS is not anti-dilutive, on the face of the Company’s Consolidated Statements of Operations. As the Company had a net loss for Fiscal Year 2012 and Fiscal Year 2011, Diluted EPS is not presented as the effect of the Company’s common stock equivalents and convertible securities is anti-dilutive.

Basic EPS is calculated as follows:

	Fiscal Year 2012	Fiscal Year 2011
Numerator		
Net (Loss) attributable to common shareholders	$(15,167,289)	$(13,582,159)
Denominator		
Weighted average shares of common stock outstanding	259,163,279	100,020,520
Net (Loss) per Share – Basic and Diluted	$(0.06)	$(0.14)
Potentially dilutive securities excluded from the calculation of diluted loss per share (in accordance with GAAP)		
Stock Options	2,999,000	3,057,000
Convertible Preferred Stock	94,512,298	180,881,120
Warrants	161,478,979	155,325,048

NOTE 19 - STOCK-BASED COMPENSATION

Part or all of the compensation paid by the Company to its Directors and employees consists of the issuance of Common Stock or via the granting of options to purchase Common Stock

Stock-based Director Compensation

The Company's Director compensation policy instituted in October 2009 includes provisions that Director's fees are to be paid via the issuance of shares of the Company's Common Stock, in lieu of cash, with the valuation of such shares being calculated on a quarterly basis and equal to the average closing price of the Company's common stock for the quarter just ended.

During Fiscal Year 2012, the Company issued 1,505,613 shares of Common Stock to its Directors in payment of Director's fees in the aggregate amount of $130,000 and related to the period beginning on January 1, 2011 and ending on December 31, 2011. On the date of their issuance, the Common Shares had a value of $145,894, based upon the closing price of the Company's Common Stock on such date. Please note that the shares issued during Fiscal Year 2012, include those shares owed and not yet issued at the end of Fiscal Year 2011.

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During Fiscal Year 2011, the Company issued 2,493,589 shares of Common Stock to its Directors in payment of Director's fees in the aggregate amount of $182,167 and related to the period beginning on October 1, 2009 and ending on December 31, 2010. On the date of their issuance, the Common Shares had a value of $99,743, based upon the closing price of the Company's Common Stock on such date. Please note that the shares issued during Fiscal Year 2011, include those shares owed and not yet issued at the end of Fiscal Year 2010.

As of March 31, 2012, the Company owes its Directors a total of 320,350 shares of Common Stock in payment of Directors Fees totaling $32,500 for the three months ended March 31, 2012. The Company anticipates that these shares of Common Stock will be issued during the fiscal year ended March 31, 2013.

Stock-based Employee Compensation

Employment contracts with the Company's President, Chief Financial Officer and certain other employees includes provisions for a portion of each employees salaries to be paid via the issuance of shares of the Company's Common, in lieu of cash, with the valuation of such shares being calculated on a quarterly basis and equal to the average closing price of the Company's common stock for the quarter just ended.

During Fiscal Year 2012, the Company issued a total of 694,889 shares of Common Stock to its President, Chief Financial Officer and certain other employees in payment of salaries in the aggregate amount of $60,000 and related to the period beginning on January 1, 2011 and ending on December 31, 2011. On the date of their issuance, the Common Shares had a value of $67,336, based upon the closing price of the Company's Common Stock on such date. Please note that the shares issued during Fiscal Year 2012, include those shares owed and not yet issued at the end of Fiscal Year 2011.

During Fiscal Year 2011, the Company issued a total of 930,231 shares of Common Stock to its President, Chief Financial Officer and certain other employees in payment of salaries in the aggregate amount of $66,667 and related to the period beginning on October 1, 2009 and ending on December 31, 2010. On the date of their issuance, the Common Shares had a value of $37,210, based upon the closing price of the Company's Common Stock on such date. Please note that the shares issued during Fiscal Year 2011, include those shares owed and not yet issued at the end of Fiscal Year 2010.

As of March 31, 2011, the Company owes its President, Chief Financial Officer and certain other employees a total of 147,854 shares of Common Stock in payment of salaries totaling $15,000 for the three months ended March 31, 2012, with such amount being recorded in accrued expenses. The Company anticipates that these shares of Common Stock will be issued during the fiscal year ended March 31, 2013.

Stock option based Employee Compensation

The Company did not issue options to purchase Common Stock to employees during the years ended March 31, 2012 and March 31, 2011.

During the year ended March 31, 2010 (“Fiscal 2010”) the Company issued 1,000,000 options to purchase Common Stock to employees. The options issued during Fiscal 2010 have an exercise price of $0.10, vest over a three year period which commences one year from the date of grant and expire ten years from the date of grant. The fair value of the options granted during Fiscal Year 2010 was $93,452, computed using the Black-Scholes options pricing model on the grant date. Such fair value is being amortized by the Company, on a straight line basis, over the vesting period, and recorded on the Company’s Statement of Income as “Non-cash compensation through the issuance of stock options”.

In addition to the stock options granted in Fiscal 2010, the amount recorded on the Company's Statement of Income as non-cash compensation through the issuance of stock options includes amortization of the fair value of stock options granted prior to Fiscal Year 2010. The fair value of these options, totaling $196,983 on the date of such grants, was fully amortized by the end of Fiscal Year 2011.

Stock option based employee compensation is summarized as follows:

	Fiscal Year 2012	Fiscal Year 2011
Non-cash compensation expense related to stock options granted prior to Fiscal Year 2010	—	$ 17,056
Non-cash compensation expense related to stock options granted during Fiscal Year 2010	24,453	24,960
Total non-cash compensation through the issuance of stock options	$ 24,453	$ 42,016

NOTE 20 - STOCK OPTION PLANS

Under its 2004 Stock Option Plan and prior options plans, the Company may grant stock options to officers, selected employees, as well as members of the Board of Directors and advisory board members. All options have generally been granted at a price equal to or greater than the fair market value of the Company's Common Stock at the date of the grant. Generally, options are granted with a vesting period of up to three years and expire ten years from the date of grant.

Transactions under the plans for the years indicated were as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	3,057,000	$ 1.51	3,287,000	$ 1.41
Options Granted	—	—	—	—
Options Exercised	—	—		
Options Expired/Forfeited	(58,000)	$ 0.10	(230,000)	$ 0.10

Options Vested

Outstanding at end of year	2,999,000	$ 1.53	3,057,000	$ 1.51

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The following table summarizes information about stock options outstanding at March 31, 2012:

Range	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.01 – 1.00	920,000	7.2	$ 0.09	673,334	$ 0.08
1.01 – 2.00	99,000	5.8	$ 1.08	99,000	$ 1.08
2.01 – 3.00	1,980,000	4.5	$ 2.22	1,480,000	$ 2.21
$ 0.01 – 3.00		5.4	$ 1.53		$ 1.53

As of March 31, 2012, there were 6,520,100 options available for future grant under our Stock Option Plan.

NOTE 21 - INCOME TAXES

The components of the credit for income taxes are as follows:

	Year Ended March 31,	
	2012	2011
Federal:		
Current	$—	$—
Deferred	—	—
State		
Current	$(2,849)	$(10,422)
Deferred	—	—
Sale of New Jersey Net Operating Losses	$486,801	$311,835
Net Credit for Income Taxes	$483,952	$301,413

The Major components of deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

	March 31,	
	2012	2011
Federal		
Net Operating Loss Carry forward	$16,995,825	$17,789,382
Less: Deferred Tax Liability	(169,208)	(305,716)
Subtotal	16,826,617	17,483,666
Valuation Allowance	(16,826,617)	(17,483,666)
	$—	$—
State		
Net Operating Loss Carryforwards	$932,426	$2,223,278
Less: Deferred Tax Liability	(34,837)	(68,786)
Subtotal	897,589	2,154,492
Valuation Allowance	(897,589)	(2,154,492)
	$—	$—

At March 31, 2012 and 2011, a 100% valuation allowance is provided, as it is uncertain if the deferred tax assets will provide any future benefits because of the uncertainty about the Company's ability to generate the future taxable income necessary to use the net operating loss carryforwards.

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NOTE 22 - REMOVAL OF LODRANE PRODUCTS FROM THE US MARKET

On March 3, 2011, the U.S. Food and Drug Administration ("US-FDA") announced its intention to remove approximately 500 cough/cold and allergy related products from the U.S. market. The Company manufactured two of the drugs impacted by the US-FDA's action. The affected products are:

Product	Active Ingredient , Strength
Lodrane® 24 Capsules	Brompheniramine maleate, 12mg
Lodrane® 24D Capsules	Brompheniramine maleate, 12mg/pseudoephedrine HCl, 90mg

According to the press release issued by the US-FDA, manufacturers must stop manufacturing the affected products within 90 days after March 3, 2011 and distribution of the effected products must stop within 180 days after March 3, 2011.

For the year ended March 31, 2011, gross revenues earned by the Company from the Lodrane® products equaled $4.2 million, or approximately 97% of the Company's total income for the year.

Shortly after the announcement by the US-FDA, the Company's customer for the Lodrane® products cancelled all outstanding orders, other than those for which manufacturing had already begun, advising the Company that existing stocks of Lodrane® were sufficient and that additional quantities could not be sold prior to the 180 day deadline announced by the US-FDA.

The last shipment of Lodrane® products was made by the Company in April 2011 and manufacturing of Lodrane® has ceased.

While the timing of the announcement by the US-FDA resulted in such having a minimal effect on the Company's operations for the 2011 Fiscal Year, the Company's inability to manufacture Lodrane® has a material adverse effect on its revenues for periods beginning after March 31, 2011.

Please refer to the Current Report on Form 8-K filed with the SEC on March 4, 2011, such filing being herein incorporated by reference, for further details on this announcement.

NOTE 23 - MAJOR CUSTOMERS

Three customers accounted for approximately 90 percent of revenues for the year ended March 31, 2012, with such group of customers including a single customer that accounted for approximately 97 percent of revenues for the year ended March 31, 2011.

Please note that this major customer in the year ended March 31, 2011, was the purchaser of the Lodrane® products, which have been discontinued pursuant to an announcement by the US-FDA.

Shortly after the announcement by the US-FDA, this customer cancelled all outstanding orders, other than those for which manufacturing had already begun, advising the Company that existing stocks of Lodrane® were sufficient and that additional quantities could not be sold prior to the 180 day deadline announced by the US-FDA.

The last shipment of Lodrane® products was made by the Company in April 2011 and manufacturing of Lodrane® has ceased.

While the timing of the announcement by the US-FDA resulted in such having a minimal effect on the Company's operations for the 2011 Fiscal Year, the Company's inability to manufacture Lodrane® has a material and adverse effect on its revenues for periods beginning after March 31, 2011.

Please refer to the Current Report on Form 8-K filed with the SEC on March 4, 2011, such filing being herein incorporated by reference, for further details on this announcement.

NOTE 24 - **SETTLEMENT OF *MIDSUMMER INVESTMENTS, Ltd. Et al v. Elite Pharmaceuticals Inc.***

Midsummer Investments, Ltd., et al. v. Elite Pharmaceuticals, Inc. – On or about September 22, 2009, Midsummer Investments, Ltd. ("Midsummer") and Bushido Capital Master Fund, LP ("Bushido", and together with Midsummer, the "Plaintiffs") filed a complaint against Elite Pharmaceuticals, Inc., a Delaware corporation (the "Company"), in the United States District Court, Southern District of New York (Case No. 09 CIV 8074) (the "Action"). The Plaintiffs asserted claims for breach of contract (injunctive relief and damages), anticipatory breach of contract (injunctive relief), conversion (injunctive relief and damages), and attorneys' fees, arising out of a Securities Purchase Agreement, dated September 15, 2008, by and among the Company and certain purchasers of the Company's securities (including the Plaintiffs) and the Certificate of Designation of Preferences, Rights and Limitations of Series D 8% Convertible Preferred Stock, filed with the Secretary of State of the State of Delaware on September 15, 2009 (the "Series D Certificate"). Plaintiffs claimed that they were entitled to a reduced conversion price for their Series D 8% Convertible Preferred Stock, par value US$0.01 per share (the "Series D Preferred Stock"), as a result of the Strategic Alliance Agreement, dated March 18, 2009, as amended (the "Epic SAA"), by and among the Company, on the one hand, and Epic Pharma, LLC ("Epic") and Epic Investments, LLC ("Epic Investments", and together with Epic, the "Epic Parties"). With their complaint, the Plaintiffs concurrently filed a request for preliminary injunction. Pursuant to an order of the Court entered into on October 16, 2009, the Plaintiffs' request for a preliminary injunction was denied. Thereafter, Plaintiffs filed an amended complaint (the "Complaint"), asserting claims for breach of contract (injunctive relief and damages), anticipatory breach of contract (injunctive relief), conversion (damages) and attorneys' fees, seeking compensatory damages of $7,455,363.00, delivery of 1,000,000 shares of the Company's common stock, par value $0.001 per share (the "Common Stock"), a declaration that all future conversions of the Series D Preferred Stock, held by Plaintiffs is at a conversion price of $0.05, attorneys' fees, interest and costs.

The Company disputed the claims in the Complaint, believing the lawsuit to be without merit, and vigorously defended against them. The Company moved for summary judgment on the Complaint and the judge in the case did not issue an order on such motion. The Company proceeded with extensive, time-consuming and costly discovery. The court scheduled the trial to commence on June 28, 2010.

In order to avoid the delays, expense and risks inherent in litigation, after extensive negotiations, the Company entered into (i) a Stipulation of Settlement and Release, dated June 25, 2010 (the "Settlement Agreement"), with the Plaintiffs and the Epic Parties, (ii) an Amendment Agreement, dated June 25, 2010 (the "Series D Amendment Agreement"), with the Plaintiffs and (iii) an Amendment Agreement, dated June 25, 2010 (the "Series E Amendment Agreement") with the Epic Parties. As part of the Settlement Agreement, the Action will be dismissed with prejudice.

Series D Amendment Agreement

Pursuant to the Series D Amendment Agreement, the Company and Plaintiffs agreed to amend the Series D Certificate. The holders of at least 50.1%, in the aggregate, of the Company's outstanding Series B Preferred 8% Convertible Preferred Stock, par value US$0.01 per share, Series C 8% Convertible Preferred Stock, par value US$0.01 per share, and Series D Preferred Stock, voting as one class, consented to the filing of the Amended Certificate of Designations of the Series D 8% Convertible Preferred Stock (the "Amended Series D Certificate") with the Secretary of State of the State of Delaware. On June 29, 2010, pursuant to the authority of its Board of Directors, the Company filed with the Secretary of State of the State of Delaware the Amended Series D Certificate.

Pursuant to the terms of the Amended Series D Certificate, the terms of the Series D Preferred Stock have been amended as follows:

- Dividends: The Series D Preferred Stock will continue to accrue dividends at the rate of 8% per annum on their stated value of US$1,000 per share, payable quarterly on January 1, April 1, July 1 and October 1 and such rate shall not increase to 15% per annum as previously provided prior to giving effect to the Series D Amendment Agreement. In addition to being payable in cash and shares of Common Stock, as provided in the Series D Certificate, such dividends may also be paid in shares of Series D Preferred Stock (the "Dividend Payment Preferred Stock") or a combination of cash, Common Stock and Dividend Payment Preferred Stock. Dividend Payment Preferred Stock will have the same rights, privileges and preferences as the Series D Preferred Stock, except that such Dividend Payment Preferred Stock will not be entitled to, nor accrue, any dividends pursuant to the Amended Series D Certificate.

- Conversion Price: The conversion price of the Series D Preferred Stock shall be reduced from US$0.20 per share to US$0.07 per share (subject to adjustment as provided in the Amended Series D Certificate).

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- Automatic Monthly Conversion: On each Monthly Conversion Date (as defined below), a number of shares of Series D Preferred Stock equal to each holder's pro-rata portion (based on the shares of Series D Preferred Stock held by each Holder on June 25, 2010) of the Monthly Conversion Amount (as defined below) will automatically convert into shares of Common Stock at the then-effective conversion price (each such conversion, a "Monthly Conversion"). Notwithstanding the foregoing, the Company will not be permitted to effect a Monthly Conversion on a Monthly Conversion Date unless (i) the Common Stock shall be listed or quoted for trading on a trading market, (ii) there is a sufficient number of authorized shares of Common Stock for issuance of all Common Stock to be issued upon such Monthly Conversion, (iii) as to any holder of Series D Preferred Stock, the issuance of the shares will not cause a breach of the beneficial ownership limitations set forth in the Amended Series D Certificate, (iv) if requested by a holder of Series D Preferred Stock and a customary Rule 144 representation letter relating to all shares of Common Stock to be issued upon each Monthly Conversion is provided by such holder after request from the Company, the shares of Common Stock issued upon such Monthly Conversion are delivered electronically through the Depository Trust Company or another established clearing corporation performing similar functions ("DTC"), may be resold by such holder pursuant to an exemption under the Securities Act and are otherwise free of restrictive legends and trading restrictions on such Holder, (v) there has been no public announcement of a pending or proposed Fundamental Transaction or Change of Control Transaction (as such terms are defined in the Amended Series D Certificate) that has not been consummated, (vi) the applicable holder of Series D Preferred Stock is not in possession of any information provided to such holder by the Company that constitutes material non-public information, and (vii) the average VWAP (as defined in the Amended Series D Certificate) for the 20 trading days immediately prior to the applicable Monthly Conversion Date equals or exceeds the then-effective conversion price of the Series D Preferred Stock. Shares of the Series D Preferred Stock issued to the holders of Series D Preferred Stock as Dividend Payment Preferred Stock shall be the last shares of Series D Preferred Stock to be subject to Monthly Conversion. As used herein, the following terms have the following meanings: (i) "Monthly Conversion Date" means the first day of each month, commencing on August 1, 2010, and terminating on the date the Series D Preferred Stock is no longer outstanding; (ii) "Monthly Conversion Amount" means an aggregate Stated Value of Series D Preferred Stock among all Holders that is equal to 25% of aggregate dollar trading volume of the Common Stock during the 20 trading days immediately prior to the applicable Monthly Conversion Date (such 20 trading day period, the "Measurement Period"), increasing to 35% of the aggregate dollar trading volume during the Measurement Period if the average VWAP during such Measurement Period equals or exceeds $0.12 (subject to adjustment for forward and reverse stock splits and the like that occur after June 25, 2010) and further increasing to 50% of the aggregate dollar trading volume during such Measurement Period if the average VWAP during such Measurement Period equals or exceeds $0.16 (subject to adjustment for forward and reverse stock splits and the like that occur after June 25, 2010).

- Change of Control Transaction: Epic and its affiliates were expressly excluded from any event which would otherwise constitute a "Change of Control Transaction" due to the acquisition in excess of 40% of the Company's voting securities.

Pursuant to the Series D Amendment Agreement, the exercise price of the Warrants (the "Series D Warrants") to purchase shares of Common Stock issued to the holders of Series D Preferred Stock pursuant to the Securities Purchase Agreement, dated as of September 15, 2008, by and among the Company and the purchasers of Series D Preferred Stock will be reduced from $0.25 per share to US$0.125. In addition, the exercise price of the Series D Warrants may be reduced as follows:

(i) by 20%, if on September 15, 2011, the holder of such Warrant still beneficially owns more than 50% of the Series D Preferred Stock beneficially owned by such holder as of June 25, 2010 ("Base Ownership"); and

(ii) by 20%, if (a) on September 15, 2011, such holder then beneficially owns more than 25% of the Base Ownership and 50% or less of the Base Ownership and (b) on September 15, 2012, such holder then beneficially owns more than 25% of the Base Ownership.

Notwithstanding the foregoing, (x) in no event will the exercise price of the Series D Warrants be reduced more than once as a result of the amendments to such Series D Warrants, and (y) in the event that on September 15, 2011 or, if the condition of clause (ii)(a) above is met, on September 15, 2012, the Holder beneficially owns 25% or less of the Base Ownership, then no adjustment shall occur pursuant to the Series D Warrants, as amended by the Series D Amendment Agreement. Additionally, there will be no corresponding increase in the number of shares of Common Stock issuable upon exercise of the Warrants solely as a result of the foregoing adjustments.

To the extent such issuance does not cause the breach of the beneficial ownership limitations set forth in the Amended Series D Certificate (any excess shares will be issued to the affected holder of Series D Preferred Stock upon written notice from such holder when such holder's beneficial ownership is below 9.9% to the extent that such issuance does not cause such holder to exceed such amount), the Company agreed to issue certain shares of Common Stock to the Plaintiffs and their respective affiliates in satisfaction of the Company's obligation to pay certain previously accrued but unpaid dividends through March 31, 2010 owing to the Plaintiffs and their respective affiliates.

Series E Amendment Agreement

Pursuant to the Series E Amendment Agreement, the Company agreed to amend the Certificate of Designation of Preferences, Rights and Limitations of the Series E Convertible Preferred Stock, filed with Secretary of State of the State of Delaware on June 3, 2009 (the "Series E Certificate"). The Epic Parties, constituting all holders of Series E Preferred Stock, consented to the filing of the Amended Certificate of Designations of the Series E Convertible Preferred Stock (the "Amended Series E Certificate") with the Secretary of State of the State of Delaware. On June 29, 2010, pursuant to the authority of its Board of Directors, Company filed with the Secretary of State of the State of Delaware the Amended Series E Certificate. Pursuant to the terms of the Amended Series E Certificate, the conversion price of the Series E Preferred Stock will be adjusted downward to reflect, on a pro rata basis, the reduction in the conversion price of the Series D Preferred Stock as the result of the Series D Amendment Agreement, to the extent shares of Series D Preferred Stock are converted at the reduced conversion price set forth in the Amended Series D Certificate.

Pursuant to the Series E Amendment Agreement, the Epic SAA was amended so that the purchase of the 750 Additional Shares of Series E Preferred Stock described therein for an aggregate purchase price of $750,000 would occur in 12 installments of 62.5 shares (for a purchase price of $62,500) (i) on or prior to November 1, 2009 (which has been satisfied) and (ii) within 10 business days following the last day of each calendar quarter, beginning with the first calendar quarter ending on September 30, 2010 and continuing for each of the 10 calendar quarters thereafter.

In addition, under the Series E Amendment Agreement, the third closing date is scheduled to occur on or before December 31, 2010, subject to certain conditions set forth in the Epic SAA (as amended by the Series E Amendment Agreement).

Under each of the Series D Amendment Agreement and the Series E Amendment Agreement, the Company agreed that at its next meeting of shareholders it will seek shareholder approval to amend its certificate of incorporation to increase the number of authorized but unissued shares of Common Stock to at least 760,000,000.

Settlement Agreement

Pursuant to the Settlement Agreement, Elite and the Epic Parties, individually and on behalf of each of their respective officers, directors, agents, representatives, successors, affiliated entities, subsidiaries, heirs, employees, administrators and assigns (the "Elite Releasors") agreed to release and discharge each of the Plaintiffs, BCMF Trustees LLC, an affiliate of Bushido ("BCMF"), their respective owners, officers, directors, investors, agents, representatives, successors, affiliated entities, subsidiaries, heirs, employees, administrators and assigns (the "Plaintiffs' Releases") from any and all actions, causes of action, claims, liens, suits, debts, accounts, liabilities, expenses, attorneys' fees, agreements, promises, charges, complaints and demands (collectively, "Loses") which the Elite Releasors have or may have against the Plaintiffs' Releasees that could have been asserted in the Action or any other court action, based upon any conduct up to and including the date of the Settlement Agreement. Notwithstanding the foregoing, the Elite Releasors will not release any claim of breach of the terms of the Settlement Agreement, breach of the terms of the Series D Amendment Agreement, or any cause of action arising from future conduct by the Plaintiffs' Releases.

Pursuant to the Settlement Agreement, the Plaintiffs and BCMF, individually and on behalf of each of their respective owners, officers, directors, investors, agents, representatives, successors, affiliated entities, subsidiaries, heirs, employees, administrators and assigns (the "Plaintiffs' Releasors") agreed to release and discharge Elite and the Epic Parties and each of their respective officers, directors, agents, representatives, successors, affiliated entities, subsidiaries, heirs, employees, administrators and assigns (the "Elite Releasees"), from any and all Losses which the Plaintiffs' Releasors have or may have against the Elite Releasees that could have been asserted in the Action or any other court action, based upon any conduct up to and including the date of the Settlement Agreement. Notwithstanding the foregoing, the Plaintiffs' Releasors did not release any claim of breach of the terms of the Settlement Agreement, breach of the terms of the Series D Amendment Agreement or any cause of action arising from future conduct by the Elite Releasees.

In addition, concurrently with the execution of the Settlement Agreement, legal counsel for both the Company and the Plaintiffs executed a Stipulation of Discontinuance of the Action, which such counsel will file once all conditions precedent to the effectiveness of the Settlement Agreement have been satisfied.

The foregoing description of the Amended Series D Certificate, Amended Series E Certificate, Settlement Agreement, Series D Amendment Agreement and Series E Amendment Agreement does not purport to be complete and is qualified in its entirety by reference to the complete text of such documents which are filed herewith and incorporated herein by reference.

On July 1, 2010, the Company filed with the SEC a Current Report on Form 8-K announcing the settlement of the litigation with the Plaintiffs, with such filing being incorporated by reference herein.

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NOTE 25 - **SETTLEMENT OF *ThePharmaNetwork Inc. v. Elite Pharmaceuticals Inc.***

On March 17, 2011, Elite Pharmaceuticals, Inc. (the "Company") issued a press release announcing the settlement of a lawsuit filed in the Superior Court of New Jersey, Chancery Division: Bergen County entitled ThePharmaNetwork, LLC v. Elite Pharmaceuticals, Inc. (Index No. C-272-10) (the "Action").

The Action was commenced on or about August 27, 2010 by ThePharmaNetwork, LLC ("TPN"). TPN alleged that the Company breached certain obligations in connection with a Product Collaboration Agreement (the "Collaboration Agreement"), made as of November 10, 2006, pursuant to which the Company and TPN agreed to collaborate in the development, commercialization, manufacturing and distribution of a generic pharmaceutical product, which the parties subsequently agreed would be methadone hydrochloride in a 10 mg. tablet (the "Product"). In the lawsuit, the Company asserted counterclaims against TPN arising out of the Collaboration Agreement, and sought damages of no less than $1,125,000 from TPN. Both parties denied the other side's allegations.

In order to fully and finally resolve the disputed claims arising in the Action, the Company and TPN have entered into a settlement agreement, dated March 11, 2011 (the "Settlement Agreement"), pursuant to which the Action, including all of TPN's claims and the Company's counterclaims, will be dismissed with prejudice.

Pursuant to the Settlement Agreement, the parties have agreed to terminate the Collaboration Agreement.

In addition, in consideration of the Company's agreement to terminate the Collaboration Agreement and to relinquish to TPN all rights and interest in the Abbreviated New Drug Application ("ANDA") for the Product approved by the U.S. Food and Drug Administration (FDA), TPN made a cash payment of $500,000 to Elite.

As part of the Settlement Agreement, TPN also acknowledges that the Company may develop a generic product containing methadone of any strength (including the filing of an abbreviated new drug application relating to such product) and that nothing in the Settlement Agreement restricts the Company from developing, commercializing, manufacturing and distributing any pharmaceutical product similar to, or which may compete with, the Product or the ANDA filed in connection with the Product.

The Settlement Agreement also contained a mutual release pursuant to which the Company and TPN agreed to release and discharge each other and their respective affiliates from all claims arising before the date of the Settlement Agreement.

Please refer to the Current Report on Form 8-K filed with the SEC on March 17, 2011, such filing being herein incorporated by reference, for further details on this settlement of litigation.

NOTE 26 - TRANSACTIONS WITH RELATED PARTIES

Transactions with Epic Pharma LLC and Epic Investments LLC

On March 18, 2009, the Company entered into the Epic Strategic Alliance Agreement with Epic Pharma, LLC and Epic Investments, LLC, a subsidiary controlled by Epic Pharma LLC, as disclosed in this Annual Report Form 10-K under Item 7 of Part II of this Annual Report on Form 10-K, under the heading "Epic Strategic Alliance Agreement," Item 9B and Item 10, under the heading "Directors and Executive Officers," and in our Current Reports on Form 8-K, filed with the SEC on March 23, 2009, May 6, 2009 and June 5, 2009, which disclosures are incorporated herein by reference. Ashok G. Nigalaye, Jeenarine Narine and Ram Potti, each were elected as members of our Board of Directors, effective June 24, 2009, as the three directors that Epic is entitled to designate for appointment to the Board pursuant to the terms of the Epic Strategic Alliance Agreement. Messrs. Nigalaye, Narine and Potti are also officers of Epic Pharma, LLC, in the following capacities:

- Mr. Nigalaye, Chairman and Chief Executive Officer of Epic Pharma, LLC;
- Mr. Narine, President and Chief Operating Officer of Epic Pharma, LLC;
- Mr. Potti, Vice President of Epic Pharma, LLC.

As part of the operation of the strategic alliance, the Company and Epic identified areas of synergy, including, without limitation, raw materials used by both entities, equipment purchases, contract manufacturing/packaging and various regulatory and operational resources existing at Epic that could be utilized by the Company.

With regards to synergies related to raw materials usage, the strategic alliance allowed the Company to purchase such raw materials from Epic, at the Epic acquisition cost, without markup. In all cases, the acquisition cost of Epic was lower than those costs available to the Company, mainly as a result of efficiencies of scale generated by significantly larger volumes purchased by Epic during the course of their normal operations. During the fiscal years ended 3/31/2012 and 3/31/2011, an aggregate amount of 15,552 and $232,305, respectively, in such materials was purchased from Epic Pharma LLC. All purchases were at Epic Pharma's acquisition cost, without markup and evidenced by supporting documents of Epic Pharma LLC's acquisition cost.

With regards to synergies related to regulatory and operational resources, the strategic alliance allowed the Company to utilize Epic's substantial resources and technical competencies on an "as needed" basis at a cost equal to Epic's actual cost for only the resources utilized by the Company. Without such access to Epic's resources, the Company would have to invest significant amounts in human resources and fixed assets as well as incur substantial costs with third party providers to provide the same resources provided by Epic and necessary for the operations of the Company.

During the fiscal year ended 3/31/2012, an aggregate amount of $133,003 was paid to Epic as reimbursement for costs associated with facility maintenance, engineering and regulatory resources utilized by the Company. During the fiscal year ended 3/31/2011, an aggregate amount of $73,440 was paid to Epic as reimbursement for costs associated with facility maintenance, engineering and regulatory resources utilized by the Company.

During the fiscal year ended March 31, 2012, the Company incurred a total of $275,768 in contract manufacturing and/or packaging costs for the Company's Phentermine, Hydromorphone, Methadone and Immediate Release Lodrane products.

During the fiscal years ended March 31, 2012 and 2011, equipment purchases from Epic totaled $52,000 and $140,000, respectively.

The Company also purchased an ANDA for Phentermine 37.5mg tablets from Epic Pharma LLC for a cost of $450,000. Please refer to Exhibit 10.7 of the Quarterly Report on Form 10-Q filed with SEC on November 15, 2010 for further details on this ANDA purchase.

Total purchases from Epic by the Company during the fiscal years ended March 31, 2012 and 20111 were $476,323 and $895,745, respectively.

During the fiscal year ended March 31, 2011, the Company also performed method development services for Epic Pharma LLC, for which it was paid $25,000, sold retired equipment to Epic for $30,000 and sold excess raw materials to Epic for a total of $2,903.

NOTE 27 - CONVERSIONS OF PREFERRED STOCK DERIVATIVES TO COMMON STOCK

The Amended Certificate of Designations of the Series B 8% Convertible Preferred Stock of Elite Pharmaceuticals (the “Series B Preferred Derivatives”), the Series C 8% Convertible Preferred Stock of Elite Pharmaceuticals (the “Series C Preferred Derivatives”), the Series D 8% Convertible Preferred Stock of Elite Pharmaceuticals (the “Series D Preferred Derivatives”) and the Series E Convertible Preferred Stock Derivatives (the “Series E Preferred Derivatives”, and together with the Series B Preferred Derivatives, the Series C Preferred Derivatives and the Series D Preferred Derivatives, the “Preferred Derivatives”) include provisions entitling the holders of these Preferred Derivatives to convert shares of the Preferred Derivatives into shares of Common Stock. The Preferred Derivatives are classified as a liability to the Company, and the liability represented by those shares of Preferred Derivatives being converted must be valued at the time of such conversion, with increases/(decreases) in the value of preferred share derivative liabilities being appropriately recorded and reflected in the Other Income section of the Company’s Statement of Operations. The amount of equity recorded as a result of the conversion of Preferred Derivatives is equal to the value of such Preferred Derivatives being converted, at the time of the conversion, with such amount also representing the decrease in the Preferred Share Derivative Liability on the Company’s Balance Sheet.

Conversions of Preferred Derivatives during the years ended March 31, 2012 and March 31, 2011, are summarized as follows:

	Fiscal 2012	Fiscal 2011
Series B Derivatives		
Number of Derivative Shares Converted	99	—
Number of Common Shares issued pursuant to conversion	660,001	—
Value of Preferred Derivative shares at time of conversion (represents decrease in derivative liability resulting from conversions)	$72,600	—
Change in value of preferred share derivative liability recorded at time of conversion	$(39,600)	—
Par value of Common Shares issued	$660	—
Additional paid in capital recorded as a result of the conversions	$71,940	—
Series C Preferred Derivatives		
Number of Derivative Shares Converted	2,752	—
Number of Common Shares issued pursuant to conversion	18,346,673	—
Value of Preferred Derivative shares at time of conversion (represents decrease in derivative liability resulting from conversions)	$1,712,667	—
Change in value of preferred share derivative liability recorded at time of conversion	$(518,387)	—
Par value of Common Shares issued	$18,347	—
Additional paid in capital recorded as a result of the conversions	$1,694,321	—

	Fiscal 2012	Fiscal 2011
Series D Preferred Derivatives		
Number of Derivative Shares Converted	4,063	4,945
Number of Common Shares issued pursuant to conversion	58,042,862	70,649,154
Value of Preferred Derivative shares at time of conversion (represents decrease in derivative liability resulting from conversions)	$9,473,715	4,465,584
Change in value of preferred share derivative liability recorded at time of conversion	$4,946,372	1,639,618
Par value of Common Shares issued	$58,043	70,649
Additional paid in capital recorded as a result of the conversions	$9,415,672	4,394,935
Series E Preferred Derivatives		
Number of Derivative Shares Converted	1,563	
Number of Common Shares issued pursuant to conversion	63,443,670	
Value of Preferred Derivative shares at time of conversion (represents decrease in derivative liability resulting from conversions)	$5,905,197	
Change in value of preferred share derivative liability recorded at time of conversion	$1,166,521	
Par value of Common Shares issued	$63,444	
Additional paid in capital recorded as a result of the conversions	$5,841,754	
Total Preferred Derivatives		
Number of Derivative Shares Converted	8,477	4,945
Number of Common Shares issued pursuant to conversion	140,493,206	70,649,164
Value of Preferred Derivative shares at time of conversion (represents decrease in derivative liability resulting from conversions)	$17,164,180	$4,465,584
Change in value of preferred share derivative liability recorded at time of conversion	$5,554,906	$1,639,618
Par value of Common Shares issued	$140,493	$70,649
Additional paid in capital recorded as a result of the conversions	$17,023,687	$4,394,935

NOTE 28 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date through June 29, 2012, the date the accompanying financial statements were issued. The following are material subsequent events:

<u>Common shares issued in lieu of cash in payment of derivative interest expense due as of March 31, 2012</u>

Derivative interest expense related to the Preferred Share derivatives due and payable as of March 31, 2012 were paid during April 2012 through the issuance of 802,789 shares of common stock.

Common shares issued in lieu of cash in payment of derivative interest expense due to Series B Preferred Shareholders for the period April 1, 2012 through the date of full conversion of Series B Preferred Shares held

Derivative interest expense related to the Series B Preferred Share derivatives earned during the period beginning on April 1, 2012 and ending on the date of full conversion by each Series B Preferred Shareholder totaled $11,523 and was paid via the issuance of a total of 85,804 shares of Common Stock.

Conversion of Series B and Series C Convertible Preferred Stock to Common Stock

During the period beginning on April 1, 2012 and ending on the date of filing of this Annual Report on Form 10-K, a total of 797 shares of Series B Preferred Stock, representing all shares of Series B Preferred Stock then issued and outstanding, were converted into a total of 5,310,387 shares of Common Stock. In addition, a total of 1,216 shares of Series C Preferred Stock were converted into a total of 8,106,667 shares of Common Stock.

Issuance of U.S. Patent for Abuse Resistant Oral Dosage Formulation

On May 22, 2012, the United States Patent and Trademark Office (“USPTO”) issued U.S. Patent No. 8,182,836, entitled “Abuse-Resistant Oral Dosage Forms and Method of Use Thereof. The issuance of this patent will further protect Elite’s proprietary formulation for abuse resistant products utilizing the pharmacological approach. The Company has additional patents pending for its technology. A Current Report on Form 8-K was filed with the SEC on May 22, 2012, with such filing being herein incorporated by reference.

Bridge Loan Facility from Jerry Treppel

On June 12, 2012, the Company entered into a bridge loan agreement (“Loan”) with Jerry Treppel, Elite’s Chairman and CEO. Pursuant to this agreement, Mr. Treppel has agreed to provide to Elite a line of credit not to exceed $500,000. Proceeds will be used to support Elite’s acceleration of product development activities.

Pursuant to the agreement, Elite has access to a line of credit in the maximum principal amount not to exceed $500,000. The Loan carries an annual interest rate of 10%, with such interest to be paid quarterly. The Loan will mature on the earlier of the date that Elite raises at least $2,000,000 in gross proceeds from the sale of any of its equity securities or July 31, 2013. Elite may prepay any amounts of the Loan without penalty. Elite may borrow, repay and reborrow under the loan.

A Current Report on Form 8-K was filed with the SEC on June 13, 2012, with such filing being herein incorporated by reference.

Withdrawal of Registration Statement on Form S-1

On June 20, 2012, the Company filed a letter with the Securities and Exchange Commission (the "Commission") requesting withdrawal of the Registration Statement on Form S-1 (the "Registration Statement") that it had filed with the Commission on March 1, 2012. The Company had filed the Registration Statement in accordance with the terms of a Securities Purchase Agreement entered into by the Company on December 30, 2011. The withdrawal request will be deemed granted as of June 20, 2012 unless, within fifteen days after such date, the Company receives a notice from the Commission that this request will not be granted.

The Company is withdrawing the Registration Statement because, after discussions with the Commission's staff, it determined that the transactions as structured in the Securities Purchase Agreement could not be implemented. Accordingly, the Company will not be proceeding with the financing under the Securities Purchase Agreement.

A Current Report on Form 8-K was filed with the SEC on June 21,2012, such filing being herein incorporated by reference.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (Unaudited)	March 31, 2012 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 65,655	$ 668,407
Accounts receivable (net of allowance for doubtful accounts of -0- and -0-, respectively)	526,386	396,847
Inventories (net of reserve of $93,338 and $93,338, respectively)	984,431	304,882
Prepaid expenses and other current assets	65,878	127,704
Total Current Assets	1.642.350	1,497,840
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $4,979,270 and $4,659,670, respectively	4,108.774	4,284,786
INTANGIBLE ASSETS – net of accumulated amortization of $-0- and $-0-, respectively	682.849	642,848
OTHER ASSETS		
Investment in Novel Laboratories, Inc.	3,329,322	3,329,322
Security deposits	14,314	14,913
Restricted cash – debt service for EDA bonds	343.051	280,585
EDA bond offering costs, net of accumulated amortization of $100,429 and $93,339, respectively	250.478	261,423
Total Other Assets	3,937.165	3,886,243
TOTAL ASSETS	$ 10,371,138	$ 10,311,717

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (Unaudited)	March 31, 2012 (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	506,760	13,316
Accounts payable and accrued expenses	1,400,690	1,066,494
Deferred revenues – current	13,333	13,333
Preferred share derivative interest payable	27,500	70,966
Customer Deposits	50,132	—
Total Current Liabilities	5,383,415	4,549,109
LONG TERM LIABILITIES		
Deferred revenues	155,556	165,558
Other long term liabilities	90,505	87,404
Derivative liability – preferred shares	7,916,397	8,506,106
Derivative liability – warrants	9,181,427	11,987,222
Total Long Term Liabilities	17,343,885	20,746,290
TOTAL LIABILITIES	22,727,300	25,295,399
STOCKHOLDERS' DEFICIT		
Common stock – par value $0.001, Authorized 690,000,000 shares Issued and outstanding – 350,340,298 shares and 331,649,728 shares, respectively	350,342	331,650
Additional paid-in-capital	117,628,663	114,910,812
Accumulated deficit	(130,028,326)	(129,919,303)
Treasury stock at cost (100,000 common shares)	(306,841)	(306,841)
TOTAL STOCKHOLDERS' DEFICIT	(12,356,162)	(14,983,682)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$10,371,138	$10,311,717

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

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	THREE MONTHS ENDED December 31, 2012	2011	NINE MONTHS ENDED December 31, 2012	2011
REVENUES				
Manufacturing Fees	$400,494	$170,099	$1,246,210	$847,832
Royalties & Profit Splits	156,454	20,127	439,117	430,228
Lab Fee Revenues	110,734	319,712	195,427	495,987
Total Revenues	667,682	509,938	1,880,754	1,774,047
COSTS OF REVENUES	266,792	156,590	1,200,787	658,289
Gross Profit	400,890	353,348	679,967	1,115,758
OPERATING EXPENSES				
Research and Development	238,268	386,430	663,625	1,030,141
General and Administrative	380,976	288,416	1,147,112	1,089,909
Non-cash compensation through issuance of stock options	15,133	6,113	36,379	18,340
Depreciation and Amortization	40,723	103,339	108,094	336,454
Total Operating Expenses	675,100	784,298	1,955,210	2,474,844
(LOSS) FROM OPERATIONS	(274,210)	(430,950)	(1,275,243)	(1,359,086)
OTHER INCOME / (EXPENSES)				
Interest expense, net	(63,924)	(57,138)	(183,709)	(172,438)
Change in fair value of warrant derivatives	5,765,992	4,586,076	2,770,912	1,499,682
Change in fair value of preferred share derivatives	3,963,126	4,749,332	(867,741)	(7,665,268)
Interest expense attributable to preferred share derivatives	(27,818)	(86,325)	(111,719)	(353,500)
Discount in Series E issuance attributable to beneficial conversion features	—	—	(437,500)	—
Total Other Income / (Expense)	9,637,376	9,191,945	1,170,243	(6,691,524)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	9,363,166	8,760,995	(105,000)	(8,050,610)

PROVISION FOR INCOME TAXES	—	—	4,023	2,500
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$9,363,166	$8,760,995	$(109,023)	$(8,053,110)
NET (LOSS) PER SHARE				
Basic	$0.03	$0.03	$(0.00)	$(0.03)
Diluted	$0.02	$0.02	$(0.00)	$(0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	350,220,224	262,067,347	345,384,514	247,443,617
Diluted	486,207,413	427,037,498	345,384,514	247,443,617

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		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Stockholders' Deficit
	Shares	Amount		Shares	Amount		
Balance at Mar 31, 2012	331,649,738	$331,650	$114,910,812	100,000	$(306,841)	$(129,919,303)	$(14,983,682)
Net Loss						(109,023)	(109,023)
Common shares issued in lieu of cash in payment of preferred share derivative interest expense	1,512,272	1,512	153,672				155,184
Conversion of Series B, Series C and Series E Preferred Shares into Common Shares	13,917,061	13,918	1,881,033				1,894,951
Non-cash compensation through the issuance of stock options			36,379				36,379
Costs associated with raising capital			(9,856)				(9,856)
Issuance of Common Shares pursuant to the exercise of Warrants	3,261,227	3,262	219,123				222,385

Proceeds received in exchange for beneficial conversion provisions embedded in Series E Preferred Shares			437,500				437,500
Balance at December 31, 2012	350,340,298	$350,342	$117,628,663	100,000	$(306,841)	$(130,028,326)	$(12,356,162)

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

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	NINE MONTHS ENDED DECEMBER 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)	$ (109,023)	$ (8,053,110)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	330,543	363,542
Change in fair value of warrant derivative liability	(2,770,912)	(1,499,682)
Change in fair value of preferred share derivative liability	867,741	7,665,268
Discount in Series E issuance attributable to embedded beneficial conversion feature	437,500	—
Preferred share derivative interest satisfied by the issuance of common stock	155,184	549,854
Non-cash compensation satisfied by the issuance of common stock and options	36,379	18,339
Non-cash rent expense	7,215	8,686
Non-cash lease accretion	1,008	949
Changes in Assets and Liabilities		
Accounts receivable	(129,539)	88,356
Inventories	(679,549)	184,963
Prepaid and other current assets	62,425	88,135
Accounts payable, accrued expenses and other current liabilities	327,640	41,355,
Deferred revenues and Customer deposits	40,130	(49,399)
Derivative interest payable	(43,466)	(196,354)
NET CASH USED IN OPERATING ACTIVITIES	(1,466,724)	(789,098)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(110,787)	(78,427)
Cost of leasehold improvements	(32,801)	(390,845)
Costs incurred for intellectual property assets	(40,001)	(32,406)
Deposits to restricted cash, net	(62,466)	(41,826)
NET CASH USED IN INVESTING ACTIVITIES	(246,055)	(543,504)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of Series E Convertible Preferred Stock	437,500	125,000
Proceeds from Executions of Cash Warrants	187,500	
Proceeds from draws against Treppel Credit Line	500,000	—
Other loan payments	(5,117)	(9,565)
Costs associated with raising capital	(9,856)	(40,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,110,027	75,435

NET CHANGE IN CASH AND CASH EQUIVALENTS	(602,752)	(1,257,167)
CASH AND CASH EQUIVALENTS – beginning of period	668,407	1,825,858
CASH AND CASH EQUIVALENTS – end of period	$ 65,655	$ 568,691
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	115,623	172,439
Cash paid for taxes	4,023	2,500

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 NINE MONTHS ENDED DECEMBER 31, 2012 AND 2011

(UNAUDITED)

NOTE 1 - DEFINITIONS

"2012 Bond Principal Payment" equals $260,000

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

"Current Balance Sheet Date" means December 31, 2012

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

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

"Current Quarter" means the three months ended December 31, 2012

"Current YTD" means the nine months ended December 31, 2012

"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
348,671

"Epic Quarterly Payment Amount" is equal to $62,500

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

"**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

"**Prior Year Balance Sheet Date**" means December 31, 2011

"**Prior Fiscal Year**" means the twelve months ended March 31, 2012

"**Prior Year Quarter**" means the three months ended December 31, 2011

"**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

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

"**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 $500,000

"Treppel Credit Line Interest Due" equals $6,932

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

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

NOTE 2 - <u>BASIS OF PRESENTATION AND LIQUIDITY</u>

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, 2012 and filed with the SEC on June 29, 2012. There have been no changes in significant accounting policies since March 31, 2012.

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")	$ 0.1 million
Working capital deficit ("Working Capital Deficit")	$ 3.7 million
Losses from operations for the Current Quarter	$ 0.3 million
Other income for the Current Quarter	$ 9.6 million
Net income for the Current Quarter	$ 9.4 million
NJEDA Bonds Payable ("Current Bond Liability")	$ 3.4 million

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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.

Please note that revenues and operating profits for the foreseeable future are expected to be significantly and adversely effected by the FDA's removal of the Lodrane® extended release product line from the market. The Lodrane® extended release products, which constituted substantially all of the Company's revenues at the time of FDA's directive, were included on a list of approximately 500 cough/cold and allergy products which are being removed from the U.S. market pursuant to a directive from the FDA issued on March 4, 2011. Please refer to the Current Report on Form 8-K filed with the SEC on March 4, 2011 and the Annual Report on Form 10-K filed with the SEC on June 29, 2011 for further details, such filings being herein incorporated by reference.

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 and 2012, 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.

The Company has requested a postponement of principal payments due on September 1, 2010, 2011 and 2012, with an aggregate of all such postponed principal payments being added to the principal payments due on September 1, 2013. 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 5 to our financial statements for details on the Current Bond Liability.

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

We have successfully completed the initial, second and third closings of the Epic Strategic Alliance Agreement and the twelve quarterly payments, with each such quarterly payment being equal to the Epic Quarterly Payment Amount and have accordingly received the full investment from Epic, exclusive of warrant exercise, as provided for in the Epic Strategic Alliance Agreement. For additional information regarding the Epic Strategic Alliance Agreement, please see our disclosures under “Epic Strategic Alliance Agreement” in Item 7 of Part II of our Annual Report on Form 10-K, and in our Current Reports on Form 8-K, filed with the SEC on March 23, 2009, May 6, 2009, June 5, 2009, July 1, 2010 and June 29, 2011, such disclosures being herein incorporated by reference.

Despite having received the full investment from Epic Investments LLC, exclusive of warrant exercise, as provided for in the Epic Strategic Alliance Agreement, we still most likely will 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.

On December 30, 2011, Elite entered into a securities purchase agreement (the “Socius Agreement”) with Socius CG II, Ltd. (“Socius”), under which, subject to the terms of the Socius Agreement, Elite may sell up to $5 million on non-convertible Series F preferred stock (the “Series F Preferred Stock”) to Socius. On June 20, 2012, the Company filed a letter with the SEC requesting withdrawal of the Registration Statement on Form S-1 (the “Registration Statement”) that it had filed with the SEC on March 1, 2012. The Company had filed the Registration Statement in accordance with the terms of a Socius Agreement. The withdrawal request was deemed granted as the Company did not receive timely notice from the SEC that this request would not be granted.

The Company withdrew the Registration Statement because, after discussion with the SEC’s staff, it determined that the transactions as structured in the Socius Agreement could not be implemented. Accordingly the Company will not be proceeding with the financing under the Socius Agreement. A Current Report on Form 8-K was filed with the SEC on June 21, 2012, such filing being herein incorporated by reference.

On June 12, 2012, Elite entered into a bridge loan agreement, as amended on December 5, 2012, (the “Treppel Credit Line Agreement”) with Jerry Treppel, the Company’s Chairman and CEO. 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 the earlier of (i) such date as Elite raises at least two million dollars in gross proceeds from the sale of any of its equity securities or (ii) July 31, 2013, 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 and December 10,2012, with such filings being herein incorporated by reference.

As of the Current Balance Sheet, 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.

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Furthermore, with regards to our product pipeline, please note that significant delays in the commercialization of Naltrexone 50mg have occurred as a result of a notification received from the FDA reclassifying to a Prior Approval Supplement, the Company's Changes Being Effected in 30 Days Supplement ("CBE-30") related to a change in the manufacturing and packaging site of this product.

Management has evaluated subsequent events or transactions occurring through the date the financial statements were issued (please see note 13).

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 nine months ended December 31, 2012.

NOTE 3 - <u>CASH AND CASH EQUIVALENTS</u>

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 - <u>INVENTORIES</u>

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:

	December 31, 2012	March 31, 2012
Raw Materials	547,455	304,882
Work-in-Process	436,976	—
Finished Goods	—	—
Total Inventory	984,431	304,482

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, 2012	192,848	450,000	642,848
Costs Capitalized During Current Fiscal Year			
Three months ended June 30, 2012	15,947	—	15,947
Three months ended September 30, 2012	7,368	—	7,368
Three months ended December 31, 2012	16,686	—	16,686
Total Costs Capitalized-nine months ended Dec 31, 2012	40,001	—	40,001
Amortization of Intangible Assets During Current Fiscal Year			
Three months ended June 30, 2012	—	—	—
Three months ended September 30, 2012	—	—	—
Three months ended December 31, 2012	—	—	—
Total Amortization – nine months ended Dec 31, 2012	—	—	—
Intangible Assets as of December 31, 2012	232,849	450,000	682,849

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 - <u>NJEDA BONDS</u>

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, 2012	Amortization Expense Current YTD	Balances As of Current Balance Sheet Date
Bond Issue Costs	354,453		354,453
Accumulated Amortization	(93,339)	(10,634)	(103,974)
Unamortized Balance	261,113		250,478

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.

The Restricted Cash Interest Payments were made as a result of the Company not having sufficient funds to make such payments when due.

The Restricted Cash Principal Payment was made as a result of the Company not having sufficient funds to make such payments when due.

The Company did not have sufficient funds available to make the Outstanding Principal Payments, as follows:

- The Company did not have sufficient funds available to make the principal payments due on September 1, 2010, and requested that the Trustee withdraw such funds from the debt service reserve. The Company's request was denied and accordingly the principal payment due on September 1, 2010, was not made. Please refer to Note 1 of these notes to financial statements for a listing of the principal payment due on September 1, 2010 which is part of the Outstanding Principal Payments.

- The Company did not have sufficient funds available to make the principal payments due on September 1, 2011, with such amounts due inclusive of amounts due on September 1, 2010 and not paid. There were not sufficient funds available in the debt service reserve. The Principal payment due on September 1, 2011 was not paid. Please refer to Note 1 of these notes to financial statements for a listing of the principal payment due on September 1, 2011 which is part of the Outstanding Principal Payments.

- The Company did not have sufficient funds available to make the principal payments due on September 1, 2012, with such amounts due inclusive of amounts due on September 1, 2011 and not paid. There were not sufficient funds available in the debt service reserve. The Principal payment due on September 1, 2012 was not paid. Please refer to Note 1 of these notes to financial statements for a listing of the principal payment due on September 1, 2011 which is part of the Outstanding Principal Payments.

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.

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 has requested a postponement of principal payments due on September 1st of 2010, 2011 and 2012, with an aggregate of all such postponed principal payments being added to the principal payments due on September 1, 2013. Resolution of the Company's default under the NJED Bonds and our request for postponement of principal payments 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.

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NOTE 7 - **PREFERRED STOCK DERIVATIVE LIABILITIES**

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, and Series E 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.

Preferred Stock Derivative Liability as of Current Balance Sheet Date

	Series B	Series C	Series E	Total
Preferred shares Outstanding	—	1,375	2,187.5	3,562.5
Underlying common shares into which Preferred may convert	—	9,166,669	89,788,298	98,954,967
Closing price on valuation date	$0.08	$0.08	$0.08	$0.08
Preferred stock derivative liability at Current Balance Sheet Date	$—	$1733,334	$7,183,064	$7,916,397
Preferred stock derivative liability at March 31, 2012	$477,935	$1,599,600	$6,428,571	$8,506,106

CHANGE IN VALUE OF PREFERRED STOCK DERIVATIVE LIABILITY

	Three months ended Dec 31,		Nine months ended Dec 31,	
	2012	2011	2012	2011
Change in Preferred Stock Derivative Liability	$3,963,126	$4,749,332	$(867,741)	$(7,665,268)

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 2012	June 30 2012	Sept 30 2012	Dec 31 2012
Risk-Free interest rate	0.05% - 1.3 %	0.04% - 0.92 %	0.06% - 0.83 %	0.02% - 0.72 %
Expected volatility	57% - 181 %	67% - 182 %	102% - 180 %	100% - 168 %
Expected life (in years)	0.1 – 6.1	0.0 – 5.8	1.0 – 5.6	0.7 – 5.3
Expected dividend yield	—	—	—	—

Number of warrants	161,478,979	152,168,403	145,376,939	145,376,939
Fair Value of Warrant Derivative Liability	$11,987,222	$17,041,072	$14,947,419	$11,987,222

CHANGE IN VALUE OF WARRANT DERIVATIVE LIABILITY

	Three months ended Dec 31,		Nine months ended Dec 31,	
	2012	2011	2012	2011
Change in Warrant Derivative Liability	$ 5,765,992	$ 4,586,076	$ 2,770,912	$ 1,499,682

The risk free interest rate was based on rates established by the US 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 January 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, 2013	$ 81,228
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
Total Minimum 5 year lease payments	$426,306

* 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 conditions of the lease, but which are not quantifiable at the time of filing of this quarterly report on Form 10-Q.

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Rent expense relating to the operating lease is recorded using the straight line method, and is summarized as follows:

RENT EXPENSE

	Three months ended Dec 31,		Nine months ended Dec 31,	
	2012	2011	2012	2011
Rent Expense	$ 22,584	$ 22,584	$ 67,753	$ 45,169
Change in deferred rent liability	$ 2,403	$ 2,895	$ 7,210	$ 45,169

DEFERRED RENT LIABILITY (LONG-TERM LIABILITY)

	March 31 2012	June 30 2012	Sept 30 2012	Dec 31 2012
Balance of Deferred Rent Liability	$ 59,154	$61,557	$63,960	$66,364

NOTE 10 - <u>DEFERRED REVENUES</u>

Deferred revenues are summarized as follows:

Advance payment received	$200,000
Total revenue recognized as of March 31, 2012	(21,109)
Revenue recognized nine months ended December 31, 2012	(10,000)
Total Deferred Revenues as of Current Balance Sheet Date	168,891
Current Portion of Deferred Revenues as of Current Balance Sheet Date	13,333
Non-Current Portion of Deferred Revenues as of Current Balance Sheet Date	155,556

Deferred revenues represents the unamortized amount of an advance payment received from Precision Dose Inc. for a licensing agreement with a fifteen year term beginning in September 2010 and ending in August 2025. The advance payment was recorded as deferred revenue when received and is earned, on a straight line basis over the fifteen year life of the license. The current portion of deferred revenues, represents the revenue that will be recognized over the 12 months immediately subsequent to Current Balance Sheet Date. The long term portion of deferred revenues, represents the revenue that will be recognized during the period that begins more than twelve months subsequent to the Current Balance Sheet Date. Please refer to exhibit 10.9 of the quarterly report on form 10-Q filed on November 15, 2010 for further details on the Precision Dose Manufacturing Agreement, with such exhibit being herein incorporated by this reference.

NOTE 11 - <u>STOCKHOLDERS' EQUITY</u>

Common Stock

During the Current YTD, the Company issued shares of Common Stock, as follows:

Description	Shares Of Common Stock
Common Shares issued in lieu of cash in payment of Preferred Share Derivative Interest	1,512,272
Common Shares issued pursuant to the conversion of Series B, Series C and Series E Preferred Share derivatives	13,917,061
Common Shares issued pursuant to the exercise of warrants	3,261,227
Total Common Shares issued during the Current YTD	18,690,541

Options

Options issued and outstanding as of the Current Balance Sheet Date are summarized as follows:

	Number of Options	Range of Exercise Prices
Vested Options	2,210,333	$ 0.06 to $2.80
Non-Vested Options	1,728,667	$ 0.10 to $2.25

Each option represents the right to purchase one share of common stock. The non-vested options are scheduled to vest in various increments during dates that are within the period beginning on January 18, 2013 and through June 19, 2015, or upon the occurrence of certain defined events and require that employees awarded such options be employed by the Company on the vesting date.

NOTE 12 -PER SHARE INFORMATION

Basic earnings per share of common stock ("Basic EPS") is computed by dividing the net (loss) income by the weighted-average number of shares of common stock outstanding. Diluted earnings per share of common stock ("Diluted EPS") are computed by dividing the net (loss) income by the weighted-average number of shares of common stock, and dilutive common stock equivalents and convertible securities then outstanding. GAAP requires the presentation of both Basic and Diluted EPS, if such Diluted EPS is not anti-dilutive, on the face of Company's Condensed Statements of Operations.

The calculation of Basic EPS and Diluted EPS is summarized as follows:

	For the Three Months Ended Dec 31,		For the Nine Months Ended Dec 31,	
	2012	2011	2012	2011
Numerator				
Net Income (loss) attributable to common shareholders - Basic	9,363,166	8,720,994	$(109,023)	$(8,093,110)
Net Income attributable to common shareholders - Diluted	9,390,983	8,807,320	n/a	n/a
Denominator				
Weighted-average shares of common stock outstanding	350,220,224	262,067,348	345,284,514	247,443,617
	135,987,189	164,970,150	n/a	n/a

Dilutive effect of stock options, warrants and convertible securities				
Net (loss) income per share				
Basic	$0.03	$0.03	$0.00	$(0.03)
Diluted	$0.02	$0.02		

NOTE 13 - <u>RELATED PARTY TRANSACTION - BORROWING AGAINST TREPPEL CREDIT LINE</u>

As of the Current Balance Sheet Date, Elite owed the Treppel Credit Line Balance and the Treppel Credit Line Interest Due in relation to the Treppel Credit Line. Both amounts were recorded as current liabilities on Elite's balance and included in the line item titled "Short term loans and current portion of long-term debt".

For further details on the Treppel Credit Line, please refer to Note 2 of these financial statements and the Current Reports on Form 8-K filed with the SEC on June 13, 2012 and December 10, 2012, with such filings being herein incorporated by reference.

NOTE 14 - SUBSEQUENT EVENTS

Common shares issued in lieu of cash in payment of derivative interest expense

The Derivative Interest Liability Common Shares were issued during January 2013 in payment of those amounts listed as a current liability as of December 31, 2012 under the line item “Preferred Share Derivative Interest Payable”.

Sale of New Jersey State Net Operating Losses

In January 2013, the Company received final approval from the New Jersey Economical Development Authority for the sale of New Jersey net operating losses with net tax benefits equal to $391,105 under the Technology Business Tax Certificate Transfer Program. The Company sold the net operating loss approved for sale at a transfer price equal to ninety two cents for every benefit dollar. The proceeds of such sale, totaling $359,817, were received by the Company during January 2013

Exercise of Warrants by Epic Investments LLC

On January 14, 2013, Epic Investments LLC exercised cash warrants to purchase 6,032,000 shares of Common Stock at a price of $0.0625 per share, with the proceeds of such warrant exercise totaling $377,000.

FDA Approval of Supplemental Application for Naltrexone Hydrochloride 50mg tablets

On January 31, 2013, the FDA approved the Company’s supplemental application for the manufacturing and packaging of naltrexone hydrochloride 50mg tablets. This approval will allow the Company to commence the commercial manufacturing and packaging of this product for its sales and marketing partner, which will distribute the product as part of a multi-product distribution agreement.

A current report on Form 8-K was filed with the SEC on February 6, 2013, with such filing being herein incorporated by reference.

Commencement of Commercial operations at the expanded facility at 135 Ludlow

In January 2013, the Company commenced commercial operations at the expanded facility located at 135 Ludlow Avenue, and began shipping packaged product from this facility. The 15,000 square foot facility expansion includes cGMP manufacturing suites and packaging line. Packaging onsite provides a cost reduction for the Company and the use of the new manufacturing suites allows additional capacity and larger scale production resulting in greater manufacturing efficiencies.

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