AVALONBAY COMMUNITIES INC
Form 4
March 03, 2010

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
NAUGHTON TIMOTHY J

(Last) (First) (Middle)

C/O AVALONBAY COMMUNITIES, INC., 2900 EISENHOWER AVE., SUITE 300

(Street)

ALEXANDRIA, VA 22314

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AVALONBAY COMMUNITIES INC [AVB]

3. Date of Earliest Transaction (Month/Day/Year)
03/01/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director
_____ 10% Owner
__X__ Officer (give title below)
_____ Other (specify below)
President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $.01 per share	03/01/2010		F		4,024 (1)	D	$ 81.26	113,603.981 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
NAUGHTON TIMOTHY J C/O AVALONBAY COMMUNITIES, INC. 2900 EISENHOWER AVE., SUITE 300 ALEXANDRIA, VA 22314	X		President	

Signatures

Catherine T. White, as attorney-in-fact under Power of Attorney dated January 29, 2009	03/03/2010
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Reflects withholding of shares by the Company to cover tax withholding obligations on the vesting of restricted stock under the Company's Stock Option and Incentive Plan.

(2) The amount of securities owned following the reported transaction reflects direct ownership of all shares of common stock, including restricted shares.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ble>

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated July 8, 2010, that the Plan and related trust were designed in accordance with the applicable regulations of the IRC. The Company and Plan management believe that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC, and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2009.

(7) FULLY BENEFIT-RESPONSIVE INVESTMENT CONTRACTS

The Schwab Stable Value Fund (the “Fund”) is a collective trust fund sponsored by Charles Schwab Bank. The Fund was terminated and liquidated effective April 30, 2012. The beneficial interest of each participant was represented by units. Units were issued and redeemed daily at the Fund's constant NAV of $1 per unit. Distribution to the Fund's unit holders was declared daily from the net investment income and automatically reinvested in the Fund on a monthly basis, when paid.

In 2012 the Galliard Retirement Income Fund CL 35 ("Galliard") was selected to replace the Fund. Galliard is a collective trust fund sponsored by Wilmington Trust Retirement and Institutional Services Company. The beneficial interest of each participant is represented by units which represent undivided proportionate interest in all of Galliard's assets and liabilities. Units are issued and redeemed daily at Galliard's net asset value (NAV) determined as of the close of business each day. It is the policy of Galliard to use its best efforts to seek safety of principal and consistency of returns while attempting to maintain minimal volatility.

Participants ordinarily may direct either the withdrawal or transfer of all or a portion of their investment at contract value. Contract value represents contributions made to the Fund and Galliard, plus earnings, less participant withdrawals and administrative expenses. The Fund and Galliard impose certain restrictions on the Plan, and the Fund and Galliard themselves may be subject to circumstances that affect their ability to transact at contract value. Plan management believes that the occurrence of events that would cause the Fund and Galliard to transact at less than contract value is not probable.

Limitations on the Ability of the Fund and Galliard to Transact at Contract Value

Restrictions on the Plan - Participant-initiated transactions are those transactions allowed by the Plan, including withdrawals for benefits, loans, or transfers to noncompeting funds within a plan, but excluding withdrawals that are deemed to be caused by the actions of the Plan Sponsor. The following employer-initiated events may limit the ability of the Fund and Galliard to transact at contract value:

- A failure of the Plan or its trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA.
- Any communication given to Plan participants designed to influence a participant not to invest in the Fund and Galliard or to transfer assets out of the Fund and Galliard.
- Any transfer of assets from the Fund and Galliard directly into a competing investment option.
- The establishment of a defined contribution plan that competes with the Plan for employee contributions.
- Complete or partial termination of the Plan or its merger with another plan.

Circumstances That Affect the Fund and Galliard- The Fund and Galliard invest in assets, typically fixed income securities or bond funds, and enter into “wrapper” contracts issued by third parties. A wrap contract is an agreement by another party, such as a bank or insurance company to make payments to the Fund and Galliard in certain circumstances. Wrap contracts are designed to allow a stable value portfolio to maintain a constant NAV and protect a portfolio in extreme circumstances. In a typical wrap contract, the issuer of the wrap contract agrees to pay a portfolio the difference between the contract value and the market value of the underlying assets once the market value has been totally exhausted.

The wrap contracts generally contain provisions that limit the ability of the Fund and Galliard to transact at contract value upon the occurrence of certain events. These events include:

- Any substantive modification of the Fund and Galliard or the administration of the Fund and Galliard that is not consented to by the issuer of the wrap contract.
- Any change in law, regulation, or administrative ruling applicable to a plan that could have a material adverse effect on the Fund and Galliard's cash flow.
- Employer-initiated transactions by participating plans as described above.

In the event that wrap contracts fail to perform as intended, the Fund and Galliard's NAV may decline if the market value of their assets decline. The Fund and Galliard's ability to receive amounts due pursuant to these wrap contracts is dependent on the third-party issuer's ability to meet their financial obligations. The ability of the issuer of the wrap contract to meet its contractual obligations under the wrap contracts may be affected by future economic and regulatory developments.

The Fund and Galliard are unlikely to maintain a stable NAV if, for any reason, they cannot obtain or maintain wrap contracts covering all of their underlying assets. This could result from the Fund and Galliard's inability to promptly find a replacement wrap contract following termination of a wrap contract. Wrap contracts are not transferable and have no trading market. There are a limited number of brokers who issue wrap contracts. The Fund and Galliard may lose the benefit of wrap contracts on any portion of their assets in default in excess of a certain percentage of portfolio assets.

(8) PARTY-IN-INTEREST TRANSACTIONS

The Plan invests in Charles Schwab fund and Black Hills Corporation common stock. These transactions qualify as exempt party-in-interest transactions.

At December 31, 2012 and 2011, the Plan held 358,538 and 368,918 shares, respectively, of common stock of Black Hills Corporation, the sponsoring employer, with a cost basis of $10,572,035 and $10,632,165, respectively. The market value of these shares totaled $13,029,271 and $12,388,267 at December 31, 2012 and 2011, respectively. During the years ended December 31, 2012 and 2011, the Plan recorded dividend income from this investment of $532,034 and $512,408, respectively.

(9) RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

A reconciliation of net assets available for benefits per the financial statements to the total net assets per Form 5500 as of December 31 is as follows:

	2012	2011
Net assets available for benefits per the financial statements	$194,713,629	$164,505,827
Adjustment on PCRA assets due to use of different pricing vendors	—	82
Adjustment from contract value to fair value for fully benefit-responsive stable value fund	—	99,273
Total net assets per the Form 5500	$194,713,629	$164,605,182

A reconciliation of participant loans per the financial statements to participant loans per Form 5500 as of December 31 is as follows:

	2012	2011
Notes Receivable from Participants per the financial statements	$4,571,786	$4,170,931
Adjustment for accrued interest due on loans	3,031	2,919
Notes Receivable from Participants per the Form 5500	$4,574,817	$4,173,850

The following is a reconciliation of net investment income per the financial statements to the Form 5500 as of December 31:

	2012	2011
Total net investment income per the financial statements	$20,251,012	$1,489,847
Change in investment income for fair value of fully benefit-responsive investment contracts	(94,855)	(250,494)
Total income on investments per the Form 5500	$20,156,157	$1,239,353

SUPPLEMENTAL SCHEDULE

BLACK HILLS CORPORATION RETIREMENT SAVINGS PLAN
(EIN: 46-0458824) (Plan No. 003)

FORM 5500, SCHEDULE H, PART IV, LINE 4i —
SCHEDULE OF ASSETS (held at end of year)
As of December 31, 2012

Description	Cost**	Current Value
MONEY MARKET FUND:		
Schwab U.S. Treasury Money Fund*		$160
COLLECTIVE TRUST:		
Galliard Retirement Income Fund CL 35		15,379,213
MUTUAL FUNDS:		
Vanguard Extended Market Index Fund		12,442,694
Vanguard Inflation-Protected Securities Fund		5,795,663
Vanguard Institutional Index Fund		23,672,290
Vanguard REIT Index Fund		2,554,398
Vanguard Total Bond Market Index Fund		9,730,374
Vanguard Total International Stock Index		11,916,160
Vanguard Target Retirement Income Fund		1,259,890
Vanguard Target Retirement 2010 Fund		4,218,664
Vanguard Target Retirement 2015 Fund		16,406,285
Vanguard Target Retirement 2020 Fund		18,157,765
Vanguard Target Retirement 2025 Fund		17,235,234
Vanguard Target Retirement 2030 Fund		11,056,440
Vanguard Target Retirement 2035 Fund		8,027,602
Vanguard Target Retirement 2040 Fund		6,133,216
Vanguard Target Retirement 2045 Fund		4,777,049
Vanguard Target Retirement 2050 Fund		2,706,726
Vanguard Target Retirement 2055 Fund		150,159
Total mutual funds		156,240,609
COMMON STOCK - Black Hills Corporation*		13,029,271
LIMITED PARTNERSHIPS		37,356
SELF-DIRECTED ACCOUNTS		4,498,516
PARTICIPANT LOANS, WITH INTEREST RATES RANGING FROM 4.25% - 10.25% - Maturity dates extending through December 31, 2027		4,574,817
		$193,759,942

Explanation of Responses:

* Denotes party-in-interest
** Cost information is not required for participant-directed accounts and therefore is not included.

Explanation of Responses:

EXHIBIT INDEX

Exhibit Number	Description
23	Consent of Deloitte & Touche LLP

SIGNATURE

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

Black Hills Corporation
Retirement Savings Plan

By: /s/ ANTHONY S. CLEBERG
Anthony S. Cleberg
Executive Vice President and
Chief Financial Officer

Date: June 24, 2013

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line-height:0pt;font-size:1.5pt;font-family:times;">

Provision, net						
	10,504	388	1,756	491	(48)	13,091
Payments / credits						
	(10,665)	(376)	(2,068)	(36)	(24)	(13,169)
Balance at December 31, 2016						
	$779	$111	$49	$884	$38	$1,861
Provision, net						
	10,146	346	1,452	167	43	12,154
Payments / credits						
	(10,109)	(359)	(1,360)	(158)	(18)	(12,004)
Balance at December 31, 2017						
	$816	$98	$141	$893	$63	$2,011

Explanation of Responses:

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Total items deducted from gross product sales were $12,154, $13,091 and $6,812, or 70.2%, 67.8% and 64.2% as a percentage of gross product sales, for the years ended December 31, 2017, 2016 and 2015, respectively. The increase in the gross to net sales deduction percentage resulted from a higher proportion of the sales being made to a major pharmacy chain that receives volume pricing concessions.

Inventories

Inventories are stated at the lower of cost (first in, first out) or market in 2016 and, effective January 1, 2017, inventory is now required to be measured at the lower of cost (first in, first out) or net realizable value. The change to stating inventories at the lower of cost or net realizable value in 2017 was adopted prospectively and did not have a significant effect on our ongoing financial reporting as valuing inventory at the lower of cost or net realizable value approximated the prior policy of valuing inventory at the lower of cost or market. Inventories have been reduced by an allowance for excess and obsolete inventories. Cost elements include material, labor and manufacturing overhead. Inventories consist of raw materials, work in process, finished goods and deferred cost of goods sold. The cost of sales associated with the deferred product revenues are recorded as deferred costs of goods sold that are released from inventory into cost of goods sold as the deferred revenue is recognized into revenue.

Until objective and persuasive evidence exists that regulatory approval has been received and future economic benefit is probable, pre-launch inventories are expensed into research and development. Manufacturing costs for the production of Adzenys XR-ODT incurred after the January 27, 2016 FDA approval date are being capitalized into inventory, for the production of Cotempla XR-ODT incurred after June 30, 2017, following the FDA approval date of June 19, 2017, and for the production of Adzenys ER incurred after September 30, 2017, following the FDA approval date of September 15, 2017, are being capitalized into inventory.

Research and development expenses

Research and development expenses include costs incurred in performing research and development activities, personnel related expenses, laboratory and clinical supplies, facilities expenses, overhead expenses, fees for contractual services, including preclinical studies, clinical trials and raw materials. We estimate clinical trial expenses based on the services received pursuant to contracts with research institutions and CROs which conduct and manage clinical trials on our behalf. We accrue service fees based on work performed, which relies on estimates of total costs incurred based on milestones achieved, patient enrollment and other events. The majority of our service providers invoice us in arrears, and to the extent that amounts invoiced differ from our estimates of expenses incurred, we accrue for additional costs. The financial terms of these agreements vary from contract to contract and may result in uneven expenses and cash flows. To date, we have not experienced any events requiring us to make material adjustments to our accruals for service fees. If we do not identify costs that we incurred or if we underestimate or overestimate the level of services performed, our actual expenses could differ from our estimates which could materially affect our results of operations. Adjustments to our accruals are recorded as changes in estimates become evident. In addition to accruing for expenses incurred, we may also record payments made to service providers as prepaid expenses that we will recognize as expense in future periods as services are rendered.

Share-based compensation expense

Share-based compensation awards, including grants of employee stock options and restricted stock and modifications to existing stock options, are recognized in the statement of operations based on their fair values. Compensation expense related to awards to employees is recognized on a straight-line basis, based on the grant date fair value, over the requisite service period of the award, which is generally the vesting term. The fair value of our share-based awards to employees and directors is

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estimated using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including (1) the expected stock price volatility, (2) the expected term of the award, (3) the risk-free interest rate and (4) expected dividends. Due to the previous lack of a public market for the trading of our common stock and a lack of company-specific historical and implied volatility data, prior to the IPO, we have historically utilized third party valuation analyses to determine the fair value.

Under new guidance for accounting for share-based payments, we have elected to continue estimating forfeitures at the time of grant and, if necessary, revise the estimate in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the actual expense recognized over the vesting period will only be for those options that vest. The adoption of this standard in 2017 did not have a material impact on our business, financial position, results of operations or liquidity.

We calculated the fair value of share-based compensation awards using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including stock price volatility and the expected life of stock options. The application of this valuation model involves assumptions that are highly subjective, judgmental and sensitive in the determination of compensation cost. As a formerly private company, we do not have sufficient history to estimate the volatility of our common stock price or the expected life of our options. We have not paid and do not anticipate paying cash dividends. Therefore, the expected dividend rate is assumed to be 0%. The expected stock price volatility for stock option awards was based on a blended volatility rate of prior studies of historical volatility from a representative peer group of comparable companies' selected using publicly-available industry and market capitalization data and 30 months of the Company's stock price volatility. The risk-free rate was based on the U.S. Treasury yield curve in effect commensurate with the expected life assumption. The average expected life of stock options was determined according to the "simplified method" as described in SAB Topic 110, which is the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate was determined by reference to implied yields available from U.S. Treasury securities with a remaining term equal to the expected life assumed at the date of grant. We estimate forfeitures based on our historical analysis of actual stock option forfeitures. We estimate the fair value of all stock option awards on the grant date by applying the Black-Scholes option pricing valuation model. Given the absence of an active market for our common stock prior to our IPO, our board of directors was required to estimate the fair value of our common stock at the time of each option grant primarily based upon valuations performed by a third party valuation firm. After the closing of our IPO, our board of directors has determined the fair value of each share of underlying common stock based on the closing price of our common stock as reported by the NASDAQ Global Market on the date of grant.

There is a high degree of subjectivity involved when using option-pricing models to estimate share-based compensation. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the fair value of employee stock-based awards is determined using an option-pricing model, such a model value may not be indicative of the fair value that would be observed in a market transaction between a willing buyer and willing seller. If factors change and we employ different assumptions when valuing our options, the compensation expense that we record in the future may differ significantly from what we have historically reported.

Derivative liabilities

We evaluate our debt and equity issuances to determine if those contracts or embedded components of those contracts qualify as derivatives requiring separate recognition in our financial statements. The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market each balance sheet date and recorded as a liability and the change in fair value is recorded in other income (expense) in the consolidated results of operations. In circumstances where

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the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is reassessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within twelve months of the balance sheet date.

When we have determined that the embedded conversion options should not be bifurcated from their host instruments, we record, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption and recorded in interest expense in the consolidated financial statements.

Intangible assets

Intangible assets subject to amortization, which principally include our proprietary modified-release drug delivery technology, the costs to acquire the rights to Tussionex ANDA and patents, are recorded at cost and are amortized over the estimated lives of the assets, which primarily range from 10 to 20 years.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

The following table reflects a summary of our estimates of future material contractual obligations as of December 31, 2017. Future events could cause actual payments to differ from these estimates.

	Total	< 1 Yr	1 - 3 Yrs.	3 - 5 Yrs	Thereafter
			(In thousands)		
Deerfield senior secured facility	$ 83,186	$ 7,878	$ 41,601	$ 33,707	
Capital leases for equipment	3,246	1,235	2,011		
Earnout liability	170				170
Texas facility operating lease	7,138	955	1,961	2,060	2,162
Pennsylvania office space lease	510	149	308	53	
Equipment operating leases	185	73	107	5	
	$ 94,435	$ 10,290	$ 45,988	$ 35,825	$ 2,332

We had borrowed all $60.0 million under the Deerfield Facility as of December 31, 2017. The payments above are inclusive of related interest amounts as of December 31, 2017.

In addition to the commitments shown above, in response to a lawsuit brought against us by Shire LLC ("Shire") for infringement of certain of Shire's patents, we entered into a Settlement Agreement and an associated License Agreement (the "2014 License Agreement") with Shire for a non-exclusive license to certain patents for certain activities with respect to our New Drug Application (the "NDA") No. 204326 for an extended-release orally disintegrating amphetamine polistirex tablet in July 2014. Under the terms of the license agreement, after receiving regulatory approval by the FDA of our NDA for Adzenys XR-ODT, in the first quarter of 2016, we paid a lump sum, non-refundable license fee of an amount less than $1.0 million. This license fee was capitalized and is being amortized over the life of the longest associated patent. We are paying a single digit royalty on net sales of Adzenys XR-ODT during the life of the patents.

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On March 6, 2017, after our NDA submission for Adzenys ER requiring a Paragraph IV certification notification to the producer of Adderall XR, Shire Pharmaceuticals, in accordance with the Hatch-Waxman Amendments, we entered into a License Agreement (the "2017 License Agreement") with Shire. Pursuant to this agreement, Shire granted us a non-exclusive license to certain patents owned by Shire for certain activities with respect to our NDA No. 204325 for an extended-release amphetamine liquid suspension. Under the terms of the agreement, after receiving regulatory approval by the FDA of our NDA for Adzenys ER, in October 2017, we paid a lump sum, non-refundable license fee of an amount less than $1.0 million. This license fee was capitalized and is being amortized over the life of the longest associated patent. We will also pay a single digit royalty on net sales of the Adzenys ER during the life of the relevant Shire patents.

Due to the uncertainty of when these royalty payments will be made for Adzenys XR-ODT and Adzenys ER, they are not presented in the table above. The license fees are paid and recorded as an intangible asset and amortized over the term of the license. The royalties are being recorded as cost of goods sold in the same period as the net sales upon which they are calculated.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC, including any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion of recent accounting pronouncements.

ITEM 7A. Qualitative and Quantitative Disclosures About Market Risk

Market risk

We are exposed to market risk related to changes in interest rates as it impacts our interest income. As of December 31, 2017, we had cash and cash equivalents of $32.0 million and short-term investments of $18.4 million. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates as our cash equivalents are invested in interest-bearing money market funds. The goals of our investment policy are liquidity and capital preservation to fund our operations. Due to the short-term duration and low risk profile of our cash equivalents portfolio, a 10% change in interest rates would not have a material effect on interest income we recognize or the fair market value of our investments. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates.

Interest risk

The interest rates on our notes payable are fixed. Therefore, we are not exposed to market risk from changes in interest rates as it relates to these interest-bearing obligations.

Effects of Inflation

We do not believe that inflation and changing prices had a significant impact on our results of operations for any periods presented herein.

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JOBS ACT

In April 2012, the Jumpstart Our Business Startups Act, or the JOBS Act, was enacted in the United States. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

ITEM 8. Financial Statements and Supplementary Data

The financial statements required to be filed pursuant to this Item 8 are appended to this report. An index of those financial statements is found in Item 15.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officer and effected by the company's board of preparation of financial statements for external purposes in accordance with GAAP and directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Our management, with the participation of our principal executive and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2017, based on criteria for effective internal control over financial reporting established in Internal Control Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2017, based on those criteria.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***Other Information***

None.

PART III

ITEM 10. ***Directors, Executive Officers and Corporate Governance***

Except as set forth below, information required by this item will be included under the captions *Elections of Directors, Information Regarding the Board of Directors and Corporate Governance, Executive Compensation and Other Information,* and *Section 16(a) Beneficial Ownership Reporting Compliance* contained in our definitive Proxy Statement to be filed with the Commission within 120 days after the conclusion of our year ended December 31, 2017 (the "Proxy Statement") pursuant to General Instructions G(3) of Form 10-K and is incorporated herein by reference.

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. Our code of business conduct and ethics is available on our website, which is located at www.neostx.com. We intend to disclose any amendments to the code, or any waivers of its requirements, on our website, or in a current report on Form 8-K as may be required by law or applicable NASDAQ rules.

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ITEM 11. ***Executive Compensation***

We maintain an employee compensation program and benefit plans in which our executive officers are participants. Copies of these plans and programs are set forth or incorporated by reference as Exhibits to this report. The information required by this item will be included in our Proxy Statement under the caption *Executive Compensation and Other* and is incorporated herein by reference.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information required by this item will be included under the captions *Security Ownership of Certain Beneficial Owners and Management* and *Executive Compensation* contained in our Proxy Statement and is incorporated herein by reference.

ITEM 13. ***Certain Relationships and Related Party Transactions, and Director Independence***

Information required by this item will be included under the captions *Certain Relationships and Related Transactions* and *Information Regarding the Board of Directors* contained in our Proxy Statement and is incorporated herein by reference.

ITEM 14. ***Principal Accounting Fees and Services***

Information required by this item will be included under the captions Selection of Independent Registered Public Accounting Firm contained in our Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. ***Exhibits and Financial Statement Schedules***

(a)

Documents filed as part of this report:

(1)

Financial Statements. The following financial statements of Neos Therapeutics, Inc., together with the report thereon of RSM US LLP, required to be filed pursuant to Part II, Item 8 of this Annual Report on Form 10-K, are included on pages **F-2** through **F-41**, as follows:

	Page
Report of Independent Registered Public Accounting Firm	**F-2**
Consolidated Balance Sheets at December 31, 2017 and 2016	**F-3**
Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015	**F-4**
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2016 and 2015	**F-5**
Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2017, 2016 and 2015	**F-6**
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015	**F-7**
Notes to Consolidated Financial Statements	**F-8**

(2)

Financial Statement Schedule.

Schedule II Valuation and Qualifying Accounts

(3)

The exhibits required by Items 601 of Regulation S-K are listed in the Exhibit Index immediately preceding the exhibits and are incorporated herein.

(b)

Exhibits:

Exhibit number	Description of exhibit
3.1	Fourth Amended and Restated Certificate of Incorporation of the Registrant, as amended and currently in effect (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on September 4, 2015, incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant, as amended and currently in effect (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on September 4, 2015, incorporated herein by reference).
4.1	Form of common stock certificate (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
4.2	Form of warrant to purchase common stock (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.1	Amended and Restated Investors' Rights Agreement, dated as of June 9, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).

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Exhibit number	Description of exhibit
10.2	Amendment and Waiver, dated as of February 5, 2016, amending the Amended and Restated Investors' Rights Agreement of the Registrant (Filed as an Exhibit to the Registrant's annual report on Form 10-K (001-37508), filed with the SEC on March 18, 2016, incorporated herein by reference).
10.3+	Neos Therapeutics, Inc. 2009 Equity Plan (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.4+	Form of option agreements under 2009 Equity Plan (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.5+	Neos Therapeutics, Inc. 2015 Stock Option and Incentive Plan and forms of option agreements thereunder (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.6+	Senior Executive Cash Incentive Bonus Plan (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on November 13, 2015, incorporated herein by reference).
10.7+	Form of Indemnification Agreement between the Registrant and each of its executive officers and directors (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.8	Third Amended and Restated Subordinated Promissory Note, dated as of December 31, 2013, issued to Essex Capital Corporation, as amended (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.9	Loan and Security Agreement, by and between the Registrant, Hercules Technology III, L.P. and Hercules Technology Growth Capital, Inc., in its capacity as administrative agent for itself and Hercules Technology III, L.P. dated as of March 28, 2014, as amended (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.10	Settlement Agreement, by and between the Registrant and Shire LLC, dated as of July 23, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.11	License Agreement, by and between the Registrant and Shire LLC, dated as of July 23, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.12	Commercial Lease Agreement, by and between Riverside Business Green, L.P., and Neos Therapeutics, LP, dated as of June 29, 1999, as amended (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).

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Exhibit number	Description of exhibit
10.13	Supply Agreement, by and between the Registrant and Coating Place, Inc., dated as of August 28, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 26, 2015, incorporated herein by reference).
10.14	Asset Purchase Agreement, by and between the Registrant and Cornerstone BioPharma, Inc., dated as of August 28, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.15+	Amended and Restated Employment Agreement, by and between the Registrant and Vipin Garg, dated as of July 10, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.16+	Amended and Restated Employment Agreement, by and between the Registrant and Richard Eisenstadt, dated as of July 10, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.17+	Amended and Restated Employment Agreement, by and between the Registrant and Thomas McDonnell, dated as of July 10, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.18	License Agreement by and among the Registrant and Shire LLC, dated as of March 6, 2017. (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on May 10, 2017, incorporated herein by reference).
10.19	First Amendment to Facility Agreement, dated as of June 1, 2017, by and among Neos Therapeutics, Inc., Deerfield Private Design Fund III, L.P. and Deerfield Special Situation Fund, L.P. (including schedules and exhibits thereto). (Filed as an Exhibit to the Registrant's current report on Form 8-K, filed with the SEC on June 5, 2017, incorporated herein by reference).
10.20	Registration Rights Agreement, dated June 1, 2017, by and among Neos Therapeutics, Inc., Deerfield Private Design Fund III, L.P. and Deerfield Special Situation Fund, L.P. (Filed as an Exhibit to the Registrant's current report on Form 8-K, filed with the SEC on June 5, 2017, incorporated herein by reference).
10.21*	Settlement Agreement, by and between the Registrant and Actavis Laboratoris FL, Inc., dated as of October 17, 2017.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of RSM US LLP.
24.1*	Power of Attorney (included on signature page).
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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Exhibit number	Description of exhibit
32.1**	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Link Document.

*

Filed herewith.

**

The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment and this exhibit has been submitted separately to the SEC.

+

Indicates a management contract or compensatory plan.

ITEM 16. ***Form 10-K Summary***

None.

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Neos Therapeutics, Inc.

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm	**F-2**
Financial Statements:	
Consolidated Balance Sheets	**F-3**
Consolidated Statements of Operations	**F-4**
Consolidated Statements of Comprehensive Loss	**F-5**
Consolidated Statements of Stockholders' Equity (Deficit)	**F-6**
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Neos Therapeutics, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Neos Therapeutics, Inc. and Subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2017 and the related notes to the consolidated financial statements and schedule (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2010.

New York, New York
March 16, 2018

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Neos Therapeutics, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 31,969	$ 24,352
Short-term investments	18,448	15,430
Accounts receivable, net of allowances for chargebacks and cash discounts of $1,154 and $950, respectively	13,671	6,135
Inventories	13,459	5,767
Deferred contract sales organization fees		720
Other current assets	5,093	2,865
Total current assets	82,640	55,269
Property and equipment, net	8,203	7,076
Intangible assets, net	16,348	17,647
Other assets	162	150
Total assets	$ 107,353	$ 80,142
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 11,460	$ 7,798
Accrued expenses	10,570	5,264
Deferred revenue	14,676	3,662
Current portion of long-term debt	896	4,921
Total current liabilities	37,602	21,645
Long-Term Liabilities:		
Long-term debt, net of current portion	58,938	58,599
Derivative liability	1,660	
Deferred rent	1,083	1,174
Other long-term liabilities	180	272
Total long-term liabilities	61,861	60,045
Stockholders' Equity (Deficit):		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued or outstanding at December 31, 2017 and December 31, 2016		
Common stock, $0.001 par value, 100,000,000 authorized at December 31, 2017 and December 31, 2016; 29,030,757 and 28,996,956 issued and outstanding, respectively, at December 31, 2017; 16,079,902 and 16,060,996 issued and outstanding, respectively, at December 31, 2016	29	16
Treasury stock, at cost, 33,801 shares at December 31, 2017 and 18,906 shares at December 31, 2016	(352)	(232)
Additional paid-in capital	274,584	198,787
Accumulated deficit	(266,365)	(200,118)
Accumulated other comprehensive loss	(6)	(1)

Explanation of Responses:

Total stockholders' equity (deficit)	7,890	(1,548)
Total liabilities and stockholders' equity (deficit)	$ 107,353	$ 80,142

See notes to consolidated financial statements.

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Neos Therapeutics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	Year Ended December 31,		
	2017	**2016**	**2015**
Revenues:			
Net product sales	$ 25,018	$ 9,154	$ 3,792
Cost of goods sold	12,391	11,437	5,929
Gross profit (loss)	12,627	(2,283)	(2,137)
Research and development expenses	8,957	12,207	11,691
Selling and marketing expenses	46,881	49,291	5,672
General and administrative expenses	13,805	12,625	7,078
Loss from operations	(57,016)	(76,406)	(26,578)
Interest expense	(10,085)	(6,937)	(3,721)
Loss on debt extinguishment		(1,187)	
Other income (loss), net	854	1,197	(482)
Net loss	$ (66,247)	$ (83,333)	$ (30,781)
Preferred stock accretion to redemption value			(1,169)
Preferred stock dividends			(1,221)
Net loss attributable to common stock	$ (66,247)	$ (83,333)	$ (33,171)
Weighted average common shares outstanding used to compute net loss per share, basic and diluted	24,751,091	16,052,390	7,581,881
Net loss per share of common stock, basic and diluted	$ (2.68)	$ (5.19)	$ (4.38)

See notes to consolidated financial statements.

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Neos Therapeutics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net loss	$ (66,247)	$ (83,333)	$ (30,781)
Other comprehensive loss:			
Net unrealized (loss) gain on short-term investments	(5)	2	
Reclassification of gains included in net loss		(3)	
Total other comprehensive loss	(5)	(1)	
Comprehensive loss	$ (66,252)	$ (83,334)	$ (30,781)

See notes to consolidated financial statements.

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Neos Therapeutics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands, except shares)

	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2014	$		938,859	$ 1	(55,905)	$	$ 4,831	$ (83,614)	$	$ (78,782)
Proceeds from exercise of options and warrants			325,292				75			75
Share-based compensation expense							1,181			1,181
Cancellation of treasury stock			(55,905)		55,905					
Purchase of treasury stock					(9,197)	(171)				(171)
Series B Preferred Stock accretion to redemption value								(192)		(192)
Series B-1 Preferred Stock accretion to redemption value								(370)		(370)
Series B-1 accrued dividend								(1,221)		(1,221)
Series C Preferred Stock accretion to redemption value								(607)		(607)
Conversion of Redeemable Preferred Stock			9,217,983	9			110,767			110,776
Cashless exercise of Series C warrants issued with Series C financing			78,926				2,842			2,842
Reclassification of Series C warrants issued with senior debt							611			611
Net proceeds from issuance of common stock in IPO			5,520,000	6			75,007			75,013
Net loss								(30,781)		(30,781)
Balance, December 31, 2015	$		16,025,155	$ 16	(9,197)	$ (171)	$ 195,314	$ (116,785)	$	$ 78,374
Proceeds from exercise of options and warrants			54,747				13			13
Share-based compensation expense							3,460			3,460
Purchase of treasury stock					(9,709)	(61)				(61)
Net unrealized loss on investments									(1)	(1)
Net loss								(83,333)		(83,333)
Balance, December 31, 2016	$		16,079,902	$ 16	(18,906)	$ (232)	$ 198,787	$ (200,118)	$ (1)	$ (1,548)
Issuance of common stock, net of issuance costs			12,019,639	12			64,548			64,560
Issuance of common stock upon conversion of convertible notes			929,967	1			6,585			6,586
Shares issued from exercise of stock options			1,249							
Purchase of treasury stock					(14,895)	(120)				(120)

Share-based compensation expense					4,051			4,051
Recognition of beneficial conversion feature on convertible notes					613			613
Net unrealized loss on investments							(5)	(5)
Net loss						(66,247)		(66,247)
Balance, December 31, 2017	$ 29,030,757	$ 29	(33,801)	$ (352)	$ 274,584	$ (266,365)	$ (6)	$ 7,890

See notes to consolidated financial statements.

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Neos Therapeutics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Cash Flows From Operating Activities:			
Net loss	$ (66,247)	$ (83,333)	$ (30,781)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation expense	4,051	3,460	1,181
Depreciation and amortization of property and equipment	1,363	1,598	1,724
Amortization of patents and other intangible assets	1,660	1,662	1,518
Changes in fair value of earnout, derivative and warrant liabilities	(509)	18	1,313
Amortization of senior debt discounts	1,316	406	576
Amortization of short-term investment purchase discounts	(126)	(156)	
Deferred interest on debt	2,111	4,738	548
Loss on debt extinguishment		942	
Gain on sale of equipment	(23)	(922)	(831)
Other adjustments	(91)	5	(23)
Changes in operating assets and liabilities:			
Accounts receivable	(7,536)	(2,232)	(3,536)
Inventories	(7,692)	(3,247)	(489)
Deferred contract sales organization fees	720	(123)	
Other assets	(1,586)	(1,624)	(1,060)
Accounts payable	3,008	2,377	3,567
Accrued expenses	5,306	2,123	426
Deferred revenue	11,014	3,662	
Net cash used in operating activities	(53,261)	(70,646)	(25,867)
Cash Flows From Investing Activities:			
Purchases of short-term investments	(48,015)	(66,088)	
Sales and maturities of short-term investments	45,118	50,816	3,000
Proceeds from sale-leaseback of equipment	3,222		
Capital expenditures	(2,497)	(3,550)	(1,023)
Intangible asset expenditures	(361)	(500)	
Net cash (used in) provided by investing activities	(2,533)	(19,322)	1,977
Cash Flows From Financing Activities:			
Proceeds from Deerfield debt note, net of fees		58,419	
Proceeds from senior debt note			10,000
Prepayment of senior debt and fee		(26,063)	
Proceeds from sale of equipment		415	
Proceeds from the issuance of common stock, net of issuance cost	64,560	13	18,122
Proceeds from initial public offering, net of issuance cost			75,013
Payments made on borrowings	(989)	(9,166)	(1,654)
Payments made to purchase treasury stock	(120)	(61)	(171)
Payments made on behalf of Deerfield	(40)		
Net cash provided by financing activities	63,411	23,557	101,310
Increase (decrease) in cash and cash equivalents	7,617	(66,411)	77,420
Cash and Cash Equivalents:			
Beginning	24,352	90,763	13,343
Ending	$ 31,969	$ 24,352	$ 90,763

Explanation of Responses:

Supplemental Disclosure of Noncash Transactions:							
Issuance of senior secured convertible notes in lieu of interest payment	$	6,586	$		$		
Issuance of common stock upon conversion of senior secured convertible notes	$	6,586	$		$		
Capital lease liability from sale-leaseback transactions	$	3,222	$		$		
Derivative Liability incurred in connection with First Amendment to Facility	$	2,107	$		$		
Prepaid assets included in accounts payable	$	654	$		$		
Beneficial conversion feature incurred on convertible notes	$	613	$		$		
Deferred contract sales organization fees	$		$	597	$		
Issuance of stock warrants	$		$		$	2,131	
Exercise of Series C warrants for Series C Preferred Stock	$		$		$	2,322	
Cashless exercise of Series C warrants from Series C financing in IPO closing	$		$		$	2,842	
Conversion of Redeemable Preferred Stocks into Common Stock	$		$		$	110,776	
Reclassification of Series C warrants issued with senior debt upon IPO closing	$		$		$	611	
Preferred stock accretion	$		$		$	1,169	

Explanation of Responses:

Preferred stock dividend	$	$	$ 1,221
Supplemental Cash Flow Information:			
Interest paid	$ 6,769	$ 2,857	$ 2,524

See notes to consolidated financial statements.

Explanation of Responses:

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and nature of operations

Neos Therapeutics, Inc., a Delaware corporation, and its subsidiaries (the "Company") is a fully integrated pharmaceutical company. The Company has developed a broad, proprietary modified-release drug delivery technology that enables the manufacture of single and multiple ingredient extended-release pharmaceuticals in patient- and caregiver-friendly orally disintegrating tablet and liquid suspension dosage forms. The Company has a pipeline of extended-release pharmaceuticals including three approved products for the treatment of attention deficit hyperactivity disorder ("ADHD"). Adzenys XR-ODT was approved by the US Food and Drug Administration (the "FDA") on January 27, 2016 and launched commercially on May 16, 2016. The Company received approval from the FDA for Cotempla XR-ODT, its methylphenidate XR-ODT for the treatment of ADHD in patients 6 to 17 years old, on June 19, 2017, the Company initiated an early experience program with limited product availability on September 5, 2017 before launching this product nationwide on October 2, 2017. Also, the Company received approval from the FDA for Adzenys ER oral suspension ("Adzenys ER") on September 15, 2017, and launched this product on February 26, 2018. In addition, the Company manufactures and markets a generic Tussionex (hydrocodone and chlorpheniramine) ("generic Tussionex"), extended-release liquid suspension for the treatment of cough and upper respiratory symptoms of a cold.

Note 2. Summary of significant accounting policies

Basis of Presentation: The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and with the rules and regulations of the Securities and Exchange Commission ("SEC").

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its four wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Concentration of credit risk: Accounts receivable subjects the Company to concentrations of credit risk. Fourteen and thirteen customers accounted for all the revenue and deferred revenue in the year ended December 31, 2017 and 2016, respectively, and accounts receivable at December 31, 2017 and 2016 were due from fourteen and eleven customers, respectively. Three customers accounted for 93% of the net revenue for the year ended December 31, 2017 and two customers accounted for 82% of the net revenue for the year ended December 31, 2016, and three customers accounted for 94% and 98% of the accounts receivable at December 31, 2017 and 2016, respectively. Four customers accounted for substantially all revenue in the year ended December 31 2015.

Segment information: Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment, which is the development, manufacturing and commercialization of pharmaceuticals.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

Reclassifications: Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current period's presentation.

Liquidity: During 2017, 2016 and 2015, the Company produced operating losses and used cash to fund operations. Management intends to achieve profitability through revenue growth from pharmaceutical products developed with the Company's extended-release technologies. The Company does not anticipate it will be profitable until after the successful commercialization of its approved products, Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER. Accordingly, management has performed the review required for going concern accounting and believes the Company presently has sufficient liquidity to continue to operate for the next twelve months after the filing of this Report on Form 10-K.

Cash equivalents: The Company invests its available cash balances in bank deposits and money market funds. The Company considers highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. The Company's primary objectives for investment of available cash are the preservation of capital and the maintenance of liquidity.

Short-term investments: Short-term investments consist of debt securities that have original maturities greater than three months but less than or equal to one year and are classified as available-for-sale securities. Such securities are carried at estimated fair value, with any unrealized holding gains or losses reported as accumulated other comprehensive loss. Any tax effects are currently and have historically been insignificant. Realized gains and losses, and declines in value judged to be other-than-temporary, if any, are included in other income (expense) in the consolidated results of operations. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in fair value charged to earnings in that period, and a new cost basis for the security is established. Dividend and interest income are recognized in other income when earned. The cost of securities sold is calculated using the specific identification method. The Company places all investments with government agencies, or corporate institutions whose debt is rated as investment grade. The Company classifies all available-for-sale marketable securities with maturities greater than one year from the balance sheet date, if any, as non-current assets.

Allowance for doubtful accounts: The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management determines the adequacy of the allowance based on reviews of individual accounts, historical losses, existing economic conditions and estimates based on management's judgments in specific matters. Accounts are written off as they are deemed uncollectible based on periodic review of the accounts. There is no allowance for doubtful accounts at December 31, 2017 or December 31, 2016, as management believes that all receivables are fully collectible.

Inventories: Inventories are stated at the lower of cost (first in, first out) or market in 2016 and, effective January 1, 2017, inventory is now required to be measured at the lower of cost (first in, first out) or net realizable value. The change to stating inventories at the lower of cost or net realizable value in 2017 was adopted prospectively and did not have a significant effect on the Company's ongoing financial reporting as valuing inventory at the lower of cost or net realizable value

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

approximated the prior policy of valuing inventory at the lower of cost or market. Inventories have been reduced by an allowance for excess and obsolete inventories. Cost elements include material, labor and manufacturing overhead. Inventories consist of raw materials, work in process, finished goods and deferred cost of goods sold. The cost of sales associated with the deferred product revenues are recorded as deferred costs of goods sold that are released from inventory into cost of goods sold as the deferred revenue is recognized into revenue.

Until objective and persuasive evidence exists that regulatory approval has been received and future economic benefit is probable, pre-launch inventories are expensed into research and development. Manufacturing costs for the production of Adzenys XR-ODT incurred after the January 27, 2016 FDA approval date are being capitalized into inventory, for the production of Cotempla XR-ODT incurred after June 30, 2017, following the FDA approval date of June 19, 2017, and for the production of Adzenys ER incurred after September 30, 2017, following the FDA approval date of September 15, 2017, are being capitalized into inventory.

Property and equipment: Property and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to ten years. Leasehold improvements are amortized using the straight-line method over the shorter of the respective lease term or the estimated useful lives of the assets.

Intangible assets: Intangible assets subject to amortization, which principally include proprietary modified-release drug delivery technology, the costs to acquire the rights to Tussionex ANDA and patents, are recorded at cost and amortized over the estimated lives of the assets, which primarily range from 10 to 20 years. The Company estimates that the patents it has filed have a future beneficial value. Therefore, costs associated with filing for its patents are capitalized. Once the patent is approved and commercial revenue realized, the costs associated with the patent are amortized over the useful life of the patent. If the patent is not approved, the costs will be expensed.

Impairment of long-lived assets: Long-lived assets such as property and equipment and intangibles subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable. Such assets are also evaluated for impairment in light of the Company's continuing losses. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. No impairment charges were recorded for the years ended December 31, 2017, 2016 or 2015.

Derivative liabilities: The Company evaluates its debt and equity issuances to determine if those contracts or embedded components of those contracts qualify as derivatives requiring separate recognition in the Company's financial statements. The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market each balance sheet date and recorded as a liability and the change in fair value is recorded in other income (expense) in the consolidated results of operations. In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is reassessed at the end of each

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument is expected within twelve months of the balance sheet date.

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption and are classified in interest expense in the consolidated results of operations.

Revenue recognition: Revenue is generated from product sales, recorded on a net sales basis. Product revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) price to the buyer is fixed and determinable; and (4) collectability is reasonably assured. Revenue from sales transactions where the buyer has the right to return the product is recognized at the time of sale only if (1) the price to the buyer is substantially fixed or determinable at the date of sale, (2) the buyer has paid for the product, or the buyer is obligated to pay for the product and the obligation is not contingent on resale of the product, (3) the buyer's obligation to pay would not be changed in the event of theft or physical destruction or damage of the product, (4) the buyer acquiring the product for resale has economic substance apart from that provided by the Company, (5) the Company does not have significant obligations for future performance to directly bring about resale of the product by the buyer, and (6) the amount of future returns can be reasonably estimated.

The Company sells its commercial products to a limited number of pharmaceutical wholesalers, all subject to rights of return. Pharmaceutical wholesalers buy drug products directly from manufacturers. Title to the product passes upon delivery to the wholesalers, when the risks and rewards of ownership are assumed by the wholesaler (freight on board destination). These wholesalers then resell the product to retail customers such as food, drug and mass merchandisers.

The Company has a limited sales history for Adzenys XR-ODT and Cotempla XR-ODT, and no sales history for Adzenys ER, and has been unable to reliably estimate expected returns of the product at the time of shipment to wholesalers. Accordingly, the Company defers recognition of revenue on product shipments of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER, respectively, until the right of return no longer exists, which occurs at the earlier of the time Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER units are dispensed through patient prescriptions or expiration of the right of return. The Company calculates and expects to calculate patient prescriptions dispensed of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER, respectively, using an analysis of third-party information.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

Revenues for Adzenys XR-ODT, Cotempla XR-ODT and generic Tussionex for the years ended December 31, 2017, 2016 and 2015, respectively, are as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Adzenys XR-ODT	$ 18,959	$ 2,924	$
Cotempla XR-ODT	894		
Generic Tussionex	5,165	6,230	3,792
	$ 25,018	$ 9,154	$ 3,792

Net branded product sales

Net product sales for branded Adzenys XR-ODT and Cotempla XR-ODT products represent total gross product sales less gross to net sales adjustments. Gross to net sales adjustments include savings offers, prompt payment discounts, wholesaler fees and estimated rebates to be incurred on the selling price of the respective product sales. The Company recognizes branded total gross product sales less gross to net sales adjustments as revenue based on information from third-party providers.

Savings offers

The Company offers savings programs for Adzenys XR-ODT and Cotempla XR-ODT to patients covered under commercial payor plans in which the cost of a prescription to such patients is discounted. The Company records the amount of redeemed savings offers based on information from third-party providers and recognizes the discount as a reduction of revenue in the same period the related revenue is recognized.

Prompt payment discounts

Prompt payment discounts are based on standard programs with wholesalers and are recorded as a discount allowance against accounts receivable and as a deferred discount reduction of deferred revenue. The deferred discounts are subsequently recorded within net product sales when the deferred revenue is recognized into revenue based on units dispensed through patient prescriptions.

Wholesale distribution fees

Wholesale distribution fees are based on definitive contractual agreements for the management of the Company's products by wholesalers and are recorded as deferred wholesale distribution fees in other current assets. The deferred wholesale distribution fees are subsequently recorded as a reduction of net product sales when the deferred revenue is recognized into revenue based on units dispensed through patient prescriptions.

Rebates

The Company's products are subject to commercial managed care and government-managed Medicare and Medicaid programs whereby discounts and rebates are provided to participating managed care organizations and federal and/or state governments. Calculations related to these rebate accruals

Explanation of Responses:

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

are estimated based on information from third-party providers. Estimated rebates payable under such programs are recorded as a reduction of revenue at the time revenues are recorded. Historical trends of estimated rebates will be continually monitored and may result in future adjustments to such estimates.

Net generic product sales

Net product sales for generic Tussionex product represent total gross product sales less gross to net sales adjustments. Gross to net sales adjustments include prompt payment discounts, estimated allowances for product returns, wholesaler fees, estimated government rebates and estimated chargebacks to be incurred on the selling price of generic Tussionex related to the respective product sales. The Company recognizes generic Tussionex total gross product sales less gross to net sales adjustments as revenue based on shipments from 3PL's to the Company's wholesaler customers.

Prompt payment discounts

Prompt payment discounts are based on standard programs with wholesalers and are recorded as a discount allowance against accounts receivable and as a gross to net sales adjustments at the time revenue is recognized.

Product returns

Wholesalers' contractual return rights are limited to defective product, product that was shipped in error, product ordered by customer in error, product returned due to overstock, product returned due to dating or product returned due to recall or other changes in regulatory guidelines. The return policy for expired product allows the wholesaler to return such product starting six months prior to expiry date to twelve months post expiry date.

Estimated returns are recorded as accrued expenses and as a gross to net sales adjustments at the time revenue is recognized. During 2017, generic Tussionex product returns were estimated based upon return data available from sales of the Company's generic Tussionex product over the past three years. Prior to 2017, generic Tussionex product returns were estimated based upon data available from sales of the Company's generic Tussionex product provided by its former commercialization partner.

Wholesale distribution fees

Wholesale distribution fees are based on definitive contractual agreements for the management of the Company's product by wholesalers and are recorded as accrued expenses and as a gross to net sales adjustments at the time revenue is recognized.

Rebates

The Company's generic Tussionex product is subject to state government-managed Medicaid programs whereby discounts and rebates are provided to participating state governments. Estimated government rebates are recorded as accrued expenses and as a gross to net sales adjustments at the time revenue is recognized. During 2017, generic Tussionex government rebates were estimated based upon rebate payment data available from sales of the Company's generic Tussionex product over the past three years. Prior to 2017, Generic Tussionex government rebates were estimated based on

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

information from third-party providers. Historical trends of such rebates will be continually monitored and may result in future adjustments to such estimates.

Wholesaler Chargebacks

The Company's generic Tussionex products are subject to certain programs with wholesalers whereby pricing on products is discounted below wholesaler list price to participating entities. These entities purchase products through wholesalers at the discounted price, and the wholesalers charge the difference between their acquisition cost and the discounted price back to the Company. Estimated chargebacks are recorded as a discount allowance against accounts receivable and as a gross to net sales adjustments at the time revenue is recognized based on information provided by third parties.

Due to estimates and assumptions inherent in determining the amount of generic Tussionex returns, rebates and chargebacks, the actual amount of returns, claims for rebates and chargebacks may be different from the estimates, at which time reserves would be adjusted accordingly. Wholesale distribution fees and the allowance for prompt pay discounts are recorded at the time of shipment and such fees and allowances are recorded in the same period that the related revenue is recognized.

Research and development costs: Research and development costs are charged to operations when incurred and include salaries and benefits, facilities costs, overhead costs, raw materials, laboratory and clinical supplies, clinical trial costs, contract services, fees paid to regulatory authorities for review and approval of the Company's product candidates and other related costs. During the third quarter of 2016, the Company reclassified its approved product and facility regulatory fees out of research and development expense and into cost of sales commensurate with the commercial launch of Adzenys XR-ODT. The Company has reclassified all such applicable regulatory fees for prior quarters and prior years out of research and development expense and into cost of goods sold in accordance with this approach.

Distribution expenses: Costs invoiced to the Company by its third party logistics firm are classified as cost of goods sold in the consolidated statements of operations.

Shipping and handling costs: Amounts billed to customers for shipping and handling fees for the delivery of goods are classified as cost of goods sold in the consolidated statements of operations.

Advertising costs: Advertising costs are comprised of print and electronic media placements that are expensed as incurred. The Company recognized advertising costs of $0.4 million and $7.4 million during the years ended December 31, 2017 and 2016, respectively. There was no advertising costs incurred during the year ended December 31, 2015.

Share-based compensation: Share-based compensation awards, including grants of employee stock options, restricted stock, restricted stock units ("RSUs") and modifications to existing stock options, are recognized in the statement of operations based on their fair values. Compensation expense related to awards to employees is recognized on a straight-line basis, based on the grant date fair value, over the requisite service period of the award, which is generally the vesting term. The fair value of the Company's stock-based awards to employees and directors is estimated using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including (1) the expected stock price volatility, (2) the expected term of the award, (3) the risk-free interest rate and (4) expected dividends.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

Due to the previous lack of a public market for the trading of its common stock and a lack of company-specific historical and implied volatility data, the Company had, prior to the IPO, historically utilized third party valuation analyses to determine the fair value. After the closing of the Company's IPO, the Company's board of directors has determined the fair value of each share of underlying common stock based on the closing price of the Company's common stock as reported by the NASDAQ Global Market on the date of grant.

Under new guidance for accounting for share-based payments, the Company has elected to continue estimating forfeitures at the time of grant and, if necessary, revise the estimate in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the actual expense recognized over the vesting period will only be for those options that vest. The adoption of this standard in 2017 did not have a material impact on the Company's business, financial position, results of operations or liquidity.

Beginning in July 2016, the Company began recording stock compensation expense in the same income statement line as the cash compensation of the employee with the option in accordance with Staff Accounting Bulletin ("SAB") Topic 14 due to the increased number and amount of options and option compensation. The Company has reclassified all prior quarters' amounts out of general and administrative expense to the appropriate income statement line in accordance with this approach.

Paragraph IV Litigation Costs: Legal costs incurred by the Company in the enforcement of the Company's intellectual property rights are charged to expense as incurred.

Income taxes: Income taxes are accounted for using the liability method, under which deferred taxes are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax laws that will be in effect when the differences are expected to reverse.

Management evaluates the Company's tax positions in accordance with guidance on accounting for uncertainty in income taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the position will be sustained upon examination. As of December 31, 2017 and 2016, the Company has unrecognized tax benefits associated with uncertain tax positions in the consolidated financial statements. These uncertain tax positions were netted against net operating losses (NOL's) with no separate reserve for uncertain tax positions required.

Deferred tax assets should be reduced by a valuation allowance if current evidence indicates that it is considered more likely than not that these benefits will not be realized. In evaluating the objective evidence that historical results provide, the Company considered that three years of cumulative operating losses was significant negative evidence outweighing projections for future taxable income. Therefore, at December 31, 2017 and 2016, the Company has determined that it is more likely than not that the deferred tax assets will not be realized. Accordingly, the Company has recorded a valuation allowance to reduce deferred tax assets to zero. The Company may not ever be able to realize the benefit of some or all of the federal and state loss carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the loss carryforwards.

Warrants: The Company accounts for its warrants and other derivative financial instruments as either equity or liabilities based upon the characteristics and provisions of each instrument. Warrants

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

classified as derivative liabilities are recorded on the Company's balance sheet at their fair value on the date of issuance and prior to completion of the Company's IPO were revalued at each subsequent balance sheet date, with fair value changes recognized as increases or reductions to other income (expense) in the statements of operations. The Company estimates the fair value of its derivative liabilities using third party valuation analysis that utilizes option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for expected volatility, expected life, yield, and risk-free interest rate. Prior to the closing of the IPO, the Company's Series C warrants were determined to be derivative liabilities and they were revalued at each subsequent balance sheet date. Upon closing the IPO, the warrants issued in conjunction with the Series C financing were exchanged in a cashless exercise for 947,185 shares of Series C which converted into 78,926 shares of the Company's common stock. The remaining Series C warrants issued with the senior debt to purchase 170,000 pre-split shares of Series C ("Hercules Warrants") were converted into warrants to purchase 70,833 shares of the Company's common stock and the warrant liability was reclassified to Additional Paid in Capital within Stockholders' Equity (Deficit).

Recent accounting pronouncements: In May 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2017-09, *Compensation Stock Compensation (Topic 718): Scope of Modification Accounting.* This ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the modification. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. This standard became effective for the Company on January 1, 2018. The adoption of this standard is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU was designed to reduce the diversity in practice of how the eight specified items are presented and classified in the statement of cash flows, including debt prepayment or debt extinguishment costs. The amendments are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company believes the amendments will not have a significant effect on its ongoing financial reporting as the Company has classified its debt prepayment and debt extinguishment costs in the Consolidated Statements of Cash Flows in accordance with the amendments.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation Improvements to Employee Share-Based Payment Accounting (Topic 718)*. For public companies, areas of accounting for share-based payment that this ASU was designed to simplify include: the income tax consequences, the accounting policy for forfeitures, the classification of awards as either equity or liabilities and the classification on the statement of cash flows. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those years. The adoption of this standard does not have a material impact on the Company's business, financial position, results of operations or liquidity.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

leases) at the commencement date: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company is evaluating the effect that the standard will have on its consolidated financial statements and related disclosures and has not determined the expected impact at this time.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (the "New Revenue Standard"). The New Revenue Standard replaces transaction-and industry-specific revenue recognition guidance under current U.S. GAAP with a principles-based approach for determining revenue recognition. The New Revenue Standard requires an entity to recognize the amount of revenue based on the value of transferred goods or services to customers. There is also additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customer. The New Revenue Standard became effective for the Company on January 1, 2018.

The New Revenue Standard permits the use of either a fully retrospective or cumulative effect transition method. For purposes of providing comparable periods upon adoption, the Company will apply the fully retrospective transition method. The impact of the New Revenue Standard relates to the Company's accounting for branded net product sales. There are no changes to the net product sales of generic Tussionex revenue since we have estimated product returns since inception of recognizing revenue in August 2014.

As a result, the Company will revise its results for branded net product sales revenue which commenced in May 2016 with the launch of Adzenys XR-ODT for the years ended December 31, 2016 and 2017 and applicable interim periods within those years, as if the New Revenue Standard had been effective for those periods. No revisions are required for the year ended December 31, 2015 with the adoption of the New Revenue Standard.

In preparation for adoption of the New Revenue Standard, we have implemented internal controls and key system functionality to enable the preparation of financial information and have reached conclusions on key accounting assessments related to the New Revenue Standard, including management's assessment that the impact of accounting for costs incurred to obtain a contract is immaterial.

Under current GAAP, revenue recognition of branded net product sales is deferred until the transaction price is fixed or determinable. The Company has a limited sales history for branded products Adzenys XR-ODT and Cotempla XR-ODT and no sales history for Adzenys ER. Under ASC 605 it was determined that management cannot reliably estimate historical returns of the product at the time of delivery to wholesalers, when title to the asset transfers and the customer is invoiced. Accordingly, the Company defers recognition of revenue on branded product shipments of Adzenys XR-ODT and Cotempla XR-ODT, respectively, until the right of return no longer exists, which occurs at the earlier of the time Adzenys XR-ODT and Cotempla XR-ODT units are dispensed through

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

patient prescriptions or expiration of the right of return. The Company calculates patient prescriptions dispensed of Adzenys XR-ODT and Cotempla XR-ODT using an analysis of third-party information.

Under the New Revenue Standard, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those good or services. Therefore, the Company will be required to make estimates of the net sales price, including estimates of variable consideration (e.g., savings offers, prompt payment discounts, product returns, wholesaler fees and estimated rebates) to be incurred on the selling price of the respective branded product sales, and recognize the estimated amount as revenue, when it transfers control of the product to its customers (e.g., upon shipment or delivery). Variable consideration must be determined using either an expected value or most likely amount method. The estimate of variable consideration is also subject to a constraint such that some or all of the estimated amount of variable consideration will only be included in the transaction price to the extent that it is probable that a significant reversal of revenue (in the context of the contract) will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimating variable consideration and the related constraint will require the use of significant management judgment and other market data. To implement the New Revenue Standard, the Company analyzed recent branded product return history and other market data obtained from its 3PLs to determine a reliable return rate. Additionally, management analyzed historical savings offers, prompt payment discounts, wholesaler fees and rebates payments based on patient prescriptions dispensed of Adzenys XR-ODT, Cotempla XR-ODT and information obtained from third-party providers to determine these respective variable considerations. Management has concluded that estimates of the above variable considerations are reasonably constrained, and estimates can be used for recognizing branded total gross product sales less gross to net sales adjustments as revenue beginning January 1, 2018.

Adoption of the New Revenue Standard will result in the recognition of additional net branded product sales revenue of $2.1 million and $0.9 million for years ended December 31, 2017 and 2016, respectively partially offset by associated increased cost of goods sold of $1.6 million and $0.3 million, respectively. As a result, the net loss reported will be reduced by $0.5 million and $0.6 million reflecting the gross profit from the accelerated revenue and associated cost of goods sold for years ended December 31, 2017 and 2016, respectively. The net loss per share of common stock, basic and diluted reported will be improved by $0.02 and $0.03 per share for December 31, 2017 and 2016, respectively. The adoption of the New Revenue Standard will reduce the net operating loss carry forward for 2017 and 2016, respectively; however, there is no impact to the provision for income taxes because the Company's deferred tax asset benefits are fully reserved for December 31, 2017 and 2016, respectively. In addition, adoption of the New Revenue Standard will result in a decrease in reported total current assets by $3.2 million and $0.6 million as of December 31, 2017 and 2016, respectively, due to the elimination of deferred cost of goods sold and wholesaler fees. Reported total current liabilities will decrease by $4.3 million and $1.2 million as of December 31, 2017 and 2016, respectively, due to the elimination of deferred revenue partially offset by increases in accrued expenses for contract obligations related to savings offers, product returns and rebates. See Expected Impacts to Reported Results below for the impact of adoption of the New Revenue Standard on the Company's consolidated financial statements.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of significant accounting policies (Continued)

Expected impacts to reported results

Adoption of the new revenue standard is expected to impact the Company's reported results as follows:

	Year Ended December, 31					
	2017			2016		
Condensed consolidated statements of operations:	**As Reported**	**New Revenue Standard Adjustment**	**As Adjusted**	**As Reported**	**New Revenue Standard Adjustment**	**As Adjusted**
	(In thousands, except per share data)					
Revenue: net product sales	$ 25,018	$ 2,114	$ 27,132	$ 9,154	$ 879	$ 10,033
Cost of goods sold	12,391	1,639	14,030	11,437	297	11,734
Gross profit (loss)	12,627	475	13,102	(2,283)	582	(1,701)
Net loss attributable to common stock	(66,247)	475	(65,772)	(83,333)	582	(82,751)
Net loss per share of common stock, basic and diluted	(2.68)	0.02	(2.66)	(5.19)	0.03	(5.16)

	December 31,					
	2017			2016		
Condensed consolidated statements of balance sheet:	**As Reported**	**New Revenue Standard Adjustment**	**As Adjusted**	**As Reported**	**New Revenue Standard Adjustment**	**As Adjusted**
	(In thousands)					
Inventories	$ 13,459	$ (1,727)	$ 11,732	$ 5,767	$ (225)	$ 5,542
Other current assets	5,093	(1,518)	3,575	2,865	(346)	2,519
Total current assets	82,640	(3,245)	79,395	55,269	(571)	54,698
Accrued expenses	10,570	10,374	20,944	5,264	2,509	7,773
Deferred revenue	14,676	(14,676)		3,662	(3,662)	
Total current liabilities	37,602	(4,302)	33,300	21,645	(1,153)	20,492
Accumulated deficit	(266,365)	1,057	(265,308)	(200,118)	582	(199,536)
Total liabilities and stockholder's equity	107,353	(3,245)	104,108	80,142	(571)	79,571

Adoption of the New Revenue Standard had no impact to cash from or used in operating, financing, or investing on the Company's consolidated statements of cash flows.

Note 3. Net loss per share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. Potentially dilutive securities, which include warrants, outstanding stock options under the stock option plan and shares issuable in future periods, such as RSU awards, have been excluded from the computation of diluted net loss per share as they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to compute basic and diluted shares outstanding due to the Company's net loss position. Restricted stock is considered legally issued and outstanding on the grant

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Net loss per share (Continued)

date, while RSUs are not considered legally issued and outstanding until the RSUs vest. Once the RSUs are vested, equivalent common shares will be issued or issuable to the grantee and therefore the RSUs are not considered for inclusion in total common shares issued and outstanding until vested.

The following potentially dilutive securities outstanding were excluded from consideration in the computation of diluted net loss per share of common stock for the years ended December 31, 2017, 2016 and 2015, respectively, because including them would have been anti-dilutive:

	December 31,		
	2017	2016	2015
Series C Redeemable Convertible Preferred Stock Warrants (as converted)	70,833	70,833	70,833
Common Stock Warrants			50,158
Stock options outstanding	2,454,973	2,107,344	1,352,283
RSU's granted, not issued or outstanding	85,000		

Note 4. Fair value of financial instruments

The Company records financial assets and liabilities at fair value. The carrying amounts of certain financial assets and liabilities including cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities and deferred revenue, approximated their fair value due to their short maturities. The remaining financial instruments were reported on the Company's consolidated balance sheets at amounts that approximate current fair values based on market based assumptions and inputs.

As a basis for categorizing inputs, the Company uses a three tier fair value hierarchy, which prioritizes the inputs used to measure fair value from market based assumptions to entity specific assumptions as follows:

Level 1: Unadjusted quoted prices for identical assets in an active market.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full-term of the asset.

Level 3: Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset.

The following table presents the hierarchy for the Company's financial instruments measured at fair value on a recurring basis for the indicated dates:

	Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash and cash equivalents	$ 31,969	$	$	$ 31,969

Short-term investments		18,448		18,448
Earnout liability			170	170
Derivative liability (see Note 11)			1,660	1,660
	$ 31,969	$ 18,448	$ 1,830	$ 52,247

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair value of financial instruments (Continued)

	Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash and cash equivalents	$ 17,917	$ 6,435	$	$ 24,352
Short-term investments		15,430		15,430
Earnout liability			232	232
	$ 17,917	$ 21,865	$ 232	$ 40,014

The Company's Level 1 assets included bank deposits, certificates of deposit and actively traded money market funds with a maturity of 90 days or less at December 31, 2017 and 2016. Asset values were considered to approximate fair value due to their short-term nature.

The Company's Level 2 assets included commercial paper and corporate bonds with maturities of less than one year that are not actively traded which were classified as available for sale securities. The estimated fair values of these securities were determined by third parties using valuation techniques that incorporate standard observable inputs and assumptions such as quoted prices for similar assets, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids/offers and other pertinent reference data.

The Company's cash and cash equivalents and short-term investments had quoted prices at December 31, 2017 and 2016 as shown below:

	December 31, 2017		
	Amortized Cost	Unrealized Loss	Market Value
	(in thousands)		
Bank deposits and money market funds	$ 31,969	$	$ 31,969
Financial and corporate debt securities	18,454	(6)	18,448
	$ 50,423	$ (6)	$ 50,417

	December 31, 2016		
	Amortized Cost	Unrealized Loss	Market Value
	(in thousands)		
Bank deposits and money market funds	$ 17,917	$	$ 17,917
Financial and corporate debt securities	21,866	(1)	21,865
	$ 39,783	$ (1)	$ 39,782

The Company's Level 3 liability included the fair value of the earnout liability at December 31, 2017 and 2016 and the fair value of the Deerfield derivative liability at December 31, 2017.

The fair value of the earnout liability was determined after taking into consideration valuations using the Monte Carlo method based on assumptions at December 31, 2016 and revised at December 31, 2017. These revisions were primarily due to an updated revenue forecast for the Company's generic Tussionex and the use of a directly-calculated revenue volatility of 42% based on data for potential comparable publicly-traded companies in the generic drug manufacturing space including the Company, whereas previously an unlevered equity volatility of 50% had been selected.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair value of financial instruments (Continued)

Significant changes to these assumptions would result in increases/decreases to the fair value of the earnout liability. The methodologies and significant inputs used in the determination of the fair value of the earnout liability were as follows:

	Initial Valuation Earnout Liability	December 31, 2015 Earnout Liability	December 31, 2016 Earnout Liability	December 31, 2017 Earnout Liability
Date of Valuation	**8/28/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**
Valuation Method	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Volatility (annual)	50%	50%	50%	42%
Risk-free rate (annual)	.03% - 3.56%	.56% - 3.31%	.74% - 3.42%	1.62% - 2.88%
Time period from valuation until end of earnout	.1708 - 9.8417	.5 - 9.5	.5 - 9.5	.5 - 9.5
Earnout Target 1 (thousands)	$13,700	$13,700	$13,700	$13,700
Earnout Target 2 (thousands)	$18,200	$18,200	$18,200	$18,200
Discount rate	8.03% - 10.51%	8.11% - 10.86%	12.02% - 14.70%	14.72% - 15.98%
Fair value of liability at valuation date (thousands)	$589	$214	$232	$170

The fair value of the derivative liability was determined after taking into consideration valuations using the Monte Carlo method based on assumptions at June 1, 2017 and December 31, 2017. The methodologies and significant inputs used in the determination of the fair value of the debt derivative liability were as follows:

	Derivative Liability	Initial Valuation Derivative Liability
Date of Valuation	12/31/2017	6/1/2017
Valuation Method	Monte Carlo	Monte Carlo
Volatility (annual)	N/A	76.4%
Time period from valuation until maturity of debt (yrs.)	4.360	4.943
Cumulative probability of a change in control prepayment implied by model	27%	28%
Cumulative probability of other accelerated prepayments implied by model	17%	17%
Discount rate	16.20%	15.87%
Fair value of liability at valuation date (thousands)	$1,660	$2,107

Significant changes to these assumptions in the preceding valuation tables would result in increases/decreases to the fair value of the earnout liability and derivative liability.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair value of financial instruments (Continued)

Changes in Level 3 liabilities measured at fair value for the periods indicated were as follows:

	Level 3 Liabilities
	(in thousands)
Balance at December 31, 2015	$ 214
Change in fair value	18
Balance at December 31, 2016	232
Addition of Deerfield derivative liability	2,107
Change in fair value	(509)
Balance at December 31, 2017	$ 1,830

Note 5. Inventories

Inventories at the indicated dates consist of the following:

	December 31,	
	2017	2016
	(in thousands)	
Raw materials	$ 3,476	$ 1,672
Work in progress	6,156	2,546
Finished goods	2,470	2,060
Deferred cost of goods sold	1,726	225
Inventory at cost	13,828	6,503
Inventory reserve	(369)	(736)
	$ 13,459	$ 5,767

The deferred cost of goods sold relates to the cost of shipments of Adzenys XR-ODT and Cotempla XR-ODT to distributors where the related revenue has been deferred. Such amounts are charged to cost of goods sold when the associated revenue is recognized.

Note 6. Property and equipment

Property and equipment, net at the indicated dates consists of the following:

	December 31,	
	2017	2016
	(in thousands)	

Explanation of Responses:

Assets under capital lease	$ 3,222	$ 1,793
Leasehold improvements	4,195	3,757
Manufacturing, packaging and lab equipment	5,300	4,376
Office furniture and equipment	1,656	1,788
Assets under construction	1,056	2,066
	15,429	13,780
Accumulated depreciation and amortization (including $157 and $762 at December 31, 2017 and 2016, respectively, applicable to capital leases)	(7,226)	(6,704)
	$ 8,203	$ 7,076

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Property and equipment (Continued)

Depreciation and amortization expense related to property and equipment was $1,363,000, $1,598,000 and $1,724,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Depreciation and amortization expense is recorded in cost of goods sold, research and development, or general and administrative expenses in the accompanying consolidated statements of operations. As noted in Note 7, the Company sold and leased back a substantial portion of its operating assets in a series of capital lease transactions.

On October 20, 2016, the Company utilized a third party auctioneer to conduct an auction of certain fully-depreciated equipment assets, resulting in net proceeds of approximately $415,000 which were paid during the fourth quarter of 2016 and were recorded as a gain on sale and included in other income (loss) in the Company's consolidated statement of operations.

Note 7. Sale-leaseback transaction

The Company accounts for the sale and leaseback transactions discussed below as capital leases under the provisions of Accounting Standards Codification ("ASC") Topic 840-40, *Leases Sale Leaseback Transactions*. Accordingly, the leased assets are recorded in property and equipment and the capitalized lease obligations are included in long-term liabilities at the present value of the future lease payments in accordance with the terms of the lease (see Note 11). Lease payments are applied using the effective interest rate inherent in the leases. Depreciation of the property and equipment is included within depreciation and amortization in the consolidated statements of operations and consolidated statements of cash flows.

In 2012, the Company negotiated financing arrangements with a related party which provided for the sale-leaseback of up to $6.5 million of the Company's property and equipment with a bargain purchase option at the end of the respective lease. These financing arrangements were executed in five separate tranches that occurred in February, July and November 2013, and March 2014. In the aggregate, the Company sold groups of assets for $795,000 and $5.5 million, which resulted in a net gains of approximately $116,000 and $2.7 million, in the years ended December 31, 2014 and 2013, respectively, and executed capital leases for these assets with repurchase options at the end of each respective lease term. Gains on the transactions are recognized on a straight-line basis over each respective 42-month lease term. The two February 2013 and the November 2013 leases for a total of $3.5 million and $1.0 million of assets expired in July 2016 and April 2017, respectively, and the related $2.6 million and $161,000 gains, respectively, were fully amortized at that time and the $385,000 and $100,000 lease buy-out option liabilities, respectively, were fully satisfied. The July 2013 lease for a total of $1.0 million of assets expired in December 2016 and the related $0.1 million loss had been recorded at inception of the lease and the $100,000 lease buy-out option liability was fully satisfied. The March 2014 lease for $795,000 of asset expired in September 2017 and the related $116,000 gain was fully amortized at that time and the lease buy-out option liability of $79,000 was fully satisfied.

In February 2017, the Company entered into an agreement with a related party for the sale-leaseback of newly acquired assets of up to $5.0 million to finance its capital expenditures. Each lease under this master agreement will be for an initial term of 36 months and will have an option to purchase the equipment at the end of the respective lease that management considers to be a bargain purchase option. Under this agreement, the Company entered into leases and sold assets with a total capitalized cost of $481,000 and $2,742,000 at effective interest rates of 14.3% and 14.9% on February 13, 2017 and June 30, 2017, respectively. The February sale resulted in net gains of $14,000

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Sale-leaseback transaction (Continued)

which has been deferred and is being amortized over the 36-month term of the lease. There was no gain or loss on the June 2017 sale.

For the years ended December 31, 2017, 2016 and 2015, approximately $44,000, $507,000 and $831,000, respectively, of the net gain on sale-leasebacks was recognized in other income on the condensed consolidated statements of operations.

Note 8. Intangible assets

Intangible assets, net at the indicated dates consist of the following:

	December 31,	
	2017	**2016**
	(in thousands)	
Proprietary modified-release drug delivery technology	$ 15,600	$ 15,600
Tussionex ANDA	4,829	4,829
CPI profit sharing	2,043	2,043
Patents	2,302	2,191
Other	1,035	785
	25,809	25,448
Accumulated amortization	(9,461)	(7,801)
	$ 16,348	$ 17,647

As part of the June 15, 2009 reorganization of the Company as Neos Therapeutics, Inc., the Company performed a purchase price allocation analysis. The proprietary modified-release drug delivery technology was valued at $15.6 million based on projected cash flows expected to be generated from this technology. The $15.6 million is being amortized over 20 years. Amortization expense of $780,000 was recorded in each of the years ended December 31, 2017, 2016 and 2015.

On August 28, 2014, the Company completed an acquisition of the rights to Tussionex ANDA from Cornerstone and CPI which was accounted for as an asset acquisition. Prior to the acquisition, the Company, Cornerstone and Coating Place, Inc. ("CPI") shared profits generated by the sale and manufacture of the product under a development and manufacturing agreement, and Cornerstone had commercialization rights to the product. The Company paid $4.2 million to Cornerstone to buy out their rights to commercialize and derive future profits from the product and entered into an agreement whereby Cornerstone transferred certain assets associated with the product to the Company. Legal fees of $90,000 associated with this buyout agreement have been capitalized as part of the purchase price. Additional estimated earnout costs due to Cornerstone of $589,000, recorded at fair value by the Company based upon a valuation provided by a third party valuation firm, were capitalized as part of the purchase price of this intangible asset. This earnout amount was revalued at December 31, 2017, 2016 and 2015, resulting in a $62,000 decrease, an $18,000 increase and a $542,000 decrease in the estimated fair value of the earnout, respectively, which is recorded in other income (expense), net in the Company's consolidated statements of operations. The 2015 net decrease resulted primarily from new information regarding the projected impact of the DEA's reclassification of Tussionex from a Schedule III controlled substance to a Schedule II controlled substance. In addition, the Company paid $2.0 million to CPI to buy out their rights to future profits from the collaboration and entered into an

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Intangible assets (Continued)

agreement whereby CPI will continue to supply a component of the product. Legal fees of $43,000 associated with this buyout agreement have been capitalized as part of the purchase price of this intangible asset. These two intangible assets have an expected life of ten years and are being amortized on a straight-line basis beginning September 2014. Total amortization expense related to these intangible assets was $687,000 for each of the years ended December 31, 2017, 2016 and 2015. Aggregate amortization of intangible assets for each of the next five years and thereafter is as follows:

Year ending	December 31, (in thousands)
2018	$ 1,604
2019	1,604
2020	1,604
2021	1,604
2022	1,604
Thereafter	6,237
	$ 14,257

Patents utilized in the manufacturing of the Company's generic Tussionex product which total $352,000 are being amortized over their expected useful life of 10 years. Patents utilized in the manufacturing of Adzenys XR-ODT which total $599,000 are being amortized over their expected useful life, including $535,000 being amortized for approximately 16 years beginning with the approval of Adzenys XR-ODT on January 27, 2016 and $64,000 being amortized for approximately 15 years beginning in December 2017. Patents utilized in the manufacturing of Cotempla XR-ODT which total $83,000 are being amortized over their expected useful life of approximately 15 years, beginning with the approval of Cotempla XR-ODT on June 19, 2017. Patents utilized in the manufacturing of Adzenys ER which total $451,000 are being amortized over their expected useful life of approximately 15 years, beginning with the approval of Adzenys ER on September 15, 2017. For the years ended December 31, 2017, 2016 and 2015, $88,000, $69,000 and $23,000 of patent amortization expense was recorded, respectively.

Note 9. Income taxes

The Company applies FASB ASC topic 740, "Income Taxes" or ASC 740 which addresses the determination of whether tax benefits claimed, or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

The Company is generally subject to tax examination for a period of three years after tax returns are filed. Therefore, the statute of limitations remains open for tax years 2014 and forward. However, when a company has net operating loss carryovers, those tax years remain open until three years after the net operating losses are utilized. Therefore, the tax years remain open back to 2004.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Income taxes (Continued)

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017. The legislation significantly changes U.S. tax law by, among other things, lowering the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018.

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Cuts and Jobs Act of 2017, the Company revalued its ending net deferred tax assets at December 31, 2017 and recognized a reduction of $20.5 million in deferred tax assets with a corresponding reduction in the valuation allowance.

The significant components of deferred income tax assets and liabilities consist of the following:

	December 31,	
	2017	2016
	(in thousands)	
Deferred Tax Assets:		
Net operating loss	$ 32,193	$ 65,532
Deferred revenue	3,145	
Share-based compensation	1,340	1,562
R&D tax credit	1,696	1,792
Other reserves	1,069	1,064
Capital lease liability	562	151
State deferreds	464	16
Inventory	466	
Other	980	1,595
Total deferred tax assets	41,915	71,712
Deferred Tax Liabilities:		
Intangible assets	(1,846)	(3,371)
Property and equipment	(747)	(124)
Total deferred tax liabilities	(2,593)	(3,495)
Valuation allowance	(39,322)	(68,217)
Net deferred tax asset (liability)	$	$

At December 31, 2017, and 2016, the Company has gross federal net operating loss carry-forwards of $247,493,000 and $200,170,000 and research and development credits of $2,275,000 and $2,179,000, respectively, which begin to expire in 2024. The Company has tax effected state net operating loss carry-forwards of $2,620,000 and $1,835,000 at December 31, 2017 and 2016, respectively. Utilization of the net operating loss carry-forwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The Company has performed an analysis to determine the impact of any ownership change(s) under Section 382 of the Internal Revenue Code. Due to an ownership change in 2017, the amount of federal net operating loss that will expire unused due to the Section 382 limitation is $101,744,000. The amount of federal research and development credit that will expire unused is

Explanation of Responses:

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Income taxes (Continued)

$350,000. The deferred tax assets and related valuation allowances for both carryforwards have been reduced accordingly.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company has no accrued interest related to its uncertain tax positions as they all relate to timing differences that would adjust the Company's net operating loss carryforward and do not require recognition. As a result of these timing differences, at December 31, 2017 and December 31, 2016, the Company had gross unrecognized tax benefits related to uncertain tax positions of $7,261,000 and $5,081,000, respectively. The Company has no other tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date. Changes in unrecognized benefits in any given year are recorded as a component of deferred tax expense. A tabular rollforward of the Company's gross unrecognized tax benefits is below:

	December 31,	
	2017	2016
	(in thousands)	
Beginning Balance	$ 5,081	$ 4,355
Increase based on tax positions taken during a current period	2,180	726
Ending Balance	$ 7,261	$ 5,081

The Company has recorded a valuation allowance of $39,322,000 at December 31, 2017 and $68,217,000 at December 31, 2016 to fully reserve its net deferred tax assets. The Company has assessed the likelihood that the deferred tax assets will be realized and determined that it is more likely than not that all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Due to the uncertainty of realizing the deferred tax asset, the Company has placed a valuation allowance against the entire deferred tax asset. The Company may not ever be able to realize the benefit of some or all of the federal and state loss carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the loss carryforwards. The change in the valuation allowance was a decrease of 28,895,000 and an increase of $29,886,000 for the years ended December 31, 2017 and December 2016, respectively. As a result of the TCJA reduction in the U.S. corporate income tax rate, the Company reduced its deferred tax assets by $20,547,000 with a corresponding reduction in the valuation allowance.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Income taxes (Continued)

A reconciliation of the Company's Federal statutory tax rate of 34% to the Company's effective income tax rate is as follows:

	Year Ended December 31,	
	2017	2016
U.S. Statutory Tax Rate	34%	34%
Change in Valuation Allowance	44%	(36)%
Deferred Tax Adjustments	(47)%	1%
Federal Rate Change	(31)%	
State tax expense, net	2%	2%
Provision to Return and Other Adjustments	(2)%	(1)%
Tax Expense / (Benefit)	0%	0%

The deferred tax adjustments are primarily attributable to the amount of federal net operating loss that will expire unused due to the Section 382 limitation.

Note 10. Accrued expenses

Accrued expenses as of December 31, 2017 and 2016 consist of the following:

	December 31,	
	2017	2016
Reserve for rebates	$ 2,687	$ 421
Accrued payroll and benefits	2,534	2,085
Reserve for wholesaler fees	2,387	509
Other accrued expenses	2,962	2,249
Total accrued expenses	$ 10,570	$ 5,264

Note 11. Long-term debt

Long-term debt at the indicated dates consists of the following:

	December 31,	
	2017	2016
	(in thousands)	
Deerfield senior secured credit facility, net of discount of $2,843 and $1,401, respectively	$ 57,156	$ 63,075
Capital leases, maturing through May 2020	2,678	445
	59,834	63,520
Less current portion	(896)	(4,921)

Long-term debt	$ 58,938	$ 58,599

Explanation of Responses:

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Long-term debt (Continued)

Senior secured credit facility: On May 11, 2016, the Company entered into a $60.0 million senior secured credit facility ("Facility") with Deerfield Private Design Fund III, L.P. (66 2/3% of Facility) and Deerfield Special Situations Fund, L.P. (33 1/3% of Facility) (collectively, "Deerfield"), as lenders. In February 2017, the Company closed an underwritten public offering of 5,750,000 shares of its common stock at a public offering price of $5.00 per share (see Note 12). Deerfield, the Company's senior lender, participated in the purchase of the Company's common shares as part of this public offering, and as a result, is now classified as a related party.

Approximately $33 million of the $60 million Facility proceeds was used to prepay the existing $24.3 million principal and $0.1 million of accrued interest related to the senior Loan and Security Agreement ("LSA") with Hercules Technology III, L.P., ("Hercules"), the $1.1 million LSA end of term fee, an LSA prepayment charge of $243,000 and the $5.9 million of principal and $1.3 million of interest on the 10% related party amended and restated subordinated note ("Note") that was issued by the Company to Essex Capital Corporation ("Essex"), which were otherwise payable in 2016 and 2017. Principal on the Facility is due in three equal annual installments beginning in May 2019 and continuing through May 2021, with a final payment of principal, interest and all other obligations under the Facility due May 11, 2022. Interest is due quarterly beginning in June 2016, at a rate of 12.95% per year. The Company had an option, which it exercised, to defer payment of each of the first four interest payments, adding such amounts to the outstanding loan principal. The aggregate $6.6 million in deferred interest payments ("Accrued Interest") was due and payable on June 1, 2017. Borrowings under the Facility are collateralized by substantially all of the Company's assets, except the assets under capital lease, and the Company will maintain cash on deposit of not less than $5.0 million.

On June 1, 2017 (the "Amendment Date"), the Company and Deerfield entered into a First Amendment (the "Amendment") to the Facility which extended the date to repay the Accrued Interest under the Facility to June 1, 2018 (the "PIK Maturity Date"), which may be extended to June 1, 2019 at the election of the Company if certain conditions have been met as specified in the Amendment.

The right to payment of the Accrued Interest was memorialized in the form of senior secured convertible notes (the "Convertible Notes") issued to Deerfield on the Amendment Date. Interest is due quarterly at a rate of 12.95% per year. The principal amount of the Convertible Notes issued under the Amendment and all accrued and unpaid interest thereon shall become due and payable upon written notice from Deerfield, and if either (a) the Company does not meet certain quarterly sales milestones specified in the Amendment or (b) the Company has not received and publicly announced FDA approval of the new drug applications on or before the applicable Prescription Drug User Fee Act (the "PDUFA") goal date as set forth on the schedules to Amendment. Per the Amendment, the Company will prepay all of the outstanding obligations under the Facility and the Convertible Notes upon the occurrence of a change in control or a sale of substantially all of the Company's assets and liabilities. The Amendment increased the staggered prepayment fees for prepayments due upon a change of control or any other prepayment made or required to be made by the Company by 300 basis points from June 1, 2017 through the period ending prior to May 11, 2020 for the change in control prepayment fees and through the period ending prior to May 11, 2022 for any other prepayments, respectively (the "Prepayment Premiums"). Such Prepayment Premiums, as amended, range from 12.75% to 2%.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Long-term debt (Continued)

The $6.6 million of Convertible Notes was convertible into shares of the Company's common stock at the noteholder's option at any time up to the close of business on the date that is five days prior to the PIK Maturity Date. The per share conversion price was the greater of (a) 95% of the average of the volume weighted average prices per share of the Company's common stock on the NASDAQ Global Market for the three trading day period immediately preceding such conversion, and (b) $7.00. Deerfield cannot own more than 9.985% of the Company's outstanding shares at any one time, and the aggregate conversion cannot exceed 19.9% of the Company's outstanding common stock as of June 1, 2017.

On October 26, 2017, Deerfield provided a conversion notice electing to convert the entire $6.6 million of Convertible Notes into shares of the Company's common stock at a conversion price of $7.08 per share. The conversion price was based on 95% of the average of the volume weighted average prices per share of the Company's common stock on the NASDAQ Global Market for the three trading day period immediately preceding such conversion. This resulted in issuing 929,967 shares of the Company's common stock to Deerfield on this date and the Convertible Notes were cancelled.

In conjunction with the Amendment to the Facility and the related issuance of the Convertible Notes, the Company entered into a Registration Rights Agreement ("Registration Agreement") which required the Company to file a registration statement with the SEC to register the shares of common stock issued or issuable upon conversion of the Convertible Notes ("Conversion Shares") (subject to certain adjustment for stock split, dividend or other distribution, recapitalization or similar events, "Registrable Securities") within 30 days from June 1, 2017, which was to become effective per the SEC no later than 75 days thereafter. The Company filed a registration statement on Form S-3 to comply with the Registration Agreement on June 30, 2017, which became effective on July 11, 2017. This filing covered 940,924 shares, which is the number of shares that would be issued at the floor conversion rate of $7.00 per share. The Company is also required to, among other things, maintain the effectiveness of such registration statement, continue to file the required SEC filings on a timely basis, use its best efforts to ensure that the registered securities are listed on each securities exchange on which securities of the same class or series as issued by the Company are then listed and comply with any Financial Industry Regulatory Authority ("FINRA ") requests. The Company's obligations with respect to each registration end at the date which is the earlier of (a) when all of the Registrable Securities covered by such registration have been sold or (b) when Deerfield or any of its transferee or assignee under the Registration Agreement cease to hold any Registrable Securities. For each registration, the Company shall bear all reasonable expenses, other than underwriting discounts and commissions, and shall reimburse Deerfield or any assignee or transferee for up to $25,000 in legal fees. The Company currently expects to satisfy all of its obligations under this Registration Agreement and does not expect to pay any damages pursuant to this agreement; therefore, no liability has been recorded (see Note 15).

The Company has accounted for the Amendment as a debt modification as the instruments were not substantially different; therefore, the remaining debt discount on the original Facility is being amortized using the effective interest method over the remaining term of the modified debt. The Company evaluated the Amendment together with the Convertible Notes to determine if those contracts or embedded components of those contracts qualified as derivatives requiring separate recognition. This evaluation identified a derivative liability of $2.1 million for the fair value of the change in control and other accelerated payment features as the prepayment fees resulted in premiums that were greater than 10% (see Note 4). As the change in control and other accelerated payments terms, including the prepayment fees, were applied to the entire debt per the terms of the amended

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Long-term debt (Continued)

Facility, the corresponding debt discount will be amortized using the effective interest method over the remaining term of the Facility. The fees paid to or on behalf of the creditor for the debt modification totaled $40,000 and were recorded as additional debt discount on the amended Facility to be amortized to interest expense using the effective interest method over the term of the Facility. The Company's evaluation also determined that the embedded conversion options should not be bifurcated as derivatives from the Convertible Notes host instruments. Therefore, the Company recorded a $0.6 million discount to the convertible notes for the intrinsic value of the embedded conversion option based upon the difference between the fair value of the underlying common stock on June 1, 2017 and the effective conversion price embedded in the Convertible Notes, which will be amortized using the effective interest method to interest expense over the one-year term of the Convertible Notes. The Company recorded a $0.6 million corresponding credit to a beneficial conversion feature classified as additional paid in capital in stockholders' equity (deficit) in the Company's financial statements.

In connection with the initial Facility, the Company paid a $1,350,000 yield enhancement fee to Deerfield, approximately $173,000 of legal costs to the Company's attorneys and $58,000 of legal costs on behalf of Deerfield's attorneys, all of which were recorded as debt discount and amortized over the six-year term of the Facility, using the effective interest method. Borrowings under the Facility are collateralized by substantially all of the Company's assets, except the Company's assets under capital lease, and the Company will maintain cash on deposit of not less than $5.0 million.

Pursuant to the Convertible Notes, if the Company had failed to provide the number of conversion shares, then the Company would have paid damages to Deerfield or subsequent holder or any designee ("Holder") for each day after the third business day after receipt of notice of conversion ("Share Delivery Date") that such conversion was not timely effected. The Facility also contains certain customary nonfinancial covenants, including limitations on the Company's ability to transfer assets, engage in a change of control, merge or acquire with or into another entity, incur additional indebtedness and distribute assets to shareholders. Upon an event of default, the lenders may declare all outstanding obligations accrued under the Facility to be immediately due and payable, and exercise its security interests and other rights. As of December 31, 2017, the Company was in compliance with the covenants under the Facility.

Debt discount amortization for the Facility, including the Amendment after June 1, 2017, was calculated using the effective interest rates of 15.03% on the original facility debt and 25.35% on the Convertible Notes, charged to interest expense and totaled $1,316,000 and $181,000 for the years ended December 31, 2017 and 2016, respectively.

Senior debt: In March 2014, the Company entered into the LSA, which was subsequently amended in August 2014, September 2014, December 2014 and June 2015. As amended, the LSA provided a total commitment of $25.0 million, available in four draws. Borrowings under the LSA were collateralized by substantially all of the Company's assets, except the Company's intellectual property and assets under capital lease. The first draw of $10.0 million, ("Tranche 1"), was issued during March 2014 and was used in its entirety to repay outstanding principal under a previous credit facility. The second draw of $5.0 million, ("Tranche 2"), was issued during September 2014. The third draw ("Tranche 3") in the amount of $5.0 million was issued in March 2015, and the fourth and final draw ("Tranche 4") in the amount of $5.0 million was issued in June 2015.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Long-term debt (Continued)

Each draw was to be repaid in monthly installments, comprised of interest-only monthly payments until May 2016, when installments of interest and principal calculated over a thirty-month amortization period commenced. A balloon payment of the entire principal balance outstanding on October 1, 2017 and all accrued but unpaid interest thereunder was due and payable on October 1, 2017. The interest rate was 9% per annum for Tranche 1 and Tranche 4 and 10.5% per annum for Tranche 2 and Tranche 3. An end of term charge of $1.1 million was payable at the earliest to occur of (1) October 1, 2017, (2) the date the Company prepaid its outstanding Secured Obligations, as defined therein, or (3) the date the Secured Obligations became due and payable. As such, the end of term charge of $1.1 million was paid on May 11, 2016 when the Company prepaid its outstanding Secured Obligations, as defined therein.

In connection with the LSA, the Company issued the Hercules Warrants which consisted of 60,000 Series C warrants in March 2014 and 110,000 Series C warrants in September 2014 at the then current price of $5.00 per share. The Hercules Warrants became warrants with a term of five years for the purchase of 70,833 shares of common stock at a price of $12.00 per share upon the closing of the Company's IPO and were therefore reclassified from warrant liability to Additional Paid in Capital within Stockholders' Equity at July 22, 2015.

LSA end of term charge amortization totaled $121,000 and $311,000 for the years ended December 31, 2016 and 2015, respectively. LSA debt discount amortization charged to interest expense totaled $104,000 and $265,000 for the years ended December 30, 2016 and 2015, respectively.

The early prepayment of the LSA with some of the proceeds from the Facility resulted in a $1,187,000 loss on debt extinguishment which is separately shown in the consolidated statement of operations for the year ended December 31, 2016.

10% subordinated related party note: The Company had a Note in the aggregate principal amount of $5.9 million that was issued by the Company to Essex which was to mature in March 2017. Interest was to be accrued and added to the principal balance until such time as the Company achieved positive EBITDA for three consecutive months. During the year ended December 31, 2016, interest expense of $263,000 was accrued. On May 11, 2016, the Company prepaid the $5.9 million outstanding aggregate principal and $1.3 million in accrued and unpaid interest.

Capital lease obligations to related party: As described in Notes 7 and 17, during the years ended December 31, 2017, 2014 and 2013, the Company entered into agreements with Essex for the sale-leaseback of existing and newly acquired assets with a total capitalized cost of $3.2 million, $795,000 and $5.5 million, respectively, which are classified as capital leases. The approximate imputed interest rate on these leases is 14.9%, 14.5% and 14.5%, respectively. Interest expense on these leases was $263,000, $204,000 and 467,000 for the years ended December 31, 2017, 2016 and 2015 respectively.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Long-term debt (Continued)

Future minimum capital lease payments through the years ending December 31, 2020 are as follows:

Year ending:	**December 31, (in thousands)**
2018	$ 1,235
2019	1,235
2020	776
Total minimum lease payments	$ 3,246
Less amount representing interest	568
Future minimum lease payments	$ 2,678

Future principal payments of long-term debt, including capital leases, are as follows:

Year ending:	**December 31, (in thousands)**
2018	$ 896
2019	16,039
2020	15,742
2021	15,000
2022	15,000
Thereafter	
Future principal payments	$ 62,677
Less unamortized debt discount	(2,843)
Less current portion of long-term debt	(896)
Total long-term debt	$ 58,938

Note 12. Common stock

On July 28, 2015, the Company closed its initial public offering ("IPO") whereby the Company sold 5,520,000 shares of common stock, at a public offering price of $15.00 per share, which includes 720,000 shares of common stock resulting from the underwriters' exercise of their over-allotment option at the IPO price on July 23, 2015. Proceeds from the Company's IPO, net of underwriting discounts and commissions and other offering costs, were $75.0 million.

In connection with the IPO, the Company's Board of Directors approved a 1-for-2.4 reverse stock split of the Company's common stock which also resulted in a proportional adjustment to the conversion ratios of the preferred stock and the preferred stock warrants. All references to common stock and per share amounts in these condensed financial statements and accompanying footnotes have been retroactively adjusted for all periods presented to give effect to this reverse stock split.

In February 2017, the Company closed an underwritten public offering of 5,750,000 shares of its common stock at a public offering price of $5.00 per share, which included 750,000 shares of its common stock resulting from the underwriters' exercise of their over-allotment option on February 17, 2017. Deerfield, the Company's senior lender, participated in the purchase of the Company's common shares as part of this public offering, and as a result, is now classified as a related party. The net

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Common stock (Continued)

proceeds to the Company from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by the Company, were approximately $26.7 million.

On June 30, 2017, the Company closed an underwritten public offering of 4,800,000 shares of the its common stock at a public offering price of $6.25 per share for total proceeds of $30.0 million before estimated offering costs of $0.2 million. The Company also granted the underwriters a 30-day option to purchase up to an additional 720,000 shares of its common stock which was exercised in full on July 26, 2017. The net proceeds to the Company through July 26, 2017 from this offering, after deducting offering expenses payable by the Company, were approximately $34.3 million.

The shares of common stock for both the June 2017 and February 2017 offerings were offered pursuant to a shelf registration statement on Form S-3, including a base prospectus, filed by us on August 1, 2016, and declared effective by the SEC, on August 12, 2016. This shelf registration statement covers the offering, issuance and sale by the Company of up to an aggregate of $125.0 million of its common stock, preferred stock, debt securities, warrants and/or units (the "Shelf"). The Company simultaneously entered into a sales agreement with Cowen and Company, LLC, as sales agent, to provide for the offering, issuance and sale by the Company of up to $40.0 million of its common stock from time to time in "at-the-market" offerings under the Shelf (the "Sales Agreement").

During the year ended December 31, 2017, the Company sold an aggregate 749,639 shares of common stock under the Sales Agreement in February 2017, at an average sale price of approximately $5.01 per share for gross proceeds of $3.7 million and net proceeds of $3.6 million and paying total compensation to the sales agent of approximately $0.1 million. As of December 31, 2017, $58.0 million of the Company's common stock, preferred stock, debt securities, warrants and/or units remained available to be sold pursuant to the Shelf, including $36.2 million of the Company's common stock which remained available to be sold under the Sales Agreement, subject to certain conditions specified therein.

On October 26, 2017, Deerfield provided a conversion notice electing to convert the entire $6.6 million of Convertible Notes into shares of the Company's common stock at a conversion price of $7.08 per share. The conversion price was based on 95% of the average of the volume weighted average prices per share of the Company's common stock on the NASDAQ Global Market for the three trading day period immediately preceding such conversion. This resulted in issuing 929,967 shares of the Company's common stock to Deerfield on this date and the Convertible Notes were cancelled.

The Company never declared or paid any dividends on its capital stock. The Company currently intends to retain all available funds and any future earnings, if any, to fund the development and expansion of its business, and the Company does not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be made at the discretion of our board of directors. The Company's ability to pay dividends on its common stock is limited by restrictions under the terms of our credit facility with Deerfield. In addition, any future indebtedness that the Company may incur could preclude it from paying dividends.

Note 13. Share-based Compensation

Share-based Compensation Plans

In July 2015, the Company adopted the Neos Therapeutics, Inc. 2015 Stock Option and Incentive Plan ("2015 Plan") which became effective immediately prior to the closing of the IPO and initially had

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Share-based Compensation (Continued)

767,330 shares of common stock reserved for issuance. On January 1, 2016 and each January 1 thereafter, the number of shares of common stock reserved and available for issuance under the 2015 Plan shall be cumulatively increased by five percent of the number of shares of stock issued and outstanding on the immediately preceding December 31 or such lesser number of shares determined by the administrator of the 2015 Plan. Accordingly, on January 1, 2018 and 2017, the Company added 1,449,847 shares and 803,049 shares, respectively, to the option pool. The 2015 Plan superseded the Neos Therapeutics, Inc. 2009 Equity Plan ("2009 Plan"), originally adopted in November 2009 and which had 1,375,037 shares reserved and available for issuance. Effective upon closing of the IPO, the Company's board of directors determined not to grant any further awards under the 2009 Plan.

The shares of common stock underlying any awards that are forfeited, canceled, reacquired by the Company prior to vesting, satisfied without the issuance of stock or otherwise terminated (other than by exercise) under the 2009 Plan will be added to the shares of common stock available under the 2015 Plan. This number is subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. The 2015 Plan is administered by the Company's compensation committee. The Company's compensation committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants and to determine the specific terms and conditions of each award, subject to the provisions of the 2015 Plan. The Company's compensation committee may delegate authority to grant certain awards to the Company's chief executive officer. Through December 31, 2017, the Company has granted options, restricted stock and RSUs. The exercise price per share for the stock covered by a stock award granted shall be determined by the administrator at the time of grant but shall not be less than 100 percent of the fair market value on the date of grant. Unexercised stock awards under the 2015 Plan expire after the earlier of 10 years or termination of employment, except in the case of any unexercised vested options, which generally expire 90 days after termination of employment.

The 2009 Plan allowed the Company to grant options to purchase shares of the Company's common stock and to grant restricted stock awards to members of its management and selected members of the Company's board of directors. Restricted stock awards are recorded as deferred compensation and amortized into compensation expense, on a straight-line basis over a defined vesting period ranging from 1 to 48 months. Options were granted to officers, employees, nonemployee directors and consultants, and independent contractors of the Company. The Company also granted performance based awards to selected management. The performance options vested over a three-year period based on achieving certain operational milestones and the remaining options vest in equal increments over periods ranging from two to four years. Unexercised options under the 2009 Plan expire after the earlier of 10 years or termination of employment, except in the case of any unexercised vested options, which generally expire 90 days after termination of employment. All terminated options are available for reissuance under the 2015 Plan. Since the inception of the 2015 Plan through December 31, 2017, 9,304 shares related to forfeited 2009 Plan options and 33,801 shares related to the surrender of restricted stock were added to the shares available under the 2015 Plan. During year ended December 31, 2017, 1,804 shares related to forfeited 2009 Plan options and 14,895 shares related to the surrender of restricted stock were added to the shares available under the 2015 Plan. As of December 31, 2017, 594,665 shares of common stock remain available for grant under the 2015 Plan.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Share-based Compensation (Continued)

Share-based Compensation Expense

The Company has reported share-based compensation expense for the years ended December 31, 2017, 2016 and 2015, respectively, in its condensed consolidated statements of operations as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cost of goods sold	$ 390	$ 311	$ 112
Research and development	394	304	73
Selling and marketing	913	723	211
General and administrative	2,354	2,122	785
	$ 4,051	$ 3,460	$ 1,181

The total share based compensation expense included in the table above is attributable to stock options, RSUs and restricted stock of $3.9 million, $86,000 and $71,000, respectively, for the year ended December 31, 2017. The total share based compensation expense included in the table above is attributable to stock options and restricted stock of $3.4 million and $91,000, respectively, for the year ended December 31, 2016. The total share based compensation expense included in the table above is attributable to stock options and restricted stock of $1.1 million and $94,000, respectively, for the year ended December 31, 2015.

As of December 31, 2017, there was $6.5 million of compensation costs adjusted for any estimated forfeitures, related to non-vested stock options and RSUs granted under the Company's equity incentive plans not yet recognized in the Company's financial statements. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.0 years for stock options and 3.4 years for RSUs. There is no unrecognized compensation cost associated with grants of restricted stock.

Stock Options

During the year ended December 31, 2017, the Company's board of directors granted 570,432 options.

The Company estimates the fair value of all stock options on the grant date by applying the Black-Scholes option pricing valuation model. The application of this valuation model involves assumptions that are highly subjective, judgmental and sensitive in the determination of compensation cost. Prior to the IPO, given the absence of an active market for the Company's common stock prior to its IPO, the Company's board of directors was required to estimate the fair value of its common stock at the time of each option grant primarily based upon valuations performed by a third-party valuation firm.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Share-based Compensation (Continued)

The weighted-average key assumptions used in determining the fair value of options granted during the period indicated are as follows:

	Year Ended December 31,		
	2017	2016	2015
Estimated dividend yield	0%	0%	0%
Expected stock price volatility	60%	60%	60%
Weighted-average risk-free interest rate	2.01%	1.18%	1.60%
Expected life of option in years	6.06	6.15	5.00
Weighted-average option fair value at grant	$ 4.090	$ 5.800	$ 9.723

A summary of outstanding and exercisable options as of December 31, 2017, 2016 and 2015, and the activity from December 31, 2014 through December 31, 2017, is presented below:

	Number of Options	Weighted-Average Exercise Price	Intrinsic Value (in thousands)
Outstanding at December 31, 2014	511,775	$ 3.684	$ 2,883
Exercisable at December 31, 2014	150,109	$ 1.467	$ 1,179
Granted	883,537	18.789	
Exercised	(38,307)	1.928	
Expired, forfeited or cancelled	(4,722)	2.547	
Outstanding at December 31, 2015	1,352,283	$ 13.607	$ 964
Exercisable at December 31, 2015	229,000	$ 3.385	$ 2,504
Granted	859,257	10.385	
Exercised	(10,886)	1.231	
Expired, forfeited or cancelled	(93,310)	17.780	
Outstanding at December 31, 2016	2,107,344	$ 12.173	$ 1,128
Exercisable at December 31, 2016	595,424	$ 9.715	$ 881

Granted	570,432		7.220		
Exercised	(1,249)		0.223		
Expired, forfeited or cancelled	(221,554)		10.325		
Outstanding at December 31, 2017	2,454,973	$	11.195	$	4,764
Exercisable at December 31, 2017	1,137,766	$	10.919	$	2,890

The weighted-average remaining contractual life of options outstanding and exercisable on December 31, 2017 was 7.9 and 7.2 years, respectively. The option exercise price for all options granted in the year ended December 31, 2017 ranged from $7.00 to $9.10 per share.

Restricted Stock Units

On May 1, 2017, the Company granted 78,750 RSUs to members of its management which vest in four equal annual installments, beginning May 1, 2018. On October 2, 2017, the Company granted

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Share-based Compensation (Continued)

6,250 RSUs to a member of its management which vest in four equal annual installments, beginning October 2, 2018. The Company had not issued any RSUs previously.

A summary of outstanding RSUs as of December 31, 2017 and 2016 and the activity from December 31, 2016 through December 31, 2017, is presented below:

	Number of RSUs	Weighted-Average Fair Value
Outstanding at December 31, 2016		$
Granted	85,000	$ 7.15
Exercised		
Expired, forfeited or cancelled		
Outstanding at December 31, 2017	85,000	$ 7.15

The weighted-average remaining contractual life of RSUs outstanding on December 31, 2017 was 9.4 years.

Restricted stock

The Company did not issue any shares of restricted stock for the years ended December 31, 2017, 2016 and 2015. On October 16, 2017, October 17, 2016 and October 16, 2015, 14,895 shares, 9,709 shares and 9,197 shares, respectively, of restricted stock were surrendered by the holder to the Company to cover taxes associated with vesting of restricted stock. The surrendered shares of restricted stock were added to the shares available under the 2015 Plan.

The Company had no unvested restricted stock as of December 31, 2017, and had 35,513 and 71,025 shares of unvested restricted stock with a weighted average fair value of $2.55 and $2.55 as of December 31, 2016 and 2015, respectively. For the years ended December 31, 2017, 2016 and 2015, there were no shares of restricted stock granted or forfeited.

Note 14. Treasury stock

The Company has the authority to repurchase common stock from former employees, officers, directors or other persons who performed services for the Company at the lower of the original purchase price or the then-current fair market value. On October 16, 2017, October 17, 2016 and October 16, 2015, 14,895 shares, 9,709 shares and 9,197 shares, respectively, of restricted stock were surrendered by the holder to the Company to cover taxes associated with vesting of restricted stock and such shares were added back into the treasury stock of the Company, increasing total treasury stock to 33,801 shares as of December 31, 2017. On February 19, 2015, the Company's board of directors approved the cancellation of the Company's 55,905 shares of treasury stock which had been repurchased at the original purchase price of $0.002 in 2013.

Note 15. Commitments and contingencies

Registration Payment Arrangement: On June 1, 2017, in conjunction with the Amendment to the Facility and the related issuance of the Convertible Notes, the Company entered into the Registration Agreement which required the Company to file a registration statement with the SEC to register the

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Commitments and contingencies (Continued)

Registrable Securities (see Note 11) within 30 days from June 1, 2017, which was to become effective per the SEC no later than 75 days thereafter. The Company filed a registration statement on Form S-3 to comply with the Registration Agreement on June 30, 2017, which became effective on July 11, 2017. This filing covered 940,924 shares, which is the number of shares that would be issued at the floor conversion rate of $7.00 per share. The Company is also required to, among other things, maintain the effectiveness of such registration statement, continue to file the required SEC filings on a timely basis, use its best efforts to ensure that the registered securities are listed on each securities exchange on which securities of the same class or series as issued by the Company are then listed and comply with any FINRA requests. Upon any Registration Failure, the Company shall pay additional damages to the Holder for each 30-day period (prorated for any partial period) after the date of such Registration Failure in an amount in cash equal to two percent of the original principal amount of the Convertible Notes. The Company's obligations with respect to each registration end at the date which is the earlier of (a) when all of the Registrable Securities covered by such registration have been sold or (b) when Deerfield or any of its transferee or assignee under the Registration Agreement cease to hold any of the Registrable Securities. For each registration filing, the Company shall bear all reasonable expenses, other than underwriting discounts and commissions, and shall reimburse Deerfield or any assignee or transferee for up to $25,000 in legal fees. The Company currently expects to satisfy all of its obligations under the Registration Agreement and does not expect to pay any damages pursuant to this agreement; therefore, no liability has been recorded.

Patent Infringement Litigation: On October 31, 2017, the Company received a paragraph IV certification from Teva Pharmaceuticals USA, Inc. ("Teva") advising the Company that Teva has filed an ANDA with the FDA for a generic version of Cotempla XR-ODT, in connection with seeking to market its product prior to the expiration of patents covering Cotempla XR-ODT. The certification notice alleged that the three U.S. patents listed in the FDA's Orange Book for Cotempla XR-ODT, one with an expiration date in April 2026 and two with expiration dates in June 2032, will not be infringed by Teva's proposed product, are invalid and/or are unenforceable. On December 13, 2017, the Company filed a patent infringement lawsuit in federal district court in the District of Delaware against Teva alleging that Teva infringed the Company's Cotempla XR-ODT patents by submitting to the FDA an ANDA seeking to market a generic version of Cotempla XR-ODT prior to the expiration of the Company's patents. This lawsuit automatically stayed, or barred, the FDA from approving Teva's ANDA for 30 months or until a district court decision that is adverse to the asserted patents is rendered, whichever is earlier. The Company intend to vigorously enforce its intellectual property rights relating to Cotempla XR-ODT.

On July 25, 2016, the Company received a paragraph IV certification from Actavis Laboratories FL, Inc. ("Actavis") advising the Company that Actavis had filed an Abbreviated New Drug Application ("ANDA") with the FDA for a generic version of Adzenys XR-ODT. The certification notice alleged that the four U.S. patents listed in the FDA's Orange Book for Adzenys XR-ODT, one with an expiration date in April 2026 and three with expiration dates in June 2032, will not be infringed by Actavis's proposed product, are invalid and/or are unenforceable. On September 1, 2016, the Company filed a patent infringement lawsuit in federal district court against Actavis alleging that Actavis infringed the Company's Adzenys XR-ODT patents by submitting to the FDA an ANDA seeking to market a generic version of Adzenys XR-ODT prior to the expiration of the Company's patents. On October 17, 2017, the Company entered into a Settlement Agreement (the "Settlement Agreement") and a Licensing Agreement (the "Licensing Agreement" and collectively with the Settlement

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Commitments and contingencies (Continued)

Agreement, the "Agreement") with Actavis. The Agreement resolves all ongoing litigation involving our Adzenys XR-ODT patents and Actavis's ANDA. Under the Agreement, the Company granted Actavis the right to manufacture and market its generic version of Adzenys XR-ODT under the ANDA beginning on September 1, 2025, or earlier under certain circumstances. A stipulation and order of dismissal was entered by the U.S. District Court for the District of Delaware. The Agreement has been submitted to the applicable governmental agencies.

Other Litigation: On March 7, 2018, the Company received a citation advising the Company that the County of Harris, Texas (the "County") filed a lawsuit on December 13, 2017 against the Company and various other alleged manufacturers, promoters, sellers and distributors of opioid pharmaceutical products. Through this lawsuit, the County seeks to recoup as damages some of the expenses it allegedly has incurred to combat opioid use and addiction. The County also seeks punitive damages, disgorgement of profits and attorneys' fees. While the Company believes that the lawsuit is without merit and intend to vigorously defend against it, the Company is not able to predict at this time whether this proceeding will have a material impact on its results of operations.

Defined contribution plans: The Company maintains a defined contribution plan covering substantially all employees under the provisions of Section 401(k) of the Internal Revenue Code ("Code"). As the Company has elected a Safe-Harbor provision for the 401(k) Plan, participants are always fully vested in their employer contributions. Employees may contribute annually up to the lesser of 50% of their compensation or the applicable limit established by the Code. Effective January 1, 2015, the Company amended its 401(k) plan to provide a Company matching contribution on 100% of a participant's contribution for the first 3% of their salary deferral and 50% of the next 2% of their salary deferral. For the years ended December 31, 2017, 2016 and 2015, the Company recorded $419,000, $371,000 and $186,000, respectively, of expense for 401(k) contributions.

Operating leases: The Company leases its Grand Prairie, Texas office space and manufacturing facility under an operating lease which expires in 2024. In addition, the Company has a 60-month lease for office space in Blue Bell, Pennsylvania for its commercial operations which commenced on May 1, 2016. Total future minimum lease payments under these operating leases with noncancelable terms are as follows:

Year ending December 31,	**(in thousands)**
2018	$ 1,104
2019	1,109
2020	1,160
2021	1,058
2022	1,055
Thereafter	2,162
Future minimum lease payments	$ 7,648

The Company accounts for rent expense on long-term operating leases on a straight-line basis over the life of the lease resulting in a deferred rent balance of $1,083,000 and $1,174,000 at December 31, 2017 and December 31, 2016, respectively. The Company is also liable for a share of operating expenses for both premises as defined in the lease agreements. The Company's share of these operating expenses for both locations was $243,000 and $230,000 for the years ended December 31, 2017 and

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Commitments and contingencies (Continued)

2016. The Company's share of these operating expenses for the Grand Prairie facility was $237,000 for the years ended December 31, 2015. Rent expense for these leases, excluding the share of operating expenses, was $1,010,000, $1,011,000 and $884,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Cash incentive bonus plan: In July 2015, the Company adopted the Senior Executive Cash Incentive Bonus Plan ("Bonus Plan"). The Bonus Plan provides for cash payments based upon the attainment of performance targets established by the Company's compensation committee. The payment targets will be related to financial and operational measures or objectives with respect to the Company, or corporate performance goals, as well as individual targets. The Company has recorded $701,000, $464,000 and $552,000 of compensation expense for the years ended December 31, 2017, 2016 and 2015, respectively, under the Bonus Plan.

Note 16. License agreements

On October 17, 2017, the Company entered into the Agreement with Actavis. Under the Licensing Agreement, the Company granted Actavis a non-exclusive license to certain patents owned by the Company by which Actavis has the right to manufacture and market its generic version of Adzenys XR-ODT under its ANDA beginning on September 1, 2025, or earlier under certain circumstances. The Licensing Agreement has been submitted to the applicable governmental agencies (see Note 15).

On July 23, 2014, the Company entered into a Settlement Agreement and an associated License Agreement (the "2014 License Agreement") with Shire LLC ("Shire") for a non-exclusive license to certain patents for certain activities with respect to the Company's New Drug Application (the "NDA") No. 204326 for an extended-release orally disintegrating amphetamine polistirex tablet. In accordance with the terms of the 2014 License Agreement, following the receipt of the approval from the FDA for Adzenys XR-ODT, the Company paid a lump sum, non-refundable license fee of an amount less than $1.0 million in February 2016. The Company is paying a single digit royalty on net sales of Adzenys XR-ODT during the life of the patents.

On January 26, 2017, the Company sent a letter to Shire, notifying Shire that the Company has made a Paragraph IV certification to the FDA that in the Company's opinion and to the best of its knowledge, the patents owned by Shire that purportedly cover the Company's Adzenys ER are invalid, unenforceable and/or will not be infringed by the commercial manufacture, use or sale of Adzenys ER. On March 6, 2017, the Company entered into a License Agreement (the "2017 License Agreement") with Shire, pursuant to which Shire granted the Company a non-exclusive license to certain patents owned by Shire for certain activities with respect to the Company's NDA No. 204325 for an extended-release amphetamine liquid suspension. In accordance with the terms of the 2017 License Agreement, following the receipt of the approval from the FDA for Adzenys ER, the Company paid a lump sum, non-refundable license fee of an amount less than $1.0 million in October 2017. The Company will also pay a single digit royalty on net sales of Adzenys ER during the life of the relevant Shire patents.

Such license fees are capitalized as an intangible asset and are amortized into cost of goods sold over the life of the longest associated patent. The royalties are recorded as cost of goods sold in the same period as the net sales upon which they are calculated.

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. License agreements (Continued)

Additionally, each of the 2014 and 2017 License Agreements contains a covenant from Shire not to file a patent infringement suit against the Company alleging that Adzenys XR-ODT or Adzenys ER, respectively, infringes the Shire patents.

Note 17. Related party transactions

As described in Note 7, in February 2017, the Company entered into an agreement with a related party for the sale-leaseback of newly acquired assets of up to $5.0 million to finance the Company's capital expenditures. Each lease under this master agreement will be for an initial term of 36 months and will have an option to purchase the equipment at the end of the respective lease that management considers to be bargain purchase option. Under this master agreement, the Company entered into leases and sold assets with a total capitalized cost of $481,000 and $2,742,000 at effective interest rates of 14.3% and 14.9% on February 13, 2017 and June 30, 2017, respectively. Also, in 2012, the Company negotiated financing arrangements with the same related party that provided for the sale-leaseback of up to $6.5 million of the Company's property and equipment. From the 2012 financing arrangements, the Company has no lease obligation remaining at December 31, 2017 and has a lease obligation of $445,000 at December 31, 2016. The total lease obligation under all related party financing arrangements was $2,678,000 and $445,000 at December 31, 2017 and 2016, respectively.

In February 2017, the Company closed an underwritten public offering of 5,750,000 shares of its common stock at a public offering price of $5.00 per share, which includes 750,000 shares of the Company's common stock resulting from the underwriters' exercise of their over-allotment option at the public offering price on February 17, 2017 (see Note 12). On June 30, 2017, the Company closed an underwritten public offering of 4,800,000 shares of its common stock at a public offering price of $6.25 per share for total proceeds of $30.0 million before estimated offering costs of $0.2 million. The Company also granted the underwriters a 30-day option to purchase up to an additional 720,000 shares of its common stock (see Note 12). Deerfield, the Company's senior lender, participated in the purchase of the Company's common shares as part of both public offerings, and as a result, is now classified as a related party. The Company is obligated under a $60.0 million senior secured credit Facility that was issued by the Company to Deerfield. On June 1, 2017, the Company and Deerfield entered into an Amendment to the Company's existing Facility with Deerfield which extended the date to repay the Accrued Interest under the Facility to June 1, 2018, which may be extended to June 1, 2019 at the election of the Company if certain conditions have been met as specified in the Amendment. The right to payment of the Accrued Interest was memorialized in the form of Convertible Notes issued to Deerfield on the Amendment Date. On October 26, 2017, Deerfield provided a conversion notice electing to convert the entire $6.6 million of Convertible Notes into shares of the Company's common stock at a conversion price of $7.08 per share. The conversion price was based on 95% of the average of the volume weighted average prices per share of the Company's common stock on the NASDAQ Global Market for the three trading day period immediately preceding such conversion. This resulted in issuing 929,967 shares of the Company's common stock to Deerfield on this date and the Convertible Notes were cancelled (see Note 11).

Note 18. Selected Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Operating results for these periods are not necessarily indicative of the operating results for a full year. Historical

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Selected Quarterly Financial Data (Unaudited) (Continued)

results are not necessarily indicative of results to be expected in future periods. Selected quarterly financial data for years ended December 31, 2017 and 2016, are as follows (in thousands, except share and per share amounts):

	Quarter Ended			
	March 31, 2017	**June 30, 2017**	**September 30, 2017**	**December 31, 2017**
Net sales(1)	$ 5,627	$ 4,909	$ 6,695	$ 7,787
Gross profit(1)	1,012	2,333	4,273	5,009
Net loss attributable to common stock	$ (17,090)	$ (18,674)	$ (16,258)	$ (14,225)
Weighted average common shares outstanding used to compute net loss per share, basic and diluted(2)	19,624,712	22,613,382	27,884,983	28,746,608
Net loss per share of common stock, basic and fully diluted(3):	$ (0.87)	$ (0.83)	$ (0.58)	$ (0.49)

	Quarter Ended			
	March 31, 2016	**June 30, 2016**	**September 30, 2016**	**December 31, 2016**
Net sales(1)	$ 2,583	$ 1,485	$ 1,583	$ 3,503
Gross (loss)(1)	(173)	(858)	(735)	(517)
Net loss attributable to common stock	$ (12,614)	$ (26,539)	$ (25,806)	$ (18,374)
Weighted average common shares outstanding used to compute net loss per share, basic and diluted(2)	16,025,318	16,050,138	16,070,705	16,062,685
Net loss per share of common stock, basic and fully diluted(3):	$ (0.79)	$ (1.65)	$ (1.61)	$ (1.14)

(1) The Company began selling Adzenys XR-ODT on May 16, 2016 and initiated an early experience program for Cotempla XR-ODT with limited product availability on September 5, 2017 before launching this product nationwide on October 2, 2017, and has

determined that at this time it cannot reliably estimate expected returns of the products at the time of shipment to wholesalers. Accordingly, the Company defers recognition of revenue and related cost of goods sold on product shipments of Adzenys XR-ODT and Cotempla XR-ODT until the right of return no longer exists, which occurs at the earlier of the time Adzenys XR-ODT and Cotempla XR-ODT units are dispensed through patient prescriptions or expiration of the right of return. Thus, the amounts included in Net Sales and Gross profit (loss) for Adzenys XR-ODT and Cotempla XR-ODT reflect only patient prescriptions dispensed to date. Also, the net loss amounts reflect the sales and marketing expenses associated with the commercialization of Adzenys XR-ODT and Cotempla XR-ODT.

(2)

In February 2017, the Company closed an underwritten public offering of 5,750,000 shares of its common stock at a public offering price of $5.00 per share, which included 750,000 shares of its common stock resulting from the underwriters' exercise of their over-allotment option on February 17, 2017. On June 30, 2017, the Company closed an underwritten public offering of 4,800,000 shares of the its common stock at a public offering price of $6.25 per share for total proceeds of $30.0 million before estimated offering costs of $0.2 million. The Company also granted the underwriters a 30-day option to purchase up to an additional 720,000 shares of its

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Neos Therapeutics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Selected Quarterly Financial Data (Unaudited) (Continued)

common stock which was exercised in full on July 26, 2017. On October 26, 2017, Deerfield provided a conversion notice electing to convert the entire $6.6 million of Convertible Notes into shares of the Company's common stock at a conversion price of $7.08 per share. The conversion price was based on 95% of the average of the volume weighted average prices per share of the Company's common stock on the NASDAQ Global Market for the three trading day period immediately preceding such conversion. This resulted in issuing 929,967 shares of the Company's common stock to Deerfield on this date and the Convertible Notes were cancelled. These transactions produced a significant increase in the number of shares outstanding which will impact the year-over-year comparability of the Company's loss per share calculations.

(3)

Loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly loss per share may not necessarily equal the total for the year.

Note 19. Subsequent event

On January 1, 2018, in accordance with the Evergreen Provisions of the 2015 Plan, the Company added 1,449,847 shares to the option pool, increasing the total number of shares reserved and available for issuance under the 2015 Plan to 2,044,512 shares.

Exhibit index

Exhibit number	Description of exhibit
3.1	Fourth Amended and Restated Certificate of Incorporation of the Registrant, as amended and currently in effect (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on September 4, 2015, incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant, as amended and currently in effect (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on September 4, 2015, incorporated herein by reference).
4.1	Form of common stock certificate (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
4.2	Form of warrant to purchase common stock (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.1	Amended and Restated Investors' Rights Agreement, dated as of June 9, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.2	Amendment and Waiver, dated as of February 5, 2016, amending the Amended and Restated Investors' Rights Agreement of the Registrant (Filed as an Exhibit to the Registrant's annual report on Form 10-K (001-37508), filed with the SEC on March 18, 2016, incorporated herein by reference).
10.3+	Neos Therapeutics, Inc. 2009 Equity Plan (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.4+	Form of option agreements under 2009 Equity Plan (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.5+	Neos Therapeutics, Inc. 2015 Stock Option and Incentive Plan and forms of option agreements thereunder (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.6+	Senior Executive Cash Incentive Bonus Plan (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on November 13, 2015, incorporated herein by reference).
10.7+	Form of Indemnification Agreement between the Registrant and each of its executive officers and directors (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.8	Third Amended and Restated Subordinated Promissory Note, dated as of December 31, 2013, issued to Essex Capital Corporation, as amended (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).

Exhibit number	Description of exhibit
10.9	Loan and Security Agreement, by and between the Registrant, Hercules Technology III, L.P. and Hercules Technology Growth Capital, Inc., in its capacity as administrative agent for itself and Hercules Technology III, L.P. dated as of March 28, 2014, as amended (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.10	Settlement Agreement, by and between the Registrant and Shire LLC, dated as of July 23, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.11	License Agreement, by and between the Registrant and Shire LLC, dated as of July 23, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.12	Commercial Lease Agreement, by and between Riverside Business Green, L.P., and Neos Therapeutics, LP, dated as of June 29, 1999, as amended (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.13	Supply Agreement, by and between the Registrant and Coating Place, Inc., dated as of August 28, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 26, 2015, incorporated herein by reference).
10.14	Asset Purchase Agreement, by and between the Registrant and Cornerstone BioPharma, Inc., dated as of August 28, 2014 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on June 19, 2015, incorporated herein by reference).
10.15+	Amended and Restated Employment Agreement, by and between the Registrant and Vipin Garg, dated as of July 10, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.16+	Amended and Restated Employment Agreement, by and between the Registrant and Richard Eisenstadt, dated as of July 10, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.17+	Amended and Restated Employment Agreement, by and between the Registrant and Thomas McDonnell, dated as of July 10, 2015 (Filed as an Exhibit to the Registrant's registration statement on Form S-1 (333-205106), filed with the SEC on July 13, 2015, incorporated herein by reference).
10.18	License Agreement by and among the Registrant and Shire LLC, dated as of March 6, 2017. (Filed as an Exhibit to the Registrant's quarterly report on Form 10-Q (001-37508), filed with the SEC on May 10, 2017, incorporated herein by reference).
10.19	First Amendment to Facility Agreement, dated as of June 1, 2017, by and among Neos Therapeutics, Inc., Deerfield Private Design Fund III, L.P. and Deerfield Special Situation Fund, L.P. (including schedules and exhibits thereto). (Filed as an Exhibit to the Registrant's current report on Form 8-K, filed with the SEC on June 5, 2017, incorporated herein by reference).
10.20	Registration Rights Agreement, dated June 1, 2017, by and among Neos Therapeutics, Inc., Deerfield Private Design Fund III, L.P. and Deerfield Special Situation Fund, L.P. (Filed as an Exhibit to the Registrant's current report on Form 8-K, filed with the SEC on June 5, 2017, incorporated herein by reference).

Exhibit number	Description of exhibit
10.21*	Settlement Agreement, by and between the Registrant and Actavis Laboratoris FL, Inc., dated as of October 17, 2017.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of RSM US LLP.
24.1*	Power of Attorney (included on signature page).
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Link Document.

*
Filed herewith.

**
The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment and this exhibit has been submitted separately to the SEC.

+
Indicates a management contract or compensatory plan.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Grand Prairie, State of Texas, on the 16th day of March 2018.

NEOS THERAPEUTICS, INC.

By: /s/ VIPIN GARG

Vipin Garg
Chief Executive Officer

Power of Attorney

We, the undersigned directors and officers of Neos Therapeutics, Inc. (the "Company"), hereby severally constitute and appoint Vipin Garg and Richard Eisenstadt, and each of them singly, our true and lawful attorneys, with full power to them, and to each of them singly, to sign for us and in our names in the capacities indicated below, to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ VIPIN GARG Vipin Garg	Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2018
/s/ RICHARD EISENSTADT Richard Eisenstadt	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2018
/s/ ALAN HELLER Alan Heller	Director	March 16, 2018
/s/ GREG ROBITAILLE Greg Robitaille	Director	March 16, 2018
/s/ BETH HECHT Beth Hecht	Director	March 16, 2018
/s/ BRYANT FONG Bryant Fong	Director	March 16, 2018

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Signature	Title	Date
/s/ JOHN SCHMID John Schmid	Director	March 16, 2018
/s/ PAUL EDICK Paul Edick	Director	March 16, 2018

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SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

		Balance at beginning of period	Additions charged to costs and expenses	Due to (paid to) third party and deferred until sales recognized	Deductions and Payments	Balance at end of period
For the year ended December 31, 2017						
Allowance for chargebacks	**(1)**	$ 779	$ 10,146	$	$ (10,109)	$ 816
Allowance for cash discounts	**(1)**	171	1,814	(47)	(1,601)	337
Sales offers	**(2)**		25,880		(25,880)	
Reserve for wholesaler fees	**(2)**	509	8,286	684	(7,092)	2,387
Reserve for returns	**(2)**	884	167		(158)	893
Rebates	**(2)**	421	6,639		(4,373)	2,687
For the year ended December 31, 2016						
Allowance for chargebacks	**(1)**	940	10,504		(10,665)	779
Allowance for cash discounts	**(1)**	99	772	(13)	(687)	171
Sales offers	**(2)**		3,746		(3,746)	
Reserve for wholesaler fees	**(2)**	361	2,838	144	(2,834)	509
Reserve for returns	**(2)**	429	491		(36)	884
Rebates	**(2)**	110	396		(85)	421
For the year ended December 31, 2015						
Allowance for chargebacks	**(1)**	190	5,359		(4,609)	940
Allowance for cash discounts	**(1)**	14	194		(109)	99
Sales offers	**(2)**					
Reserve for wholesaler fees	**(2)**	117	914		(670)	361
Reserve for returns	**(2)**	212	242		(25)	429
Rebates	**(2)**	9	103		(2)	110

(1) Shown as a reduction of accounts receivable and gross sales or deferred sales as indicated in column heading.

(2) Shown as accrued expenses and a reduction of gross sales.

Explanation of Responses: