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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **June 9, 2020**

Supernus Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**001-35518**		**20-2590184**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)		(I.R.S. Employer Identification No.)
9715 Key West Avenue	**Rockville**	**MD**	**20850**
(Address of Principal Executive Offices)			(Zip Code)

Registrant's telephone number, including area code: **(301) 838-2500**

Not Applicable
(Former name or former address, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Exchange Act

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	SUPN	The Nasdaq Global Market

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). ☐

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

EXPLANATORY NOTE

On June 11, 2020, Supernus Pharmaceuticals, Inc. (the "Company") filed a Current Report on Form 8-K (the "Original 8-K") reporting that, on June 9, 2020, the Company completed its previously announced acquisition of all of the outstanding equity of USWM Enterprises, LLC ("USWM Enterprises"), comprising the entire issued share capital of USWM Enterprises, pursuant to a Sale and Purchase Agreement with US WorldMeds Partners, LLC, dated April 28, 2020. Under Items 9.01(a) and 9.01(b) of the Original 8-K, the Company stated that the required financial statements and pro forma financial information would be filed by amendment no later than 71 days following the date that the Original 8-K was required to be filed. This Amendment No. 1 amends the Original 8-K to provide the financial statements and pro forma financial information required by Item 9.01 of Form 8-K. No other changes have been made to the Original 8-K. This Current Report on Form 8-K/A should be read in conjunction with the Original 8-K.

The pro forma financial information included in this Current Report on Form 8-K/A has been presented for informational purposes only, in accordance with Article 11 of Regulation S-X. It does not purport to represent the actual results of operations that the Company and USWM Enterprises would have achieved had the Company held the assets of USWM Enterprises during the periods presented in the pro forma financial information. Moreover, it does not represent or purport to represent the future results of operations that the Company may achieve after the acquisition.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

The audited annual financial statements of USWM Enterprises, LLC and Subsidiaries as of and for the years ended December 31, 2019 and 2018 are filed as Exhibit 99.1 to this amendment, and incorporated herein by reference.

The unaudited quarterly financial statements of MDD Enterprises, LLC (formerly USWM Enterprises, LLC) and Subsidiaries for the three months ended March 31, 2020 and 2019 are filed as Exhibit 99.2 to this amendment, and incorporated herein by reference.

(b) Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information of the Company with respect to the transaction described in Item 2.01 of the Original 8-K is filed as Exhibit 99.3 to this amendment and incorporated herein by reference.

(d) Exhibits

Exhibit 23.1	Consent of Dean Dorton Allen Ford, PLLC.
Exhibit 99.1	Audited Consolidated Financial Statements of USWM Enterprises, LLC and Subsidiaries for the years ended December 31, 2019 and 2018.
Exhibit 99.2	Unaudited Condensed Consolidated Financial Statements of MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries for the three months ended March 31, 2020 and 2019.
Exhibit 99.3	Unaudited Pro Forma Condensed Combined Financial Information.
Exhibit 104	The cover page from this Current Report on Form 8-K, formatted in Inline XBRL.

SIGNATURES

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

SUPERNUS PHARMACEUTICALS, INC.

DATED: August 24, 2020

By: /s/ Gregory S. Patrick
Gregory S. Patrick
Senior Vice-President and Chief Financial Officer

DEANDORTON

Consent of Independent Auditors

We agree to the inclusion in this Current Report on Form 8-K/A of Supernus Pharmaceuticals, Inc. of our report, dated March 30, 2020, on our audit of the consolidated financial statements of USWM Enterprises, LLC and Subsidiaries for the years ended December 31, 2019 and 2018.

Dean Dorton Allen Ford, PLLC

Louisville, Kentucky
August 24, 2020

Exhibit 99.1

Consolidated Financial Statements

for

USWM ENTERPRISES, LLC & SUBSIDIARIES

Years ended December 31, 2019 and 2018
with Report of Independent Auditors

CONTENTS

DEANDORTON

Report of Independent Auditors

To the Board of Directors and Members
USWM Enterprises, LLC
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of USWM Enterprises, LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations, members' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USWM Enterprises, LLC and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the financial statements as a whole.

Dean Dotton Allen Ford, PLLC

Louisville, Kentucky
March 30, 2020

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

		2019		2018
Assets				
Current assets				
Cash	$	9,663,586	$	6,342,643
Accounts receivable, net		19,442,010		22,660,738
Other receivables		3,958,972		5,766,150
Inventories		10,094,614		11,220,452
Prepaid expenses and other current assets		3,922,386		4,115,489
Total current assets		47,081,568		50,105,472
Property and equipment, net		9,889,012		10,888,432
Intangible assets, net		33,363,228		47,492,713
Goodwill		20,325,198		20,325,198
Deferred tax assets		30,101,218		32,609,886
Restricted cash		5,508,035		5,246,674
Other assets		1,841,006		1,181,787
Total assets	$	148,109,265	$	167,850,162
Liabilities and Members' Deficit				
Current liabilities				
Line of credit	$	24,128,154	$	17,013,316
Current portion of long-term debt		54,948,561		207,965
Accounts payable		18,756,199		20,123,827
Accrued expenses and other current liabilities		25,274,614		31,543,741
Current portion of deferred revenue		-		3,559,322
Total current liabilities		123,107,528		72,448,171
Long-term debt		87,110,361		154,142,264
Deferred revenue		-		12,161,017
Other liabilities		5,264,124		8,053,218
Total liabilities		215,482,013		246,804,670
Members' deficit				
USWM Enterprises, LLC and Subsidiaries		(52,316,593)		(66,712,040)
Noncontrolling interest		(15,056,155)		(12,242,468)
Total members' deficit		(67,372,748)		(78,954,508)
Total liabilities and members' deficit	$	148,109,265	$	167,850,162

See accompanying notes.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2019 and 2018

	2019	2018
Net product sales	$ 170,404,840	$ 174,642,586
Contract revenues	21,965,622	15,818,109
Total revenues	192,370,462	190,460,695
Cost of product sales	63,471,228	67,868,691
Gross profit	128,899,234	122,592,004
Operating expenses		
Sales and marketing	53,707,726	49,554,899
Commercial operations	26,800,320	25,189,870
Research and development	16,698,655	22,515,661
General and administrative	26,986,132	24,941,142
Manufacturing transition	1,149,678	1,193,237
Amortization of intangible assets	3,040,564	3,210,205
Total operating expenses	128,383,075	126,605,014
Income (loss) from operations before other operating (income) expense	516,159	(4,013,010)
Other operating (income) expense	(21,218,985)	17,500,000
Income (loss) from operations	21,735,144	(21,513,010)
Other income (expense)		
Interest expense	(24,852,923)	(24,865,233)
Other, net	2,836,967	423,555
Total other income (expense)	(22,015,956)	(24,441,678)
Loss before provision for income taxes	(280,812)	(45,954,688)
Income tax (expense) benefit	(2,709,323)	9,251,721
Net loss	(2,990,135)	(36,702,967)
Less: net loss attributable to noncontrolling interest	(2,813,687)	(3,611,067)
Net loss attributable to USWM Enterprises, LLC and Subsidiaries	$ (176,448)	$ (33,091,900)

See accompanying notes.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidated Statements of Members' Deficit

Years ended December 31, 2019 and 2018

	Capital Contributions	Accumulated Deficit: Controlling Interest	Accumulated Deficit: Noncontrolling Interest	Total
Balance December 31, 2017	$ 24,110,454	$ (62,377,754)	$ (8,631,401)	$ (46,898,701)
Net loss	-	(33,091,900)	(3,611,067)	(36,702,967)
Redemption of Class C shares	(320)	-	-	(320)
Issuance of Class A shares	4,647,480	-	-	4,647,480
Balance December 31, 2018	28,757,614	(95,469,654)	(12,242,468)	(78,954,508)
Net loss	-	(176,448)	(2,813,687)	(2,990,135)
Redemption of Class C shares	(105)	-	-	(105)
Issuance of Class D shares	14,572,000	-	-	14,572,000
Appreciation of Class D shares	1,509,294	(1,509,294)	-	-
Balance December 31, 2019	$ 44,838,803	$ (97,155,396)	$ (15,056,155)	$ (67,372,748)

See accompanying notes.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net loss before allocation to noncontrolling interest	$ (2,990,135)	$ (36,702,967)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	5,923,134	4,862,570
Amortization of deferred revenue	(15,720,339)	(10,073,824)
Gain on sale of assets	(21,372,613)	-
Loss on extinguishment of debt	1,080,027	-
Deferred tax assets	2,508,668	(10,030,340)
Provision for obsolete inventory	3,737,138	1,282,743
Noncash interest expense	4,606,657	9,186,656
Loss on disposal of property and equipment	153,628	-
(Increase) decrease in assets		
Accounts receivable	3,218,728	(2,197,425)
Other receivables	1,807,178	(196,143)
Inventories	(2,137,297)	2,277,005
Prepaid expenses and other current assets	193,103	(1,155,569)
Other assets	(793,799)	10,254
Increase (decrease) in liabilities		
Accounts payable	(739,163)	11,120,265
Accrued expenses and other current liabilities	(5,587,216)	6,723,647
Deferred revenue	-	17,500,000
Other liabilities	(3,055,140)	7,961,053
Net cash (used in) provided by operating activities	(29,167,441)	567,925
Cash flows from investing activities		
Capitalized manufacturing transition costs	(4,659,720)	(6,931,740)
Purchase of product rights	(3,192,017)	(880,000)
Purchases of property and equipment	(200,827)	(29,146)
Net proceeds from sale of assets	33,049,941	-
Net cash provided by (used in) investing activities	24,997,377	(7,840,886)

See accompanying notes.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from financing activities		
Proceeds from issuance of debt	-	1,226,559
Payments of long-term debt	(16,081,341)	(205,475)
Payment of extinguishment costs	(1,744,071)	-
Management and administrative services agreements	248,047	-
Net issuance of shares	18,214,895	4,647,160
Net borrowings under line of credit	7,114,838	5,082,412
Net cash provided by financing activities	7,752,368	10,750,656
Net increase in cash and restricted cash	3,582,304	3,477,695
Cash and restricted cash at beginning of year	11,589,317	8,111,622
Cash and restricted cash at end of year	$ 15,171,621	$ 11,589,317
Supplemental cash flow information		
Cash paid for interest	$ 20,365,081	$ 15,454,848
Cash paid for income taxes	$ 882,382	$ 418,979
Noncash investing activity		
Capitalized transition costs reclassified to inventory	$ 2,379,251	$ -
Capitalized intangibles due in subsequent periods	$ 575,000	$ 2,767,017
Capitalized manufacturing transition costs due in subsequent periods	$ -	$ 1,989,551
Liability settled with assets from capitalized manufacturing transition costs	$ -	$ 578,000
Noncash financing activity		
Appreciation of Class D shares	$ 1,509,294	$ -

See accompanying notes.

(1) Business

USWM Enterprises, LLC and Subsidiaries (the Company) develops, licenses, and commercializes specialty pharmaceutical products, which are sold in the United States and internationally. The Company currently markets seven products. The Company's activities are subject to regulation by various governmental agencies in the United States and in other countries.

(2) Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of USWM Enterprises, LLC (Enterprises), and its wholly owned subsidiaries, US WorldMeds Holdings, LLC (Holdings) and US WorldMeds Ventures, LLC (Ventures) and their respective subsidiaries. US WorldMeds, LLC (USWM) is wholly owned by Holdings and is the primary operating subsidiary. Ventures owns 65% of HEMA Biologics, LLC (HEMA), a development stage joint venture with an unrelated company. The accounts of HEMA are included in the Enterprises consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates and Assumptions

Management makes and uses estimates and assumptions that affect reported amounts and disclosures, which can impact all elements of the consolidated financial statements. Such estimates and assumptions are regularly reviewed and revised, if necessary. The estimates are based on complex judgments and assumptions which management believes are reasonable in light of past experience, current conditions and expectations regarding future events, which can be uncertain and unpredictable. Actual results could differ from those estimates, in which case the Company's reported results could be materially affected.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

The Company maintains its cash and cash equivalents in various bank accounts under the legal names of each entity. The Federal Deposit Insurance Corporation (FDIC) insures certain cash balances in the United States up to $250,000 per institution and per legal entity. At times, balances at these financial institutions may exceed the FDIC insurance level.

Restricted Cash

Ventures is required as a condition of its financing agreement to maintain a $5,000,000 cash collateral account in a bank. HEMA is required to maintain a cash collateral account in the amount of $237,500 to secure the payment of potential indebtedness, liabilities and obligations owed by the Company to its bank.

(2) Significant Accounting Policies, continued

Accounts Receivable, Net

Accounts receivable are reported net of an allowance for doubtful accounts. The Company provides an allowance based on historical experience, specifically identified risks, and specific customers. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and the Company ceases collection efforts. The allowance for doubtful accounts was $14,525 and $69,187 as of December 31, 2019 and 2018, respectively.

Inventories and Cost of Product Sales

Inventories are carried at the lower of cost or net realizable value using the specific identification method. Inventories are regularly reviewed for obsolescence, overstocked conditions and marketability, and reserves for losses are established as appropriate.

Cost of product sales consists of the cost of materials, in addition to shipping and handling, distribution, amortization of capitalized manufacturing costs, and royalty expenses.

Long-Lived Assets

Long-lived assets consist of:

Property and equipment are recorded at cost, less accumulated depreciation. Expenditures for repairs and maintenance which do not extend the useful life of the related assets are charged to operating expenses in the consolidated statements of operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of 39 years for building and improvements, 15 years for leasehold improvements and all other assets ranging from three to seven years.

Intangible assets consist of patents, manufacturing transition costs, license agreements and product rights. The cost of these assets, except for certain manufacturing transition costs described in Note 19, is amortized ratably over their expected useful lives. Manufacturing transition costs are amortized over the life of the supply agreement once the project is completed.

Goodwill was recorded in connection with a previous acquisition and represents the excess of consideration paid over the fair value of identifiable tangible and intangible assets under the acquisition method of accounting. The assessment of recoverability first considers qualitative factors related to the Company's business, which is considered a single reporting unit, to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that fair value is less than its carrying amount. A quantitative assessment is performed if the qualitative assessment results in a more-likely-than-not determination or if a qualitative assessment is not performed. The quantitative assessment considers if the carrying amount exceeds its fair value based on estimates of future discounted cash flows and other indicators of value, in which case the goodwill is impaired.

(2) Significant Accounting Policies, continued

Long-Lived Assets, continued

The Company reviews the recoverability of its long-lived assets on a periodic basis (at least annually) in order to identify business conditions which may indicate a possible impairment. The assessment for potential impairment is based primarily on the Company's ability to recover the unamortized balance of its long-lived assets from expected discounted future cash flows from the activities to which the assets directly contribute. If the carrying amount of the asset or group of assets exceeds the undiscounted future cash flows, the asset is written down to its fair value.

Revenue Recognition

The Company recognizes revenue when control of promised goods or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company generates revenue primarily from product sales. For product sales, the Company recognizes revenue when there is a transfer of control to the customer. Transfer of control is based on when the product is shipped or delivered and title passes to the customer. Royalties are recognized when the third party sale occurs. Grant revenue is recognized when the spend commitment occurs. For the remaining of the Company's contract revenue agreements, revenue is recognized over time as the services are being provided. The Company recognizes shipping and handling costs as an expense in cost of products sales when the Company transfers control to the customer. Sales, value add and other taxes, if applicable, collected concurrent with revenue-producing activities are excluded from revenue. Payment terms vary depending on the type of customer, are based on customary commercial terms and are generally less than one year. The Company does not adjust revenue for the effects of a significant financing component for contracts where the Company expects the period between the transfer of the good or service and collection to be 12 months or less.

The Company participates in various federal and state pharmaceutical pricing programs, as well as providing discounts to its customers. These agreements result in rebates, chargebacks, returns and discounts, respectively, estimates of which are recorded as a reduction in sales in the same period that the related sale is recorded and is accounted for as variable consideration. Provisions for variable consideration are based on current pricing, executed contracts, government pricing legislation and historical data and are provided for in the period the related revenues are recorded.

As more fully described in Note 15 and Note 16, the Company recognizes revenue from multiple-element arrangements, which generate product sales, royalties for licensing, up-front payments, and sharing of costs of collaborative research and development activities in the form of expense reimbursements and milestone payments. Revenues from milestones are recognized upon successful accomplishment of the milestone.

Research and Development

Research and development expenditures are expensed as incurred in operating expenses in the consolidated statements of operations. Before a product receives regulatory approval, the Company expenses up-front and milestone payments made under licensing arrangements. Up-front payments are recorded when incurred, and milestone payments are recorded when the specific milestone has been achieved. Milestone payments upon or subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in intangible assets, net of accumulated amortization.

(2) Significant Accounting Policies, continued

Marketing and Promotion Expenses

Marketing and promotion costs are expensed as incurred and are included in operating expenses in the consolidated statements of operations and totaled $13,656,958 and $11,860,073 for the years ended December 31, 2019 and 2018, respectively.

Foreign Currency Transactions

Foreign currency transaction gains and losses result from foreign sales, royalties and payments that may be denominated in a currency other than the United States dollar. Because the amounts are not significant, they are included in other income or expense in the consolidated statements of operations.

Fair Value Measurements

Measurement of fair market value is required upon initial measurement or for subsequent accounting and reporting of certain assets and liabilities, such as the net assets acquired in a business combination, and financial instruments. Fair value is determined under one or a combination of three approaches: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable.

Level 3 – Unobservable inputs that reflect estimates and assumptions.

Income Taxes

The income tax provision consists of taxes currently due and deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Provisions for federal and state income taxes are calculated on reported pre-tax earnings at rates in effect during the reporting period. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled, and also include the expected future tax benefit of loss and credit carryforwards.

The Company is subject to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes, which governs the recognition and measurement of the effect of uncertain positions taken in tax returns. The Company does not believe that it has taken any uncertain positions in its tax returns as filed. Nonetheless, there is no assurance that an examination of the Company's tax returns would not result in adjustments to the tax liabilities of either the taxable entities or the Company's members.

(2) Significant Accounting Policies, continued

Recently Adopted Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in this standard superseded most existing revenue recognition requirements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The Company adopted the requirements of ASU 2014-09 and all related amendments (the new revenue standard) on January 1, 2019 using the modified retrospective method. Results for reporting periods beginning after December 31, 2018 have been presented in accordance with the new revenue standard, while results for prior periods have not been adjusted and continue to be reported in accordance with the Company's historical accounting.

There were no significant changes to the timing of revenue recognition for product sales, the Company's primary revenue stream. Certain amounts were reclassified within the consolidated statement of operations reducing the amount of net product sales recognized, with an equal offset reducing cost of products sales or sales and marketing as a result of evaluating the various types of variable consideration, specifically rebates paid to wholesalers, distributors, group purchasing organizations and specialty pharmacies.

The impact of adoption on the Company's consolidated financial statements is as follows:

	As Reported	Balance without Adoption of New Revenue Standard	Effect of Change Higher/(Lower)
Consolidated Statement of Operations			
Net product sales	$ 170,404,840	$ 177,326,318	$ (6,921,478)
Cost of product sales	$ 63,471,228	$ 69,999,332	$ (6,528,104)
Sales and marketing	$ 53,707,726	$ 54,101,100	$ (393,374)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments (Topic 825). The amendment no longer requires non-public business entities to disclose the fair value of financial instruments measured at amortized cost. The Company adopted the requirements of ASU 2016-01 on January 1, 2019.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires entities to present the aggregate changes in cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, the consolidated statements of cash flows now present restricted cash as a part of the beginning and ending balances of cash. The Company adopted the ASU on January 1, 2019, which resulted in restricted cash being combined with unrestricted cash. The effect of this change was to increase total cash at the beginning of the year in the consolidated statement of cash flows by $5,244,552 for restricted cash at the end of 2017.

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808). The amendment requires transactions in collaborative arrangements to be accounted for under Topic 606 if the counterparty is a customer for a good or service that is a distinct unit of account. The Company adopted the requirements of ASU 2018-18 on January 1, 2019 concurrently with the new revenue standard.

(2) Significant Accounting Policies, continued

Recent Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), requiring all leases to be recognized on the Company's consolidated balance sheet as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Company will recognize: 1) a lease liability for the Company's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Company's right to use, or control the use of, the specified asset for the lease term. The ASU originally required recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective transition method. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method that permits application of the updated standard at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In November 2019, the FASB issued ASU 2019-10, which deferred the effective date of ASU 2016-02 for the Company by one year. The updated standard will be effective for the Company for the year ending December 31, 2021, with early adoption permitted. The new standard will be adopted using the modified retrospective approach and the Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

(3) Inventories

Inventories consist of the following as of December 31:

		2019		2018
Raw materials	$	2,208,409	$	2,456,861
Work in progress		2,089,575		621,221
Finished goods		5,796,630		8,142,370
	$	10,094,614	$	11,220,452

(4) Property and Equipment

Property and equipment consist of the following as of December 31:

		2019		2018
Land and improvements	$	1,523,128	$	1,546,618
Building and improvements		8,480,437		8,480,437
Leasehold improvements		168,387		168,387
Furniture and fixtures		84,046		84,046
Machinery and equipment		2,469,760		2,268,933
Computer equipment and software		824,041		1,854,340
		13,549,799		14,402,761
Less accumulated depreciation		3,660,787		3,514,329
	$	9,889,012	$	10,888,432

Depreciation expense for the years ended December 31, 2019 and 2018 was $1,046,619 and $1,015,600, respectively. There was no impairment of property and equipment for 2019 or 2018.

(5) Intangible Assets

Intangible assets consist of identifiable assets acquired and capitalized contract costs and are amortized using the straight-line method over the estimated useful lives as follows as of December 31:

		2019		
	Amortization Period (Years)	Amount	Accumulated Amortization	Net
Patents	9	$ 7,186,526	$ 7,186,526	$ -
Manufacturing transition costs - Note 19	5 - 8	24,751,786	3,109,476	21,642,310
License agreements	3 - 15	11,802,835	2,517,180	9,285,655
Product rights	5	3,247,017	811,754	2,435,263
		$ 46,988,164	$ 13,624,936	$ 33,363,228

		2018		
	Amortization Period (Years)	Amount	Accumulated Amortization	Net
Patents	9	$ 7,186,526	$ 6,422,568	$ 763,958
Manufacturing transition costs - Note 19	5 - 8	33,254,761	1,273,529	31,981,232
License agreements	5 - 15	18,302,835	6,639,978	11,662,857
Product rights	5	3,247,017	162,351	3,084,666
		$ 61,991,139	$ 14,498,426	$ 47,492,713

During the year ended December 31, 2019, the Company paid $50,000 for exclusive rights to distribute a new product in the United States and its territories under a license agreement, which is amortized over the exclusivity period of ten years. In a separate license agreement, the Company along with a collaboration partner agreed to pay $1,900,000 for the exclusive supply of commodities associated with a product. The Company capitalized its portion of the cost of $950,000, which will be amortized over the exclusivity period of three years.

During the year ended December 31, 2018, the Company paid an United States Food and Drug Administration (FDA) approval milestone of $400,000 under a license agreement, which is amortized over the exclusivity period of the product of five years. Additionally, the Company acquired the rights to distribute a product within the European Union for $3,247,017, which is amortized over five years.

Amortization expense was $4,876,515 and $3,846,970 for the years ended December 31, 2019 and 2018, respectively. The remaining weighted-average amortization period for license agreement intangible assets and capitalized manufacturing transition costs is approximately ten and seven years, respectively.

(5) Intangible Assets, continued

Future amortization expense of intangible assets currently being amortized for the next five years is estimated to be:

For the year ending December 31:		
2020	$	5,018,520
2021	$	5,018,520
2022	$	4,939,353
2023	$	3,856,072
2024	$	3,335,686

The recoverability of the carrying amounts of manufacturing transition costs, license agreements and product rights is based on assumptions regarding the useful life and future sales of the underlying products, and may also include assumptions regarding the ability to expand the sale of the products in additional indications or territories and the need, cost and timing of post marketing clinical studies. There was no impairment of intangible assets for 2019 or 2018.

(6) Goodwill

Goodwill of $20,325,198 was recorded in conjunction with a previous acquisition. Goodwill represents the excess of consideration paid over the fair value of net identifiable assets acquired, and is primarily attributable to the going concern value of the Company's business.

The qualitative assessment of the carrying value of goodwill is based on assumptions regarding the value of the Company as a whole as evidenced by market data, and by assumptions regarding the timing of new product approvals and the resulting sales levels and commercialization costs of such products. There was no impairment of goodwill for 2019 or 2018.

(7) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following as of December 31:

		2019		2018
Settlement loss, current portion	$	5,250,000	$	12,250,000
Rebates and fees		4,987,678		4,362,275
Salaries, wages and commissions		4,244,053		3,974,142
Class D shares derivative		3,643,000		-
Accrued product rights		1,150,000		2,767,017
Accrued capitalized manufacturing transition costs		-		2,132,896
Royalties		1,089,209		827,908
Other		4,910,674		5,229,503
	$	25,274,614	$	31,543,741

(8) Other Liabilities

Other liabilities consist of the following as of December 31:

		2019		2018
Long-term incentive compensation program	$	4,514,401	$	2,319,541
Settlement loss, long-term portion		-		5,250,000
Other		749,723		483,677
	$	5,264,124	$	8,053,218

(9) Income Taxes

The Company files a consolidated federal corporate income tax return, which includes the income or loss of its wholly owned subsidiaries and its allocable share of income or loss from non-wholly owned subsidiaries taxed as partnerships.

The income tax provision consists of the following for the years ended December 31:

		2019		2018
Current income taxes				
Federal	$	-	$	7,105
State		115,345		(785,724)
Foreign		(316,000)		-
Total current tax		(200,655)		(778,619)
Deferred income taxes				
Federal		(1,740,461)		8,229,216
State		(768,207)		1,801,124
Total deferred tax		(2,508,668)		10,030,340
Total income tax (expense) benefit	$	(2,709,323)	$	9,251,721

(9) Income Taxes, continued

The reconciliation of the federal statutory tax rate to the Company's effective tax rate on net income (loss) follows:

	2019	2018
U.S. statutory income tax rate	21.0 %	21.0 %
State taxes net of federal benefit	21.3	2.2
Meals and entertainment	16.3	(0.8)
Acquisition accounting differences	6.3	4.1
Legal settlement	-	(4.3)
Effect of foreign operations	12.5	-
Return to provision	28.6	-
All other, net	1.0	(0.3)
Effective income tax rate	107.0 %	21.9 %

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities consist of the following as of December 31:

	2019	2018
Deferred tax assets		
Net operating loss carryforward	$ 14,380,242	$ 17,022,812
Interest expense limitation	6,797,507	2,800,050
Contribution carryover	5,530,070	4,770,438
Inventories	1,554,967	446,305
Accrued salaries and benefits	1,380,241	819,897
Legal settlement	675,675	2,286,999
Foreign earnings differences	235,919	2,410,458
Deferred revenue	-	3,562,072
Other	469,027	152,308
Total deferred tax assets	31,023,648	34,271,339
Deferred tax liabilities		
Capitalized manufacturing transition costs	(491,709)	(655,612)
Inventories	-	(619,150)
Other	(430,721)	(386,691)
Total deferred tax liabilities	(922,430)	(1,661,453)
Net deferred tax assets	$ 30,101,218	$ 32,609,886

(9) Income Taxes, continued

Domestic net operating losses and carryforwards are available for use against the consolidated federal and state taxable income. A summary of the remaining domestic net operating loss carryforwards, including the timing of expiry, is as follows:

Year of Expiry	Net Operating Loss Carryforward Federal	State
2035	$ 28,611,848	$ 5,940,173
2036	13,455,981	3,059,372
2037	21,985,181	10,601,924
Total	$ 64,053,010	$ 19,601,469

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or 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 and tax planning strategies. Management has projected future taxable income and tax planning strategies in making this assessment. Management believes it is more-likely-than-not that the Company will realize the benefits of the recorded deferred tax assets. Therefore, no valuation allowance was provided in the consolidated financial statements.

The Company files income tax returns in the United States, in various states and in foreign jurisdictions. The Company is subject to tax examinations by various tax authorities as appropriate. As of December 31, 2019, the Company's United States income tax returns for 2017 and subsequent years remain subject to examination by the Internal Revenue Service. State and foreign income tax returns generally have statutes of limitations for periods between three to five years from the filing date. The Company is not currently under examination by any federal, state or foreign taxing authorities.

(10) Line of Credit

The Company has a $40,000,000 revolving line of credit, subject to certain collateral limitations as defined by the loan agreement including a borrowing base calculation supported by accounts receivable and inventories. At December 31, 2019, the outstanding balance of the line of credit was $24,128,154 and $4,446,822 was available for additional draws after the liquidity requirements. At December 31, 2018, the outstanding balance of the line of credit was $17,013,316.

At December 31, 2019 and 2018, the line of credit had an interest rate of Prime plus an applicable margin (6.00% and 6.75% at December 31, 2019 and 2018, respectively), which is payable monthly.

The line of credit matures on July 24, 2020. The line of credit is secured by a priority lien on accounts receivable and inventories and a subordinate lien on substantially all other assets of the Company.

(11) Long-Term Debt

Long-term debt consists of the following as of December 31:

	2019	2018
Promissory notes with interest payable monthly at an annual rate of 10% through maturity at March 31, 2022. Notes are secured by substantially all assets of the Company, but are subordinated to the line of credit and term loan agreed upon by Ventures (Ventures term loan).	$ 20,298,742	$ 20,298,742
Ventures term loan with a series of loan commitments totaling $110,000,000 and expiring at different times for the following specific purposes principally in connection with the joint venture license agreement described in Note 17:		
Initial advance of $90,000,000 on July 15, 2016 to pay off a 2015 financing with the excess available for general company purposes;		
Second advance of $20,000,000 upon FDA approval of a product under the license agreement or FDA approval of another specified product acquired by the Company, available until June 30, 2018. The acquired product was approved in March 2017 and the full $20,000,000 was drawn with $10,000,000 used to pay an FDA approval milestone, and the excess funds used for general business purposes, by agreement with the lender.		

(11) Long-Term Debt, continued

		2019		2018
The loan bears interest at a stated annual rate of 15%. The effective interest rate calculated on the constant rate method is 17.6%, taking into account financing costs, back-end fees and timing of expected draws and payments, and is the basis for recording interest expense in the consolidated financial statements. The Company paid $15,855,189 in principal in July 2019, incurring extinguishment costs of $1,744,071 in conjunction with a divestiture described in Note 28. Remaining principal payments are due in equal quarterly amounts of $27,337,453 beginning on September 30, 2020. The lender can require that certain asset sale proceeds must be applied to the principal. Interest is payable quarterly, 10% in cash and 5% added to principal (PIK) until March 31, 2019 after which payments are all cash. The loan, including PIK interest, matures June 30, 2021 and is secured by substantially all of the assets of the Company, subject to priority liens and an inter-creditor agreement. The loan was amended on March 30, 2020 for an additional advance of $5,000,000 to be received on or prior to April 1, 2020. The amendment also modified interest payable on March 31, 2020 and June 30, 2020 to be 10% in cash and 5% PIK.		119,191,295		134,788,594
Term loan entered into on March 30, 2016 and amended on August 8, 2018 for a maximum of $6,800,000 at an interest rate of LIBOR plus 2.75% (4.47% and 5.15% at December 31, 2019 and 2018, respectively). Loan is amortized over a twenty-year term with principal and interest payments beginning January 22, 2017. Loan matures on September 22, 2026. Secured by first mortgage priority lien on building and improvements.		6,479,792		6,705,944
Total debt		145,969,829		161,793,280
Less unamortized debt issuance costs and fees		3,910,907		7,443,051
Less current portion		54,948,561		207,965
Long-term debt	$	87,110,361	$	154,142,264

(11) Long-Term Debt, continued

The aggregate maturities of long-term debt are as follows:

For the year ending December 31:		
2020	$	54,948,561
2021		64,803,472
2022		20,599,049
2023		314,140
2024		327,938
Thereafter		4,976,669
	$	145,969,829

(12) Capital

The Company's ownership consists of four classes of shares as of December 31 as noted below:

Class of Shares	Number of Shares 2019	2018
A	9,040,733	9,040,733
B	25	25
C	537,000	547,500
D	364,300	-

Class A and Class B shares are identical except for voting rights. Each Class A share is entitled to one vote and each Class B share is entitled to 1,000,000 votes. The Class C shares are identical to Class A shares, except Class C shares are nonvoting, are subject to repurchase by the Company based on vesting schedules and will not participate in distributions, other than for taxes, until the Class A and Class B shares have achieved certain distribution thresholds.

Of the Class A shares, 350,449 shares were issued under a 2017 Private Placement Memorandum (PPM) at $30 per share for a total of $10,513,470. The Company has committed to offer to redeem up to one-third of these shares for $90 per share when circumstances permit and before any distributions are made to other shareholders.

(12) Capital, continued

Under a 2019 PPM, 364,300 Class D convertible preferred shares were issued at $50 per share totaling $18,215,000. Due to the redemption features, the Company recorded a derivative of $3,643,000, as described in Note 13, and capital contributions of $14,572,000 during the year ended 2019. Unless converted, the preferred shares are senior in priority to the rights of all existing shares of the Company and subordinate to all of the Company's debt obligations. The preference amount of the preferred shares increases 10% per year and potentially 18% per year depending on whether or not converted. Appreciation was $1,509,294 for the year ended December 31, 2019. The Company may redeem the preferred shares under certain circumstances if they are not converted. If prior to July 1, 2022, (i) the Ventures term loan is repaid or refinanced and the new lender, if any, permits a redemption or (ii) the Company is sold, the Company must redeem any unconverted preferred shares. A minimum redemption price of either 125% or 150% of the amount invested may apply depending on the timing or circumstances of the redemption. Separately, the preferred shares may be converted into Class A shares only if the Company issues at least $60,000,000 of new equity before July 1, 2022, in which case the conversion price would be 80% of the new equity share price.

Allocations of income, losses and distributions among the members are governed by the Limited Liability Company Agreement based primarily on proportionate ownership of shares, but allocations of the income and loss no longer have any tax impact to the members. The Company's Chief Executive Officer (CEO) holds voting control of the Company.

(13) Fair Value Measurements

The redemption features related to the Class D shares described in Note 12 are at a substantial premium, which require bifurcation from the equity instrument, resulting in the recognition of a derivative. Realized or unrealized gains or losses are recorded to other, net expense.

The following table sets forth by level within the fair value hierarchy the Company's financial liability that was accounted for at fair value on a recurring basis as of December 31.

	Level 1	Level 2	Level 3	Total
Class D shares derivative - 2019	$ -	$ -	$ 3,643,000	$ 3,643,000
Class D shares derivative - 2018	$ -	$ -	$ -	$ -

The fair value measurement of the Class D shares derivative is determined based upon significant, unobservable inputs, including the estimated probability of the various redemption features. There has been no change in fair value or payments related to the Class D shares derivative during the year ended December 31, 2019.

At least annually, the Company determines if the current value techniques used in the fair value measurements are still appropriate and evaluates and adjusts inputs used in the fair value measurements based on current market conditions and third party information. No change was made to the valuation of this liability during the year ended December 31, 2019.

(14) Revenues

The following table summarizes revenue by type and timing of the transfer of goods or services:

	2019	2018
United States net product sales	$ 169,478,037	$ 173,603,871
International net product sales	926,803	1,038,715
Royalties	2,493,639	2,826,575
Grants	2,239,997	191,463
Total revenues recognized at point in time	175,138,476	177,660,624
Deferred revenue amortization	15,720,339	10,073,824
Contract reimbursed	1,461,803	2,677,414
Other	49,844	48,833
Total revenues recognized over time	17,231,986	12,800,071
	$ 192,370,462	$ 190,460,695

(15) Multiple-Element Arrangements

Through a previous acquisition, the Company acquired out-licensing agreements with another pharmaceutical company. The agreements were multiple-element arrangements for the commercialization, development and licensing of the manufactured product in specified territories outside of the United States. The arrangements provided for a nonrefundable up-front payment to the acquired company, plus continuing royalty income for licensed sales, reimbursement of certain research and development expenses, milestone payments for progress in developing use of the product in new indications, and product revenue from the sale of the manufactured product.

The up-front payments received by the acquired company represented nonrefundable advance compensation for the license and for below market product pricing. Because the arrangements required continuing performance and obligations under the licensing and supply portions of the arrangements, the acquired company recorded the payments as deferred revenue and amortized them into revenue over the expected life of the arrangements. The Company, which has assumed the obligations of the acquired company, recorded the unamortized balance of the up-front payments as a liability in deferred revenue, which was amortized into revenue over the remaining estimated useful lives of the contracts. During 2018, the contract was terminated resulting in the remaining amount in deferred revenue being recognized of $8,294,163 in contract revenues.

(16) Collaborative Agreements

The Company actively collaborates with other pharmaceutical companies to develop, manufacture and market certain products. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), contract manufacturing and distribution.

(16) Collaborative Agreements, continued

The Company has a significant distribution, development, commercialization and supply agreement for one of its pharmaceutical products, which includes the development of new applications to administer the product. This agreement provides the Company with an exclusive license for the promotion and sale of the existing product in the United States and would also provide an exclusive license for the promotion and sale of any new applications of the product. The gross development costs associated with this agreement, included in research and development expenses, totaled $3,517,949 and $6,926,082 for the years ended December 31, 2019 and 2018, respectively. A portion of these gross development costs are reimbursed by the other party. In 2019 and 2018, the Company recognized reimbursements of $1,312,235 and $2,546,792, respectively.

During 2018, the Company entered into a co-promotion agreement for one of its pharmaceutical products. Pursuant to this agreement, the collaboration partner promoted the product to supplement the Company's sales force. The collaboration partner received a share of the pharmaceutical product's adjusted gross profit paid quarterly. The terms of the arrangement also included an up-front payment of $17,500,000 that the Company received upon execution. The terms of the agreement included ongoing performance obligations for the Company, and this up-front payment represented compensation for ongoing performance obligations. Accordingly, amounts received up-front under the co-promotion agreement were initially recorded as deferred revenue and were being recognized on a straight-line basis over 59 months, the term of the agreement. In 2019, the co-promotion agreement was terminated, resulting in no further performance or financial obligations between either party. As such, the Company recognized the remaining deferred revenue in contract revenues. The Company recognized $15,720,339 and $1,779,661 of amortization in contract revenues for the years ended December 31, 2019 and 2018, respectively.

(17) Joint Venture License Agreement

In 2015, the Company entered into a joint venture (HEMA) with another company for the development and commercialization of two biological products in multiple fields in the United States and Canada. The Company has a 65% interest in HEMA which operates as a limited liability company and is consolidated in the Company's financial statements. HEMA entered into a license agreement with the other company (licensor), which requires the licensor to complete the approval process of the products in the licensed indications and territories. The license agreement also requires HEMA to make payments to the licensor, primarily funded by contributions of capital by Ventures to HEMA. The license agreement between HEMA and the licensor required a nonrefundable up-front milestone payment of $50,000,000 to the licensor, which was expensed in 2015. The license agreement includes milestone payments upon marketing approval of two biological products in the United States and Canada (approval milestones), plus separate sales-based milestones, and sales-based royalties to the licensor. The license agreement was amended in 2018, reducing potential approval milestones from $55,000,000 to $18,340,000. An additional milestone payment of $20,000,000 is required if two years after the first commercial sale of one of the products (i) a particular competitive product has not been launched, and (ii) sales of the licensed product have exceeded the sales projection in the license agreement by at least $100,000,000. The amendment also added incremental sales-based royalties of up to $36,660,000 to be paid to the licensor and an adjustment for one product that limits actual GAAP cost of goods sold plus royalties due to the licensor to 35% of net sales per calendar quarter.

The license agreement was further amended in 2019 adjusting the milestone payment triggers based upon approval of both biological products. The amended agreement states milestone payments for both products will be due 180 days after licensor delivers initial launch quantities of the second product with approved labeling. No milestone payments are expected to be made in the twelve months following the date of this report.

(17) Joint Venture License Agreement, continued

In December 2016, the FDA accepted the biologics license application for the Company's first potential product for commercialization in the United States. The Prescription Drug User Fee Act date for the FDA to respond with its approval or non-approval was October 13, 2017. The licensor received a Complete Response Letter (CRL), which indicated the new drug application required further effort prior to being approved. The licensor filed the response to the CRL on October 10, 2019 and an action date has been established of April 10, 2020. Marketing approvals for the second product in the United States and both products in Canada are not expected in the next twelve months from the date of this report. The HEMA limited liability company agreement provides that all up-front and milestone payments under the license agreement are chargeable to the Company's capital account and accordingly are deductible for tax purposes by the Company.

(18) Grant Agreements

In 2018, the Company was awarded grants from the National Institutes of Health to assist in the development of a pharmaceutical product. Reimbursements under these grants of $2,239,997 and $191,463 for the years ended December 31, 2019 and 2018, respectively, are included in contract revenues in the consolidated statements of operations.

(19) Manufacturing Transition Costs

During 2013, the Company entered into a contract manufacturing agreement to have a third party construct and develop a manufacturing facility and process. This third party manufactures the pharmaceutical product to sell to the Company. Certain up-front payments and validation costs incurred were capitalized and recorded as an intangible asset. The third party manufacturer obtained regulatory approval in July 2019, and has since supplied commercial product to the Company.

During the years ended December 31, 2019 and 2018, respectively, $724,130 and $4,795,836 of costs were capitalized. During the year ended December 31, 2019, $2,379,251 of capitalized costs were reclassified to inventory as the costs that had been previously capitalized represent payments for commercial product. The total manufacturing transition costs capitalized through December 31, 2019 for this product are $20,931,201 and are included in intangible assets, net on the consolidated balance sheets. Upon regulatory approval of the manufacturing site, the capitalized costs have begun amortization over the contract term of eight years. Other costs associated with the transition of the manufacturing facility of $584,466 and $718,383 for the years ended December 31, 2019 and 2018, respectively, are included in operating expenses in the consolidated statements of operations as incurred.

The Company has entered into separate agreements whereby third party manufacturers are to supply raw materials and packaging materials, provide bulk manufacturing and packaging services and conduct quality control testing for three other products. Certain up-front payments and validation costs incurred are being capitalized and recorded as an intangible asset. During the years ended December 31, 2019 and 2018, respectively, $1,174,225 and $3,547,455 of costs were capitalized for one product. The total manufacturing transition costs capitalized for this product of $8,022,079 were disposed of as part of the current year divestiture discussed in Note 28. A separate product's capitalized costs of $3,820,585 are being amortized over six years, the life of the contract, and is reflected within intangible assets, net. The final product does not have any costs capitalized as amounts incurred do not represent a future benefit to date. Other costs associated with changing contract manufacturers of $565,212 and $474,854 for the years ended December 31, 2019 and 2018, respectively, are included in operating expenses in the consolidated statements of operations as incurred.

(20) Lease Commitments

The Company has various operating leases for vehicles, office equipment, office space, and storage facilities. Vehicle leases range from two to four years, with new leases entered into periodically. Office equipment represents copiers and other miscellaneous items. Office space represents rental space utilized by research and development to perform scientific studies and for a subsidiary to perform general and administrative services. Storage facility leases are month to month, therefore there is no future commitment. Rent and fleet program expense, inclusive of leases, fuel charges and miscellaneous costs, under such arrangements was $1,757,320 and $1,504,105 during the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments subsequent to December 31, 2019 under non-cancelable operating leases are as follows:

For the year ending December 31:		
2020	$	943,511
2021		322,276
2022		41,993
Total minimum lease payments	$	1,307,780

(21) Retirement Plan

USWM and HEMA maintain defined contribution 401(k) retirement plans, which cover all eligible employees as defined by the plans. Individuals who are at least 21 years of age, have completed two months of service and are currently employed by the subsidiaries are eligible to participate in the plans. Participants may defer compensation up to statutory limits. Employee and Company contributions vest immediately. Employee contributions are matched by the employer dollar for dollar up to 4% of base salary. The subsidiaries recognized $1,057,003 and $881,359 in expense under these plans during the years ended December 31, 2019 and 2018, respectively.

(22) Long-Term Incentive Compensation Program

The Company established a Long-Term Incentive Compensation Program (LTI) effective January 1, 2018. Upon the Company meeting the specified financial target, LTI Awards will be paid to eligible participants on a three-year rolling basis provided the participant is an active employee of the Company on the payment date. LTI is included in operating expenses in the consolidated statements of operations and totaled $2,194,860 and $2,319,141 for the years ended December 31, 2019 and 2018, respectively.

(23) Related Party Transactions

The Company's CEO and controlling voting member owns 16.67% and the Company owns 50% of WJ Air, LLC. During 2019 and 2018, the Company used the airplane owned by WJ Air, LLC for certain Company business travel at a cost of $127,993 and $131,951, respectively.

The Company's CEO and controlling voting member guaranteed approximately $1,380,000 and $1,606,000 of the Company's term loan with a balance of $6,479,792 and $6,705,944 as of December 31, 2019 and 2018, respectively.

(24) Concentrations and Credit Risk

Revenue from one product was 70% and 72% of net product sales for the years ended December 31, 2019 and 2018, respectively. Accounts receivable, net from this product were 44% and 57% of total accounts receivable, net as of December 31, 2019 and 2018, respectively.

(25) Commitments

The following table summarizes the Company's estimated commitments for the next five years as of December 31, 2019:

	2020	2021	2022	2023	2024
Loan to joint venture	$ 5,500,000	$ 15,200,000	$ -	$ -	$ -
Post marketing clinical studies	6,200,000	14,900,000	18,300,000	23,000,000	13,400,000
Inventory purchases	4,500,000	4,500,000	4,500,000	5,000,000	3,400,000
Promotional spend per license agreement	2,800,000	2,200,000	1,000,000	-	-
Other	200,000	-	-	-	-
	$ 19,200,000	$ 36,800,000	$ 23,800,000	$ 28,000,000	$ 16,800,000

The Company has irrevocable standby letters of credit aggregating $1,300,000 and $1,000,000 as of December 31, 2019 and 2018, respectively, to securitize certain Company borrowings.

(26) Liquidity

The Company is focused on driving sales in its existing product portfolio as well as investing in two planned product launches in 2020 and 2021. This has resulted in significant additional operating costs to continue to support and advance the business, including additional research, development, supply chain, marketing and launch costs. To support these operating costs, the Ventures term loan has been fully drawn, and will require approximately $59,000,000 of principal payments and $14,000,000 in cash interest payments in the next 12 months. The Company currently has no credit available other than its revolving line of credit that it plans on extending beyond July 2020, as described in Note 10.

Based upon existing debt obligations plus launch costs associated with a HEMA product, the Company estimates that approximately $57,000,000 in additional cash beyond its existing resources and credit availability will be necessary to meet its objectives and obligations during the twelve months after the date of this report, March 30, 2020. Beyond these obligations in the next 12 months, the Ventures term loan will also require a principal and interest payment totaling $31,000,000 on March 31, 2021. As described in Note 11, the Company amended its existing Ventures term loan providing approximately $7,000,000 of additional availability, including PIK interest, which has been reflected in the $57,000,000 cash shortfall. The Company is working with a leading investment bank with respect to several strategic alternatives, including an equity private placement, sale of one or more assets, refinancing the Ventures term loan obligation and other asset monetization strategies. The Company believes that one or more of these initiatives will cover the cash shortfall.

(27) Legal Proceedings and Contingencies

Department of Justice Investigation

In February 2014, the Company received a subpoena from the Department of Health and Human Services Office of the Inspector General (OIG). In March 2016, the Company received a Civil Investigative Demand from the U.S. Department of Justice (DOJ). Both demands for information were broad in scope and each sought production of various records and reports regarding matters, including without limitation, in connection with the Company's (i) support of a 501(c)(3) organization that provides financial assistance to patients and (ii) sales and marketing practices related to two of its products. In 2018, the Company recorded a $17,500,000 settlement loss relating to this matter. The Company entered into a civil Settlement Agreement with the DOJ and the OIG (collectively the United States Government) in April 2019. The Settlement Agreement was neither an admission of liability by the Company nor a concession by the United States Government that its claims are not well-founded. Under the Settlement Agreement, the Company agreed to pay the United States Government the sum of $17,500,000, exclusive of interest, over the course of 2019 and 2020. In 2019, the Company paid $12,250,000, with the remainder due in April 2020. In connection with the civil settlement, the Company also entered into a Corporate Integrity Agreement with the OIG that spans a period of five years and provides specific measures to ensure proper controls are in place to promote compliance by the Company with certain federal statutes, regulations and written directives of federal health care programs.

Under the Settlement Agreement, the Company was required to pay the reasonable attorneys' fees and costs incurred by the relators in accordance with a separate settlement agreement between the Company and each respective relator. The Company agreed to pay $1,125,000 to the relators, which was recognized in general and administrative expenses in the consolidated statement of operations and paid in 2019.

Other Litigation

In July 2019, the Company filed a breach of contract claim against a former commercial vendor arising out of the vendor's refusal to refund a settlement payment owed to the Company pursuant to a settlement and release agreement. The vendor had filed a motion to dismiss the case, which was denied by the relevant court. The court has requested the parties to complete discovery by August 2020. As of December 31, 2019, recoverable amounts are not reflected in the consolidated financial statements given the status of the claim.

In November 2019, the Company was respondent and counterclaimant in a separate dispute with the same former commercial vendor related to a claim and cross-claim for indemnification arising out of conduct related to the DOJ investigation. Both parties are in discussions before the American Arbitration Association, but formal arbitration has not yet been scheduled. As of December 31, 2019, as amounts are not probable and estimable, no amounts have been reflected in the consolidated financial statements.

(27) Legal Proceedings and Contingencies, continued

In February 2020, the Company filed an arbitration claim against a contract manufacturer to seek recovery for a breach of contract related to development and supply of product. As of December 31, 2019, recoverable amounts are not reflected in the consolidated financial statements given the status of the claim.

The Company operates in a litigious and highly regulated business environment. Other than the matters discussed above, the Company is not currently subject to any foreseeable litigation and is unaware of any pending lawsuits. The Company maintains various insurance policies to minimize the impact of legal actions or claims. In 2018, the Company received $476,835 in insurance proceeds related to the DOJ investigation, which is included in other income. Upon execution of the civil Settlement Agreement, the Company received an additional $3,523,164 in insurance proceeds that was recognized in 2019.

Supply Risk

All of the Company's products are purchased under contract from third party contract manufacturing organizations (CMOs). As a result, the Company relies on the CMOs to meet stringent regulatory standards and be approved by the FDA or other appropriate government agencies. None of the products currently marketed by the Company have a back-up CMO. Accordingly, the Company bears the risk of encountering supply interruptions or difficulty finding alternative sourcing. The Company partially mitigates this risk and partial loss of revenue by purchasing contingent business income insurance for its primary inventory and CMO locations.

Guarantees

In conjunction with a divestiture in Note 28, the Company is a guarantor to a liability owed to the purchaser should a generic equivalent to the product divested launch prior to March 31, 2022. As of the date of this report, the maximum exposure is $27,500,000. As the amount owed is not probable, no provision has been reflected within the consolidated financial statements.

Business Disruption

Subsequent to December 31, 2019, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. As of the date the consolidated financial statements were available to be issued, the Company's performance on contracts with customers and supply chain has not been significantly impacted by COVID-19, however, the continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the Company will depend on future developments, which are highly uncertain and cannot be predicted. As a result, the Company has not yet determined the impact this disruption may have on its consolidated financial statements for the year ending December 31, 2020.

(28) Divestitures

In July 2019, the Company completed a transaction in which the Company sold the marketing authorizations for one product, as well as the related inventory and third party agreements. In connection with the sale, the Company received cash proceeds of $33,049,941, which is net of fees of $3,250,059. The Company accounted for the transaction as the sale of an asset and recorded a gain of $21,372,613 in other operating expense (income) upon closing the transaction. The gain is representative of the net cash proceeds less the remaining costs capitalized associated with capitalized manufacturing transition costs, intangible assets, net and inventory. The Company shall receive a royalty on net product sales as long as the product is sold and/or commercialized in the United States in accordance with the agreement. The Company may receive milestone payments if specific net product sales thresholds are met.

(29) Subsequent Events

Management evaluated subsequent events for recognition or disclosure through March 30, 2020, the date which the consolidated financial statements were available to be issued. Except as disclosed in Note 11 and Note 27, there were no events occurring during the evaluation period that require recognition or disclosure in the consolidated financial statements.

CONSOLIDATING INFORMATION

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2019

	Enterprises	Holdings	Ventures	Eliminations	Consolida
Assets					
Current assets					
Cash	$ 5,230,046	$ 3,964,434	$ 469,106	$ -	$ 9,6
Accounts receivable, net	-	19,442,010	-	-	19,4
Other receivables	102,993	3,883,426	2,862	(30,309)	3,9
Inventories	-	10,094,614	-	-	10,0
Prepaid expenses and other current assets	8,569	3,775,081	138,736	-	3,9
Total current assets	5,341,608	41,159,565	610,704	(30,309)	47,0
Property and equipment, net	-	9,833,850	55,162	-	9,8
Intangible assets, net	-	33,363,228	-	-	33,3
Goodwill	-	20,325,198	-	-	20,3
Investment in subsidiaries	(94,740,788)	-	-	94,740,788	
Deferred tax assets	30,157,240	8,302,276	-	(8,358,298)	30,1
Restricted cash	-	-	5,508,035	-	5,5
Other assets - related party	-	5,628,422	-	(5,628,422)	
Other assets	-	1,841,006	-	-	1,8
Total assets	$ (59,241,940)	$ 120,453,545	$ 6,173,901	$ 80,723,759	$ 148,1
Liabilities and Members' Equity (Deficit)					
Current liabilities					
Line of credit	$ -	$ 24,128,154	$ -	$ -	$ 24,1
Current portion of long-term debt	-	273,655	54,674,906	-	54,9
Accounts payable	53,609	18,497,174	235,725	(30,309)	18,7
Taxes payable - related party	-	4,790,741	-	(4,790,741)	
Accrued expenses and other current liabilities	3,817,706	21,200,814	256,094	-	25,2
Total current liabilities	3,871,315	68,890,538	55,166,725	(4,821,050)	123,1
Long-term debt	-	26,504,879	60,605,482	-	87,1
Other liabilities	-	4,142,309	6,750,237	(5,628,422)	5,2
Total liabilities	3,871,315	99,537,726	122,522,444	(10,449,472)	215,4
Members' equity (deficit)					
USWM Enterprises, LLC and Subsidiaries	(63,113,255)	20,915,819	(101,292,388)	91,173,231	(52,3
Noncontrolling interest	-	-	(15,056,155)	-	(15,0
Total members' equity (deficit)	(63,113,255)	20,915,819	(116,348,543)	91,173,231	(67,3
Total liabilities and members' equity (deficit)	$ (59,241,940)	$ 120,453,545	$ 6,173,901	$ 80,723,759	$ 148,1

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Balance Sheets, continued

December 31, 2018

	Enterprises	Holdings	Ventures	Eliminations	Consolida
Assets					
Current assets					
Cash	$ 449,510	$ 5,453,102	$ 440,031	$ -	$ 6,34
Accounts receivable, net	-	22,660,738	-	-	22,66
Other receivables	-	5,795,576	1,696	(31,122)	5,76
Inventories	-	11,220,452	-	-	11,22
Prepaid expenses and other current assets	-	3,930,704	184,785	-	4,11
Total current assets	449,510	49,060,572	626,512	(31,122)	50,10
Property and equipment, net	-	10,775,768	112,664	-	10,88
Intangible assets, net	-	47,492,713	-	-	47,49
Goodwill	-	20,325,198	-	-	20,32
Investment in subsidiaries	(116,769,711)	-	-	116,769,711	
Deferred tax assets	31,951,483	6,785,686	-	(6,127,283)	32,60
Restricted cash	-	-	5,246,674	-	5,24
Other assets - related party	-	3,748,677	-	(3,748,677)	
Other assets	-	1,181,787	-	-	1,18
Total assets	$ (84,368,718)	$ 139,370,401	$ 5,985,850	$ 106,862,629	$ 167,85
Liabilities and Members' Equity (Deficit)					
Current liabilities					
Line of credit	$ -	$ 17,013,316	$ -	$ -	$ 17,01
Current portion of long-term debt	-	207,965	-	-	20
Accounts payable	21,682	19,807,847	325,420	(31,122)	20,12
Taxes payable - related party	-	9,579,603	-	(9,579,603)	
Accrued expenses and other current liabilities	138,178	31,138,801	266,762	-	31,54
Current portion of deferred revenue	-	3,559,322	-	-	3,55
Total current liabilities	159,860	81,306,854	592,182	(9,610,725)	72,44
Long-term debt	-	26,796,721	127,345,543	-	154,14
Deferred revenue	-	12,161,017	-	-	12,16
Other liabilities	-	7,284,745	4,517,150	(3,748,677)	8,05
Total liabilities	159,860	127,549,337	132,454,875	(13,359,402)	246,80
Members' equity (deficit)					
USWM Enterprises, LLC and Subsidiaries	(84,528,578)	11,821,064	(114,226,557)	120,222,031	(66,71
Noncontrolling interest	-	-	(12,242,468)	-	(12,24
Total members' equity (deficit)	(84,528,578)	11,821,064	(126,469,025)	120,222,031	(78,95
Total liabilities and members' equity (deficit)	$ (84,368,718)	$ 139,370,401	$ 5,985,850	$ 106,862,629	$ 167,85

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Operations

Year ended December 31, 2019

	Enterprises	Holdings	Ventures	Eliminations	Consolida
Net product sales	$ -	$ 170,404,840	$ -	$ -	$ 170,40
Contract revenues	-	24,396,884	-	(2,431,262)	21,96
Total revenues	-	194,801,724	-	(2,431,262)	192,37
Cost of product sales	-	63,471,228	-	-	63,47
Gross profit	-	131,330,496	-	(2,431,262)	128,89
Operating expenses					
Sales and marketing	-	51,230,737	2,536,433	(59,444)	53,70
Commercial operations	-	25,197,147	2,111,240	(508,067)	26,80
Research and development	-	16,696,491	2,164	-	16,69
General and administrative	1,316,886	24,600,768	2,325,433	(1,256,955)	26,98
Manufacturing transition	-	1,149,678	-	-	1,14
Amortization of intangible assets	-	3,040,564	-	-	3,04
Total operating expenses	1,316,886	121,915,385	6,975,270	(1,824,466)	128,38
Income (loss) from operations before other operating (income) expense	(1,316,886)	9,415,111	(6,975,270)	(606,796)	5
Other operating (income) expense	-	(21,218,985)	-	-	(21,21
Income (loss) from operations	(1,316,886)	30,634,096	(6,975,270)	(606,796)	21,73
Other income (expense)					
Interest expense	-	(4,125,816)	(20,872,039)	144,932	(24,85
Other, net	3,530,096	374,789	(922,986)	(144,932)	2,83
Equity in earnings in subsidiaries	1,271,669	-	-	(1,271,669)	
Total other income (expense)	4,801,765	(3,751,027)	(21,795,025)	(1,271,669)	(22,01
Income (loss) before provision for income taxes	3,484,879	26,883,069	(28,770,295)	(1,878,465)	(28
Income tax (expense) benefit	3,776,549	345,208	-	(6,831,080)	(2,70
Net income (loss)	7,261,428	27,228,277	(28,770,295)	(8,709,545)	(2,99
Less: net loss attributable to noncontrolling interest	-	-	(2,813,687)	-	(2,81
Net income (loss) attributable to USWM Enterprises, LLC and Subsidiaries	$ 7,261,428	$ 27,228,277	$ (25,956,608)	$ (8,709,545)	$ (17

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Operations, continued

Year ended December 31, 2018

	Enterprises	Holdings	Ventures	Eliminations	Consolida
Net product sales	$ -	$ 174,642,586	$ -	$ -	$ 174,64
Contract revenues	-	19,242,995	-	(3,424,886)	15,81
Total revenues	-	193,885,581	-	(3,424,886)	190,46
Cost of product sales	-	67,868,691	-	-	67,86
Gross profit	-	126,016,890	-	(3,424,886)	122,59
Operating expenses					
Sales and marketing	-	46,188,434	3,716,233	(349,768)	49,55
Commercial operations	-	23,189,544	3,232,984	(1,232,658)	25,18
Research and development	-	22,515,606	39,551	(39,496)	22,51
General and administrative	227,718	23,932,979	2,583,409	(1,802,964)	24,94
Manufacturing transition	-	1,193,237	-	-	1,19
Amortization of intangible assets	-	3,210,205	-	-	3,21
Total operating expenses	227,718	120,230,005	9,572,177	(3,424,886)	126,60
Income (loss) from operations before other operating (income) expense	(227,718)	5,786,885	(9,572,177)	-	(4,01
Other operating (income) expense	-	17,500,000	-	-	17,50
Income (loss) from operations	(227,718)	(11,713,115)	(9,572,177)	-	(21,51
Other income (expense)					
Interest expense	-	(3,829,728)	(21,202,387)	166,882	(24,86
Other, net	-	343,066	247,371	(166,882)	42
Equity in earnings in subsidiaries	(40,391,154)	-	-	40,391,154	
Total other income (expense)	(40,391,154)	(3,486,662)	(20,955,016)	40,391,154	(24,44
Loss before provision for income taxes	(40,618,872)	(15,199,777)	(30,527,193)	40,391,154	(45,95
Income tax benefit	7,283,731	1,724,749	-	243,241	9,25
Net loss	(33,335,141)	(13,475,028)	(30,527,193)	40,634,395	(36,70
Less: net loss attributable to noncontrolling interest	-	-	(3,611,067)	-	(3,61
Net loss attributable to USWM Enterprises, LLC and Subsidiaries	$ (33,335,141)	$ (13,475,028)	$ (26,916,126)	$ 40,634,395	$ (33,09

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Members' Deficit

Years ended December 31, 2019 and 2018

	Enterprises		Holdings		Ventures		
	Capital Contributions	Controlling Interest	Capital Contributions	Controlling Interest	Capital Contributions	Controlling Interest	Noncontrolling Interest
Balance December 31, 2017	$ 24,110,454	$ (79,951,051)	$ 13,131,579	$ 12,164,513	$ 10,000,000	$ (101,810,431)	$ (8,631,401)
Net loss	-	(33,335,141)	-	(13,475,028)	-	(26,916,126)	(3,611,067)
Capital contribution	-	-	-	-	4,500,000	-	-
Redemption of Class C shares	(320)	-	-	-	-	-	-
Issuance of Class A shares	4,647,480	-	-	-	-	-	-
Balance December 31, 2018	28,757,614	(113,286,192)	13,131,579	(1,310,515)	14,500,000	(128,726,557)	(12,242,468)
Net loss	-	7,261,428	-	27,228,277	-	(25,956,608)	(2,813,687)
Adoption of new accounting standard		(418,000)		(418,000)	-	-	-
Capital contribution	-	-	2,323,164	-	38,890,777	-	-
Return of capital	-	-	(15,454,743)		-	-	-
Distribution	-	-	-	(4,583,943)	-	-	-
Redemption of Class C shares	(105)	-	-	-	-	-	-
Issuance of Class D shares	14,572,000	-	-	-	-	-	-
Appreciation of Class D shares	1,509,294	(1,509,294)	-	-	-	-	-
Balance December 31, 2019	$ 44,838,803	$ (107,952,058)	$ -	$ 20,915,819	$ 53,390,777	$ (154,683,165)	$ (15,056,155)

	Eliminations		Consolidated		
	Capital Contributions	Controlling Interest	Capital Contributions	Controlling Interest	Nonco Int
Balance December 31, 2017	$ (23,131,579)	$ 107,219,215	$ 24,110,454	$ (62,377,754)	$ (8,
Net loss	-	40,634,395	-	(33,091,900)	(3,
Capital contribution	(4,500,000)	-	-	-	
Redemption of Class C shares	-	-	(320)	-	
Issuance of Class A shares	-	-	4,647,480	-	
Balance December 31, 2018	(27,631,579)	147,853,610	28,757,614	(95,469,654)	(12,
Net loss	-	(8,709,545)	-	(176,448)	(2,
Adoption of new accounting standard		836,000	-	-	
Capital contribution	(41,213,941)	-	-	-	
Return of capital	15,454,743	-	-	-	
Distribution	-	4,583,943	-	-	
Redemption of Class C shares	-	-	(105)	-	
Issuance of Class D shares	-	-	14,572,000	-	
Appreciation of Class D shares	-	-	1,509,294	(1,509,294)	
Balance December 31, 2019	$ (53,390,777)	$ 144,564,008	$ 44,838,803	$ (97,155,396)	$ (15,

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Cash Flows

Year ended December 31, 2019

	Enterprises	Holdings	Ventures	Eliminations	Consolidate
Cash flows from operating activities					
Net income (loss) before allocation to noncontrolling interest	$ 7,261,428	$ 27,228,277	$ (28,770,295)	$ (8,709,545)	$ (2,990
Adjustments to reconcile net income (loss) to net cash used in operating activities					
Depreciation and amortization	-	5,865,632	57,502	-	5,923
Amortization of deferred revenue	-	(15,720,339)	-	-	(15,720
Gain on sale of assets	-	(21,372,613)	-	-	(21,372
Loss on extinguishment of debt	-	-	1,080,027	-	1,080
Deferred tax assets	1,794,243	(1,516,590)	-	2,231,015	2,508
Provision for obsolete inventory	-	3,737,138	-	-	3,737
Noncash interest expense	-	134,580	4,610,077	(138,000)	4,606
Loss on disposal of property and equipment	-	153,628	-	-	153
(Increase) decrease in assets					
Accounts receivable	-	3,218,728	-	-	3,218
Other receivables	(102,993)	1,912,150	(1,166)	(813)	1,807
Inventories	-	(2,137,297)	-	-	(2,137
Prepaid expenses and other current assets	(8,569)	155,623	46,049	-	193
Investment in subsidiaries	(22,446,923)	-	-	22,446,923	
Other assets - related party	-	(2,297,745)	-	2,297,745	
Other assets	-	(793,799)	-	-	(793
Increase (decrease) in liabilities					
Accounts payable	31,927	(682,208)	(89,695)	813	(739
Taxes payable - related party	-	(4,788,862)	-	4,788,862	
Accrued expenses and other current liabilities	36,528	(5,613,076)	(10,668)	-	(5,587
Deferred revenue	-	-	-	-	
Other liabilities	-	(3,142,436)	87,296	-	(3,055
Net cash used in operating activities	(13,434,359)	(15,659,209)	(22,990,873)	22,917,000	(29,167
Cash flows from investing activities					
Capitalized manufacturing transition costs	-	(4,659,720)	-	-	(4,659
Purchase of product rights	-	(3,192,017)	-	-	(3,192
Purchases of property and equipment	-	(200,827)	-	-	(200
Net proceeds from sale of assets	-	33,049,941	-	-	33,049
Net cash provided by investing activities	-	24,997,377	-	-	24,997

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Cash Flows, continued

Year ended December 31, 2019

	Enterprises	Holdings	Ventures	Eliminations	Consolidate
Cash flows from financing activities					
Payments of long-term debt	-	(226,152)	(15,855,189)	-	(16,081
Payment of extinguishment costs	-	-	(1,744,071)	-	(1,744
Capital contribution	-	2,323,164	38,890,777	(41,213,941)	
Return of capital	-	(15,454,743)	-	15,454,743	
Distribution	-	(4,583,943)	-	4,583,943	
Management and administrative services agreements	-	-	1,989,792	(1,741,745)	248
Net issuance of shares	18,214,895	-	-	-	18,214
Net borrowings under line of credit	-	7,114,838	-	-	7,114
Net cash provided by (used in) financing activities	18,214,895	(10,826,836)	23,281,309	(22,917,000)	7,752
Net increase (decrease) in cash and restricted cash	4,780,536	(1,488,668)	290,436	-	3,582
Cash and restricted cash at beginning of year	449,510	5,453,102	5,686,705	-	11,589
Cash and restricted cash at end of year	$ 5,230,046	$ 3,964,434	$ 5,977,141	$ -	$ 15,171
Supplemental cash flow information					
Cash paid for interest	$ -	$ 4,103,119	$ 16,261,962	$ -	$ 20,365
Cash paid for income taxes	$ 83,670	$ 798,712	$ -	$ -	$ 882
Noncash investing activity					
Capitalized transition costs reclassified to inventory	$ -	$ 2,379,251	$ -	$ -	$ 2,379
Capitalized intangibles due in subsequent periods	$ -	$ 575,000	$ -	$ -	$ 575
Noncash financing activity					
Appreciation of Class D shares	$ 1,509,294	$ -	$ -	$ -	$ 1,509

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Cash Flows, continued

Year ended December 31, 2018

	Enterprises	Holdings	Ventures	Eliminations	Consolidate
Cash flows from operating activities					
Net loss before allocation to noncontrolling interest	$ (33,335,141)	$ (13,475,028)	$ (30,527,193)	$ 40,634,395	$ (36,702
Adjustments to reconcile net loss to net cash					
(used in) provided by operating activities					
Depreciation and amortization	-	4,810,914	51,656	-	4,862
Amortization of deferred revenue	-	(10,073,824)	-	-	(10,073
Deferred tax assets	(7,325,442)	(5,422,342)	-	2,717,444	(10,030
Provision for obsolete inventory	-	1,282,743	-	-	1,282
Noncash interest expense	-	134,578	9,052,078	-	9,186
(Increase) decrease in assets					
Accounts receivable	-	(2,197,425)	-	-	(2,197
Other receivables	370	(207,291)	26,523	(15,745)	(196
Inventories	-	2,277,005		-	2,277
Prepaid expenses and other current assets	-	(1,089,736)	(65,833)	-	(1,155
Investment in subsidiaries	35,891,154	-	-	(35,891,154)	
Other assets - related party	-	(3,157,387)	-	3,157,387	
Other assets	-	10,254	-	-	10
Increase (decrease) in liabilities					
Accounts payable	6,682	11,474,482	(361,880)	981	11,120
Taxes payable - related party	-	2,960,685	-	(2,960,685)	
Accrued expenses and other current liabilities	50,310	6,852,501	(193,928)	14,764	6,723
Deferred revenue	-	17,500,000	-	-	17,500
Other liabilities	-	7,284,745	676,308	-	7,961
Other liabilities - related party	-	-	3,157,387	(3,157,387)	
Net cash (used in) provided by operating activities	(4,712,067)	18,964,874	(18,184,882)	4,500,000	567
Cash flows from investing activities					
Capitalized manufacturing transition costs	-	(6,931,740)	-	-	(6,931
Purchase of product rights	-	(880,000)	-	-	(880
Purchases of property and equipment	-	(29,146)	-	-	(29
Net cash used in investing activities	-	(7,840,886)	-	-	(7,840

See accompanying report of independent auditors.

USWM ENTERPRISES, LLC & SUBSIDIARIES

Consolidating Statements of Cash Flows, continued

Year ended December 31, 2018

	Enterprises	Holdings	Ventures	Eliminations	Consolidate
Cash flows from financing activities					
Proceeds from note payable - related party	-	-	13,000,000	(13,000,000)	
Payments on note payable - related party	-	(13,000,000)	-	13,000,000	
Proceeds from issuance of debt	-	1,226,559	-	-	1,226
Payments of long-term debt	-	(205,475)	-	-	(205
Capital contribution	-	-	4,500,000	(4,500,000)	
Net issuance of shares	4,647,160	-	-	-	4,647
Net borrowings under line of credit	-	5,082,412	-	-	5,082
Net cash provided by (used in) financing activities	4,647,160	(6,896,504)	17,500,000	(4,500,000)	10,750
Net increase (decrease) in cash and restricted cash	(64,907)	4,227,484	(684,882)	-	3,477
Cash and restricted cash at beginning of year	514,417	1,225,618	6,371,587	-	8,111
Cash and restricted cash at end of year	$ 449,510	$ 5,453,102	$ 5,686,705	$ -	$ 11,589
Supplemental cash flow information					
Cash paid for interest	$ -	$ 3,469,401	$ 11,985,447	$ -	$ 15,454
Cash paid for income taxes	$ 38,697	$ 380,282	$ -	$ -	$ 418
Noncash investing activity					
Capitalized intangibles due in subsequent periods	$ -	$ 2,767,017	$ -	$ -	$ 2,767
Capitalized manufacturing transition costs due in subsequent periods	$ -	$ 1,989,551	$ -	$ -	$ 1,989
Liability settled with assets from capitalized manufacturing transition costs	$ -	$ 578,000	$ -	$ -	$ 578

See accompanying report of independent auditors.

Exhibit 99.2

Unaudited Condensed Consolidated Financial Statements

for

MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries

For the quarterly period ended March 31, 2020

MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2020 *(unaudited)*	December 31, 2019
Assets		
Current Assets		
Cash	$ 3,999	$ 9,664
Accounts receivable, net	24,905	19,442
Other receivables	2,525	3,959
Inventories, net	10,580	10,095
Prepaid expenses and other current assets	4,143	3,922
Total Current Assets	46,152	47,082
Property, plant and equipment, net	9,679	9,889
Intangible assets, net	32,109	33,363
Goodwill	20,325	20,325
Deferred tax assets	32,039	30,101
Restricted cash	5,514	5,508
Other assets	1,420	1,841
Total Assets	$ 147,238	$ 148,109
Liabilities and Members' Deficit		
Current Liabilities		
Line of credit	$ 24,634	$ 24,128
Current portion of long-term debt	83,384	54,949
Accounts payable	6,329	18,756
Accrued expenses and other current liabilities	45,261	25,275
Total Current Liabilities	159,608	123,108
Long-term debt	60,673	87,110
Other liabilities	3,981	5,264
Total Liabilities	224,262	215,482
Members' Deficit		
MDD Enterprises, LLC and Subsidiaries	(61,304)	(52,317)
Noncontrolling interest	(15,720)	(15,056)
Total Members' Deficit	(77,024)	(67,373)
Total Liabilities and Members' Deficit	$ 147,238	$ 148,109

See accompanying notes to the condensed consolidated financial statements.

MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries
Condensed Consolidated Statements of Operations (*unaudited*)
(in thousands)

	Three months ended March 31,			
		2020		2019
Revenues				
Net product sales	$	43,230	$	38,780
Contract revenues		885		2,225
Total revenues		44,115		41,005
Cost of product sales		17,465		12,481
Gross profit		26,650		28,524
Operating expenses				
Sales and marketing		11,689		13,661
Commercial operations		6,473		6,242
General and administrative		7,468		7,456
Research and development		3,139		3,541
Amortization of intangible assets		491		1,190
Total operating expenses		29,260		32,090
Loss from operations		(2,610)		(3,566)
Other income (expense)				
Interest expense		(5,873)		(6,394)
Other, net		(3,060)		(4)
Total other income (expense)		(8,933)		(6,398)
Loss before provision for income taxes		(11,543)		(9,964)
Income tax benefit		1,892		1,948
Net loss		(9,651)		(8,016)
Less: net loss attributable to noncontrolling interest		(664)		(691)
Net loss attributable to MDD Enterprises, LLC and Subsidiaries	$	(8,987)	$	(7,325)

See accompanying notes to the condensed consolidated financial statements.

MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries
Condensed Consolidated Statements of Members' Deficit (*unaudited*)
Three months ended March 31, 2020 and 2019
(in thousands)

	Capital Contributions	Accumulated Deficit: Controlling Interest	Accumulated Deficit: Noncontrolling Interest	Total
Balance December 31, 2019	$ 44,838	$ (97,155)	$ (15,056)	$ (67,373)
Net loss	-	(8,987)	(664)	(9,651)
Appreciation of Class D shares	455	(455)	-	-
Balance March 31, 2020	$ 45,293	$ (106,597)	$ (15,720)	$ (77,024)

	Capital Contributions	Accumulated Deficit: Controlling Interest	Accumulated Deficit: Noncontrolling Interest	Total
Balance December 31, 2018	$ 28,758	$ (95,470)	$ (12,242)	$ (78,954)
Net loss	-	(7,325)	(691)	(8,016)
Issuance of Class D Shares	12,612	-	-	12,612
Appreciation of Class D shares	152	(152)	-	-
Balance March 31, 2019	$ 41,522	$ (102,947)	$ (12,933)	$ (74,358)

See accompanying notes to the condensed consolidated financial statements.

MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries
Condensed Consolidated Statements of Cash Flows *(unaudited)*
(in thousands)

	Three months ended March 31,	
	2020	2019
Cash flows from operating activities		
Net cash used in operating activities	$ (6,095)	$ (1,829)
Cash flows from investing activities		
Capitalized manufacturing transition costs	-	(3,219)
Purchase of product rights	-	(2,767)
Net cash used in investing activities	-	(5,986)
Cash flows from financing activities		
Proceeds from issuance of preferred shares	-	15,765
Payments of long-term debt	(70)	(52)
Net borrowings under line of credit	506	4,245
Net cash provided by financing activities	436	19,958
Net (decrease) increase in cash and restricted cash	(5,659)	12,143
Cash and restricted cash at beginning of period	15,172	11,589
Cash and restricted cash at end of period	$ 9,513	$ 23,732
Reconciliation:		
Cash	3,999	18,477
Restricted cash	5,514	5,255
Total cash and restricted cash	$ 9,513	$ 23,732
Supplemental cash flow information		
Noncash investing activity		
Change in capitalized manufacturing transition costs	$ -	$ (2,277)
Change in capitalized intangibles with consideration due in subsequent periods	$ -	$ (2,717)
Noncash financing activity		
Appreciation of preferred shares	$ 455	$ 152

See accompanying notes to the condensed consolidated financial statements.

(1) Business

MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) and Subsidiaries ("the Company"), a privately-held biopharmaceutical company, develops, licenses, and commercializes specialty pharmaceutical products, which are sold in the United States and internationally. The Company markets seven commercial products. The Company's activities are subject to regulation by various governmental agencies in the United States and in other countries.

On June 9, 2020, Supernus Pharmaceuticals, Inc. ("Supernus") acquired all of the outstanding equity of the Company pursuant to a Sale and Purchase Agreement with US WorldMeds Partners, LLC ("Seller" or "Partners"), dated April 28, 2020. Pursuant to the agreement, the Seller completed a reorganization of the Company, whereby the Company spun out certain legal entities and assets not related to central nervous system ("CNS") products and activities into a newly formed company that was retained by the Seller. Immediately, following the change of control, USWM Enterprises, LLC changed its name to MDD US Enterprises, LLC. Certain acquired subsidiaries also changed their names. Refer to Notes 2 and 12.

COVID-19 Impact

The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business operations, and has assessed the impact of the COVID-19 pandemic on its condensed consolidated financial statements as of March 31, 2020. Since the situation surrounding the COVID-19 pandemic remains fluid, the long-term duration, nature, and extent of the effects cannot be reasonably estimated at this time, outside of the matters discussed in Note 12.

(2) Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial information and therefore certain information and note disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been omitted or condensed. These interim financial statements should therefore be read in conjunction with the audited financial statements of the Company as of and for the year ended December 31, 2019 and the notes related thereto.

The condensed consolidated financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The results of operations for the three months ended March 31, 2020 and March 31, 2019 are not necessarily indicative of the future annual or quarterly results.

Consolidation

The condensed consolidated financial statements include the accounts of MDD US Enterprises, LLC (formerly known as USWM Enterprises, LLC) ("Enterprises"), and its wholly owned subsidiaries, MDD US Holdings, LLC (formerly known as US WorldMeds Holdings, LLC) ("Holdings") and US WorldMeds Ventures, LLC ("Ventures") and their respective subsidiaries. MDD US Operations, LLC (formerly known as US WorldMeds, LLC) is wholly owned by Holdings and is the primary operating subsidiary. Ventures owns 65% of HEMA Biologics, LLC ("HEMA"), a development stage joint venture with an unrelated company. The accounts of HEMA are included in the Enterprises condensed consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Significant Accounting Policies, continued

Estimates and Assumptions

Management makes and uses estimates and assumptions that affect reported amounts and disclosures, which can impact all elements of the condensed consolidated financial statements. Such estimates and assumptions are regularly reviewed and revised, if necessary. The estimates are based on complex judgments and assumptions which management believes are reasonable in light of past experience, current conditions and expectations regarding future events, which can be uncertain and unpredictable. Actual results could differ from those estimates, in which case the Company's reported results could be materially affected.

Recent Accounting Standards Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Company's consolidated balance sheet as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Company will recognize: 1) a lease liability for the Company's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Company's right to use, or control the use of, the specified asset for the lease term. The ASU originally required recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective transition method. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method that permits application of the updated standard at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In June 2020, the FASB issued ASU 2020-05, which deferred the effective date of ASU 2016-02. The updated standard will be effective for the Company for the year ending December 31, 2022, with early adoption permitted. The new standard will be adopted using the modified retrospective approach and the Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* - The new standard, issued in December 2019, simplifies the accounting for income taxes. This guidance will be effective on January 1, 2021 on a prospective basis, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements. The Company will adopt the new standard effective January 1, 2021.

ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)* - The new standard, issued in July 2016, requires credit losses on financial assets, including accounts receivable, to be measured as the net amount expected to be collected, rather than based on incurred losses. The estimated net amount expected to be collected considers forecasts of future economic conditions in addition to information about past events and current conditions. The guidance established by this new standard will be effective on January 1, 2023, on a modified retrospective basis, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements. The Company will adopt the new standard effective January 1, 2023.

Recently Issued Accounting Pronouncements

ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820)* - The new standard, issued in August 2018, improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies and adds certain disclosure requirements. The Company adopted the new standard effective January 1, 2020. The adoption of the standard did not have a material impact on its condensed consolidated financial statements.

(3) Revenues

The following table summarizes the disaggregation of revenues by nature:

	Three months ended March 31, 2020	Three months ended March 31, 2019
(in thousands)		
Net product sales		
United States	$ 42,955	$ 38,767
International	275	13
Total net product sales	43,230	38,780
Contract revenues		
Royalties	428	853
Contract reimbursed	325	472
Grants	120	-
Deferred revenue amortization	-	890
Other	12	10
Total contract revenues	885	2,225
Total revenues	$ 44,115	$ 41,005

(4) Inventories

Inventories consist of the following:

(in thousands)	March 31, 2020	December 31, 2019
Raw materials	$ 2,287	$ 2,208
Work in progress	1,585	2,090
Finished goods	6,708	5,797
	$ 10,580	$ 10,095

(5) Property, Plant and Equipment

Property, plant and equipment consist of the following:

(in thousands)	March 31, 2020	December 31, 2019
Land and improvements	$ 1,523	$ 1,523
Building and improvements	8,480	8,480
Leasehold improvements	168	168
Furniture and fixtures	84	84
Machinery and equipment	2,470	2,470
Computer equipment and software	824	824
	13,549	13,549
Less accumulated depreciation	3,870	3,660
	$ 9,679	$ 9,889

Depreciation expense for the three months ended March 31, 2020 and 2019 was $0.2 million and $0.3 million, respectively. No impairment charges were recorded for the three months ended March 31, 2020 and 2019.

(6) Intangible Assets

Intangible assets consist of identifiable assets acquired and capitalized contract costs and are amortized using the straight-line method over the estimated useful lives as follows:

		March 31, 2020		
(in thousands)	Amortization Period (Years)	Amount	Accumulated Amortization	Net
Patents	9	$ 7,187	$ 7,187	$ -
Manufacturing transition costs	5 - 8	24,751	3,922	20,829
License agreements	3 - 15	11,803	2,796	9,007
Product rights	5	3,247	974	2,273
		$ 46,988	$ 14,879	$ 32,109

		December 31, 2019		
(in thousands)	Amortization Period (Years)	Amount	Accumulated Amortization	Net
Patents	9	$ 7,187	$ 7,187	$ -
Manufacturing transition costs	5 - 8	24,751	3,109	21,642
License agreements	3 - 15	11,803	2,517	9,286
Product rights	5	3,247	812	2,435
		$ 46,988	$ 13,625	$ 33,363

Amortization expense, inclusive of amounts recorded within cost of product sales, was $1.3 million and $1.1 million for the three months ended March 31, 2020 and 2019, respectively. No intangible asset impairment charges were recorded for the three months ended March 31, 2020 and 2019.

(7) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

(in thousands)	March 31, 2020	December 31, 2019
Royalties	$ 12,467	$ 1,089
Class D shares derivative	6,603	3,643
Rebates and fees	6,551	4,988
Salaries, wages and commissions	6,477	4,244
Settlement loss	5,250	5,250
Accrued product rights	575	1,150
Other	7,338	4,911
	$ 45,261	$ 25,275

(8) Capital

The Company's ownership consists of four classes of shares as of March 31, 2020 and December 31, 2019 as noted below:

Share Class	Number of Shares
A	9,040,733
B	25
C	537,000
D	364,300

Class A and Class B shares are identical except for voting rights. Each Class A share is entitled to one vote and each Class B share is entitled to 1,000,000 votes.

The Class C shares are identical to Class A shares, except Class C shares are nonvoting, are subject to repurchase by the Company based on vesting schedules and will not participate in distributions, other than for taxes, until the Class A and Class B shares have achieved certain distribution thresholds.

The Class D convertible preferred shares include redemption features requiring the bifurcation and recognition of a derivative liability. Unless converted, the preferred shares are senior in priority to the rights of all existing shares of the Company and subordinate to all of the Company's debt obligations. The preference amount of the preferred shares increases 10% per year and potentially 18% per year depending on whether or not converted. The Company may redeem the preferred shares under certain circumstances if they are not converted. If prior to July 1, 2022, (i) the Ventures term loan is repaid or refinanced and the new lender, if any, permits a redemption or (ii) the Company is sold, the Company must redeem any unconverted preferred shares. A minimum redemption price of either 125% or 150% of the amount invested may apply depending on the timing or circumstances of the redemption. Separately, the preferred shares may be converted into Class A shares only if the Company issues at least $60.0 million of new equity before July 1, 2022, in which case the conversion price would be 80% of the new equity share price. Refer to Note 9.

(9) Fair Value Measurements

Measurement of fair market value is required upon initial measurement or for subsequent accounting and reporting of certain assets and liabilities, such as the net assets acquired in a business combination, and financial instruments. Fair value is determined under one or a combination of three approaches: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable.

Level 3 – Unobservable inputs that reflect the Company's estimates and assumptions.

The redemption features related to the Class D shares described in Note 8 are at a substantial premium, which require bifurcation from the equity instrument, resulting in the recognition of a derivative. Realized or unrealized gains or losses are recorded to other, net expense.

(9) Fair Value Measurements, continued

The following table sets forth by level within the fair value hierarchy the Company's financial liabilities that were accounted for at fair value on a recurring basis are as follows:

	March 31, 2020			
(in thousands)	Level 1	Level 2	Level 3	Total
Line of Credit	$ -	$ 24,634	$ -	$ 24,634
Current portion of long-term debt	-	335	-	335
Long-term debt	-	6,074	-	6,074
Class D shares derivative	-	-	6,603	6,603

	December 31, 2019			
(in thousands)	Level 1	Level 2	Level 3	Total
Line of Credit	$ -	$ 24,128	$ -	$ 24,128
Current portion of long-term debt	-	274	-	274
Long-term debt	-	6,206	-	6,206
Class D shares derivative	-	-	3,643	3,643

The following table sets forth by level within the fair value hierarchy the Company's financial liabilities that were accounted for at fair value on a non-recurring basis are as follows:

	March 31, 2020			
(in thousands)	Level 1	Level 2	Level 3	Total
Current portion of long-term debt	$ -	$ 83,049	$ -	$ 83,049
Long-term debt	-	54,599	-	54,599

	December 31, 2019			
(in thousands)	Level 1	Level 2	Level 3	Total
Current portion of long-term debt	$ -	$ 54,675	$ -	$ 54,675
Long-term debt	-	80,904	-	80,904

The line of credit, and long-term debt are measured at fair value based on the market approach using inputs derived principally or corroborated from market data, which approximates carrying value. The fair value measurement of the Class D shares derivative is determined based upon significant, unobservable inputs, including the estimated probability of the various redemption features as described in Note 8. The weighted average applied of the various redemption features was 136% as of March 31, 2020. The change in the fair value is due to the change in the estimated redemption features due to the change in control that is described within Note 12.

The carrying amounts of other financial instruments, including cash, restricted cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short-term maturities.

(9) Fair Value Measurements, continued

There have been no transfers of assets or liabilities into or out of Level 3 of the fair value hierarchy. The following table presents the changes in fair value of the Class D shares derivative liability which are measured using Level 3 inputs:

(in thousands)		
Balance at December 31, 2019	$	3,643
Change in fair value recognized in other, net		2,960
Balance at March 31, 2020	$	6,603

At least annually, the Company determines if the current value techniques used in the fair value measurements are still appropriate and evaluates and adjusts inputs used in the fair value measurements based on current market conditions and third-party information.

(10) Concentrations and Credit Risk

Revenue from one product was 70% and 65% of net product sales for the three months ended March 31, 2020 and 2019, respectively. Accounts receivable, net from this product were 55% and 44% of total accounts receivable, net at March 31, 2020 and December 31, 2019, respectively.

(11) Legal Proceedings and Contingencies

Department of Justice Investigation

In February 2014, the Company received a subpoena from the Department of Health and Human Services Office of the Inspector General (OIG). In March 2016, the Company received a Civil Investigative Demand from the U.S. Department of Justice (DOJ). Both demands for information were broad in scope and each sought production of various records and reports regarding matters, including without limitation, in connection with the Company's (i) support of a 501(c)(3) organization that provides financial assistance to patients and (ii) sales and marketing practices related to two of its products. In 2018, the Company recorded a $17.5 million settlement loss relating to this matter. The Company entered into a civil Settlement Agreement with the DOJ and the OIG (collectively the United States Government) in April 2019. The Settlement Agreement was neither an admission of liability by the Company nor a concession by the United States Government that its claims are not well-founded. Under the Settlement Agreement, the Company agreed to pay the United States Government the sum of $17.5 million, exclusive of interest, over the course of 2019 and 2020. In 2019, the Company paid $12.2 million, with the final payment made in June 2020. In connection with the civil settlement, the Company also entered into a Corporate Integrity Agreement with the OIG that spans a period of five years and provides specific measures to ensure proper controls are in place to promote compliance by the Company with certain federal statutes, regulations and written directives of federal health care programs.

Under the Settlement Agreement, the Company was also required to pay the reasonable attorneys' fees and costs incurred by the relators in accordance with a separate settlement agreement between the Company and each respective relator. The Company agreed to pay $1.1 million to the relators, which was recognized in general and administrative expenses in the consolidated statement of operations and paid in 2019, subsequent to the first quarter.

Other Litigation

In July 2019, the Company filed a breach of contract claim against a former commercial vendor arising out of the vendor's refusal to refund a settlement payment owed to the Company pursuant to a settlement and release agreement. The vendor had filed a motion to dismiss the case, which was denied by the relevant court. The court has requested the parties to complete discovery by August 2020. Recoverable amounts are not reflected in the condensed consolidated financial statements given the status of the claim.

(11) Legal Proceedings and Contingencies, continued

In November 2019, the Company was respondent and counterclaimant in a separate dispute with the same former commercial vendor related to a claim and cross-claim for indemnification arising out of conduct related to the DOJ investigation. Both parties are in discussions before the American Arbitration Association, but formal arbitration has not yet been scheduled. As amounts are not probable and estimable, no amounts have been reflected in the condensed consolidated financial statements.

In February 2020, the Company filed an arbitration claim against a contract manufacturer to seek recovery for a breach of contract related to development and supply of product. Recoverable amounts are not reflected in the condensed consolidated financial statements given the status of the claim.

The Company operates in a litigious and highly regulated business environment. Other than the matters discussed above, the Company is not currently subject to any foreseeable litigation and is unaware of any pending lawsuits. The Company maintains various insurance policies to minimize the impact of legal actions or claims. Upon execution of the civil Settlement Agreement, the Company received $3.5 million in insurance proceeds that was recognized in second quarter of 2019.

Guarantees

In conjunction with a divestiture, the Company is a guarantor to a liability that could be owed to the purchaser. As of the date of this report, the maximum exposure is $27.5 million. As the amount owed is not probable, no provision has been reflected within the condensed consolidated financial statements.

(12) Subsequent Events

Management evaluated subsequent events for recognition or disclosure through August 24, 2020, the date which the condensed consolidated financial statements were available to be issued.

Change of Control

On June 9, 2020, the Company was acquired by Supernus. In connection with the change of control, Supernus acquired the entire issued share capital of the Company, including all classes of the Company's common and preferred stock, for potential cash consideration of up to $530.0 million, consisting of an upfront cash payment of $300.0 million and additional cash payments of up to $230.0 million upon the achievement of certain milestones. The cash consideration is subject to further adjustment upon completion of a closing balance sheet and the finalization of other adjustments. At closing of the transaction, the Company comprised of assets and operations related to a portfolio of products that treat CNS diseases. Pursuant to the transaction, the Company completed a reorganization, immediately prior to the acquisition by Supernus, whereby the Company spun out certain legal entities and assets related to non-CNS products and activities into a newly formed company that was retained by Partners.

Long-Term Incentive Compensation Program

The Company established a Long-Term Incentive Compensation Program ("LTI") effective January 1, 2018. Upon the Company meeting the specified financial target, LTI Awards will be paid to eligible participants on a three-year rolling basis provided the participant is an active employee of the Company on the payment date. As a result of the change in control, amounts earned by eligible participants in 2018 and 2019 totaling $4.4 million will be payable in the third quarter of 2020 by Partners.

Government Loan

On April 15, 2020, the Company received a Paycheck Protection Program loan under the Coronavirus Aid, Relief, and Economic Security Act totaling $5.2 million. The Company repaid the loan and related interest immediately prior to the acquisition by Supernus.

There were no other events occurring during the evaluation period that require recognition or disclosure in the condensed consolidated financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Introduction

The following unaudited pro forma condensed combined statements of operations (pro forma statements of operations) give effect to the acquisition of USWM Enterprises, LLC (USWM) by Supernus Pharmaceutical, Inc. (Supernus or the Company), and were prepared in accordance with the requirements of Article 11 of Regulation S-X. The pro forma statements of operations for the six months ended June 30, 2020 and for the year ended December 31, 2019 assume that the acquisition of USWM took place as of January 1, 2019.

The pro forma statement of operations for the year ended December 31, 2019 combines the historical results of the Company and USWM for that period. The pro forma statement of operations for the six months ended June 30, 2020 combines the historical results of the Company for that period with the historical results of USWM for the period from January 1, 2020 through June 8, 2020, the date immediately preceding the acquisition close date. The results of USWM from the period post acquisition close date; i.e. June 9, 2020 through June 30, 2020, were included in the historical results for the Company for the six months ended June 30, 2020. All historical USWM results included herein have been derived from the underlying books and records of USWM prior to the acquisition. A pro forma balance sheet is not presented here because the Company’s condensed consolidated balance sheet as of June 30, 2020 is included in its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 fully reflects the acquisition as of the closing date, June 9, 2020.

Accounting for the acquisition is dependent upon certain information; e.g. valuation reports and other studies, that have not yet been finalized. The Company cannot finalize the accounting for the acquisition until that information is available in final form. Therefore, the acquired assets and assumed liabilities of USWM have been measured based on various preliminary estimates using assumptions that the Company believes are reasonable, utilizing information that is currently available. Differences between these preliminary estimates and the final acquisition accounting could have a material impact on the accompanying pro forma financial statements and the combined company’s future results of operations and financial position. The Company intends to finalize the acquisition accounting as soon as practicable within the required measurement period, but in no event later than one year following completion of the acquisition, which is June 9, 2021. The Company is not required to, and therefore does not intend to update these pro forma results as presented herein for any of these changes.

The pro forma statements of operations set forth below which give effect to the acquisition also include the application of the acquisition method of accounting and reflect the restructuring of USWM. This restructuring occurred prior to the acquisition, as described in Note 1 to the pro forma statements of operations.

The pro forma statements of operations should be read in conjunction with:

- The accompanying notes to the unaudited pro forma condensed combined statements of operations;
- The Company's audited consolidated financial statements and related notes, included in the Company' Annual Report on Form 10-K for the fiscal year ended December 31, 2019;
- The Company's unaudited condensed consolidated financial statements and related notes included in the Company's Quarterly Report on Form 10-Q for the three and six months ended June 30, 2020 and June 30, 2019; and
- USWM's audited consolidated financial statements and related notes, for the fiscal year ended December 31, 2019, and 2018 and the unaudited condensed consolidated financial statements and related notes, for the three months ended March 31, 2020 and 2019, which are included as Exhibits to this Current Report on Form 8-K/A.

Supernus Pharmaceuticals, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended June 30, 2020
(in thousands, except share and per share data)

	Historical Supernus (as reported)	Adjusted USWM (Note 4)	Acquisition Pro Forma Adjustments (Note 5, 6)	Note 6	Pro Forma Combined
Revenues					
Net product sales	$ 216,474	$ 63,260	$ —		$ 279,734
Royalty revenues	5,231	—	—		5,231
Total revenues	221,705	63,260	—		284,965
Costs and expenses					
Cost of goods sold[a]	12,538	24,685	1,156	(A),(D)	38,379
Research and development	41,184	2,836	25	(E)	44,045
Selling, general and administrative	89,717	22,122	(8,268)	(B),(E)	103,571
Amortization of intangible assets	3,706	737	7,919	(C)	12,362
Total costs and expenses	147,145	50,380	832		198,357
Operating earnings (losses)	74,560	12,880	(832)		86,608
Other income (expense)					
Interest income	9,726	—	—		9,726
Interest expense	(11,570)	—	(234)	(A)	(11,804)
Other income (expense), net	3,528	(92)	—		3,436
Total other income (expense)	1,684	(92)	(234)		1,358
Earnings (losses) before income taxes	76,244	12,788	(1,066)		87,966
Income tax expense (benefit)	20,059	6,099	(268)	(F)	25,890
Net earnings (losses)	$ 56,185	$ 6,689	$ (798)		$ 62,076
Earnings per share					
Basic	$ 1.07				$ 1.18
Diluted	$ 1.05				$ 1.16
Weighted-average shares outstanding					
Basic	52,545,910				52,545,910
Diluted	53,611,418				53,611,418

[a] Excludes amortization of acquired intangible assets

See accompanying notes to the unaudited pro forma condensed combined financial statements

Supernus Pharmaceuticals, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2019
(in thousands, except share and per share data)

	Historical Supernus (as reported)	Adjusted USWM (Note 4)	Acquisition Pro Forma Adjustments (Note 5, 6)	Note 6	Pro Forma Combined
Revenues					
Net product sales	$ 383,400	$ 149,826	$ —		$ 533,226
Royalty revenues	9,355	226	—		9,581
Total revenues	392,755	150,052	—		542,807
Costs and expenses					
Cost of goods sold[a]	16,660	56,730	3,584	(A),(D)	76,974
Research and development	69,099	7,371	45	(E)	76,515
Selling, general and administrative	153,246	53,661	(1,521)	(B),(E)	205,386
Amortization of intangible assets	5,179	2,207	17,271	(C)	24,657
Total costs and expenses	244,184	119,969	19,379		383,532
Operating earnings (losses)	148,571	30,083	(19,379)		159,275
Other income (expense)					
Interest income	21,833	—	—		21,833
Interest expense	(22,707)	—	(530)	(A)	(23,237)
Other income (expense), net	(210)	(74)	—		(284)
Total other income (expense)	(1,084)	(74)	(530)		(1,688)
Earnings (losses) before income taxes	147,487	30,009	(19,909)		157,587
Income tax expense (benefit)	34,431	10,463	(5,043)	(F)	39,851
Net earnings (losses)	$ 113,056	$ 19,546	$ (14,866)		$ 117,736
Earnings per share					
Basic	$ 2.16				$ 2.25
Diluted	$ 2.10				$ 2.19
Weighted-average shares outstanding					
Basic	52,412,181				52,412,181
Diluted	53,816,754				53,816,754

[a] Excludes amortization of acquired intangible assets

See accompanying notes to the unaudited pro forma condensed combined financial statements

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1 - Description of the Transaction

On June 9, 2020 (the Closing Date), the Company completed its acquisition of all of the outstanding equity of USWM Enterprises, LLC (USWM) a privately-held biopharmaceutical company, pursuant to a Sale and Purchase Agreement with US WorldMeds Partners, LLC (Seller), dated April 28, 2020 (the Agreement). Under the terms of the Agreement, the Company specifically acquired the right to further develop and commercialize APOKYN®, XADAGO® and the Apomorphine Infusion Pump in the United States and MYOBLOC® worldwide (the Products). The Company paid the Seller $297.2 million in cash. Contingent payments of up to $230.0 million are due to the Seller upon the achievement of certain milestones related to the development and sale of the Products. In connection therewith, the Company recorded a contingent consideration liability of $115.7 million as of the date of the acquisition, to reflect the estimated fair value of the contingent consideration.

Immediately following the closing of the acquisition, USWM changed its name to MDD US Enterprises, LLC.

Prior to the acquisition, USWM was comprised of assets and operations related to a portfolio of products that treat central nervous system (CNS) and non-CNS diseases. Accordingly, the historical financial statements of USWM are comprised of assets, liabilities and operations that include both the CNS and non-CNS related activities. Pursuant to the Agreement, the Seller completed a reorganization of USWM (the Restructuring) immediately prior to the acquisition by the Company, whereby USWM spun out certain legal entities and assets related to non-CNS products and activities into a newly formed company that was retained by the Seller. Thereby, at the Closing Date, USWM was comprised of the assets, liabilities and operations related to the acquired CNS portfolio only. The pro forma adjustments described in Note 4 reflect the elimination of non-CNS business in connection with the Restructuring.

Note 2 - Basis of Presentation

The pro forma statements of operations for the six months ended June 30, 2020 and the year ended December 31, 2019 were prepared in accordance with the requirements of Article 11 of Regulation S-X, and were based on the historical financial statements of the Company and USWM. The historical financial statements of USWM comprise the assets, liabilities, and operations that include both CNS and non-CNS activities.

The historical consolidated financial information has been adjusted in the accompanying pro forma statements of operations to give effect to the acquisition, assuming it took place on January 1, 2019. In addition, the pro forma statements of operations give effect to pro forma events that are (a) directly attributable to the acquisition, (b) factually supportable and (c) expected to have a continuing impact on the condensed combined statement of operations.

The acquisition of USWM is considered to be an acquisition of a business, as defined in Accounting Standards Codification (ASC) 805, *Business Combinations*. Therefore, the pro forma statements of operations have been prepared using the acquisition method of accounting in accordance with ASC 805, which generally requires the acquired assets and assumed liabilities to be recognized at fair value at Closing Date. The pro forma statements of operations may differ from the Company's final purchase accounting for a number of reasons, including the fact that the estimates of fair values of assets acquired and liabilities assumed as of the Closing Date are preliminary and therefore subject to change within the measurement period (up to one year from the Closing Date), at which time the valuation analysis and other studies are finalized. The preliminary purchase price allocation is discussed in Note 5.

Certain reclassifications have been made to the historical presentation of USWM’s financial statements in order to conform to the financial statement presentation of the Company. These reclassifications are discussed further in Note 4.

Costs related to the acquisition, recorded by both USWM and the Company in each of the respective historical financial statements, have been excluded from the pro forma statements of operations for the six months ended June 30, 2020 and year ended December 31, 2019. These reflect non-recurring charges directly related to the transaction. These adjustments are discussed further in Note 6.

The pro forma statements of operations are provided for illustrative purposes only. These do not purport to represent what the actual consolidated results of operations of the combined company would have been had the acquisition occurred on January 1, 2019, nor are they necessarily indicative of future consolidated results of operations of the combined company on a standalone basis. The pro forma statements of operations neither reflect the costs of any integration activities nor the synergies and benefits that may result from realization of any anticipated revenue growth or operational efficiencies expected to result from the acquisition of USWM.

Note 3 - Accounting Policies

The accounting policies of the Company in certain respects may vary materially from those of USWM. During the preparation of the pro forma statements of operations, the Company's management performed a preliminary analysis of the historical accounting policies of USWM.

The accounting policies used in the preparation of the pro forma statements of operations are those applied in the historical financial statements of the Company, including the application of Accounting Standards Update No. 2016-02, *Leases* (ASC 842), which was adopted by the Company on January 1, 2019. USWM, a privately-held company, was not required to adopt ASC 842 in its historical financial statements. A preliminary determination of the lease liabilities and corresponding right-of-use assets of USWM were made in connection with the purchase price accounting at the Closing Date, June 9, 2020. The Company has reflected the pro forma adjustment related to the adoption of ASC 842 by USWM as further described in Note 6(A). There are no other significant adjustments necessary to conform USWM's financial statements to the accounting policies used by the Company, in the preparation of the pro forma financial statements.

The Company's management continues to review USWM's historical accounting policies in order to determine if differences in accounting policies would require further adjustment or reclassification of USWM's results of operations, or reclassification of assets or liabilities, to conform to the Company's accounting policies and classifications. As a result of this review, the Company's management may identify differences that, when adjusted or reclassified, could have a material impact on the pro forma statements of operations included herein. Those adjustments would be reflected in the Company's financial statements as of the period in which those adjustments are identified.

Note 4 - Reclassification Adjustments and Elimination of non-CNS business

As mentioned previously, certain reclassifications have been made to the historical presentation of the statement of operations of USWM to conform to the financial statement presentation of the Company. In addition, certain operations of USWM related to its non-CNS business were divested in connection with the Restructuring that occurred immediately prior to the Closing Date, and therefore the non-CNS business was not acquired by the Company. These divested operations were eliminated as reflected below. The following summarizes the reclassification adjustments and pro forma adjustments to eliminate the operations of the non-CNS business of USWM, and the conformance to the financial statement presentation of the Company, for the period ended June 8, 2020 and year ended December 31, 2019 (dollars in thousands):

	Period Ended June 8, 2020			
	Historical USWM Before Adjustments	Elimination of non-CNS Business (1)	Reclassification Adjustments (3)	Adjusted USWM
Revenues				
Net product sales	$ 70,704	$ (7,524)	$ 80	$ 63,260
Contract revenues	1,656	(916)	(740)	—
Total revenues	72,360	(8,440)	(660)	63,260
Costs and expenses				
Cost of goods sold	28,656	(5,202)	1,231	24,685
Research and development	5,152	(2,302)	(14)	2,836
Selling, general and administrative	—	—	22,122	22,122
Sales and marketing	18,387	(7,576)	(10,811)	—
Commercial operations	10,595	(1,178)	(9,417)	—
General and administrative	12,008	(8,387)	(3,621)	—
Manufacturing transition	150	—	(150)	—
Amortization of intangible assets	775	(38)	—	737
Total costs and expenses	75,723	(24,683)	(660)	50,380
Operating earnings (losses)	(3,363)	16,243	—	12,880
Other income (expense)				
Interest income (expense)	(10,629)	10,629	—	—
Other income (expense), net	(12,953)	12,861	—	(92)
Total other income (expense)	(23,582)	23,490	—	(92)
Earnings (losses) before income taxes	(26,945)	39,733	—	12,788
Income tax expense (benefit)	(4,053)	10,152 (2)	—	6,099
Net earnings (losses)	(22,892)	29,581	—	6,689
Less: net loss attributable to noncontrolling interest	(1,260)	1,260	—	—
Net earnings (losses) attributable to USWM	$ (21,632)	$ 28,321	$ —	$ 6,689

	Year Ended December 31, 2019			
	Historical USWM Before Adjustments	Elimination of non-CNS Business (1)	Reclassification Adjustments (3)	Adjusted USWM
Revenues				
Net product sales	$ 170,405	$ (20,699)	$ 120	$ 149,826
Contract revenues	21,966	(20,308)	(1,658)	—
Royalty revenues	—	—	226	226
Total revenues	192,371	(41,007)	(1,312)	150,052
Costs and expenses				
Cost of goods sold	63,471	(10,109)	3,368	56,730
Research and development	16,699	(10,120)	792	7,371
Selling, general and administrative	—	—	53,661	53,661
Sales and marketing	53,708	(27,084)	(26,624)	—
Commercial operations	26,800	(3,696)	(23,104)	—
General and administrative	26,986	(18,440)	(8,546)	—
Manufacturing transition	1,150	(291)	(859)	—
Amortization of intangible assets	3,041	(834)	—	2,207
Total costs and expenses	191,855	(70,574)	(1,312)	119,969
Other operating income	21,219	(21,219)	—	—
Operating earnings (losses)	21,735	8,348	—	30,083
Other income (expense)				
Interest income (expense)	(24,853)	24,853	—	—
Other income (expense), net	2,837	(2,911)	—	(74)
Total other income (expense)	(22,016)	21,942	—	(74)
Earnings (losses) before income taxes	(281)	30,290	—	30,009
Income tax expense (benefit)	2,709	7,754 (2)	—	10,463
Net earnings (losses)	(2,990)	22,536	—	19,546
Less: net loss attributable to noncontrolling interest	(2,814)	2,814	—	—
Net earnings (losses) attributable to USWM	$ (176)	$ 19,722	$ —	$ 19,546

(1) **Elimination of non-CNS Business** - These adjustments remove the results of operations related to the activities of legal entities divested by USWM in connection with the Restructuring. Eliminated revenues primarily relate to non-CNS commercial products and services.

The expenses eliminated fall into several categories. First, the Company eliminated all costs that were incurred solely on behalf of the non-CNS operations. Second, pro forma allocations were made to eliminate employee compensation and related expenses for USWM employees that were not transferred to the Company as part of the acquisition. Such expenses included employee salaries, wages, bonus, and benefits, as well as ancillary, non-compensation costs. Third, the Company eliminated any cost that was part of the Restructuring and would not have a continuing impact on the operations, such as the historical depreciation expense related to the USWM corporate building. This building remained with the Seller and was not part of the assets acquired by the Company. The remaining activities of USWM will be integrated at the Company's facilities, primarily in Maryland.

(2) **Income Tax Adjustments -** This adjustment reflects the elimination of pre-tax losses of the non-CNS portion of the business. It is computed by applying the statutory tax rates applicable at the period ending June 8, 2020 and the year ending December 31, 2019, which are 25.5% and 25.6%, respectively. The statutory tax rate may differ materially from the Company's effective tax rate following the acquisition. Moreover, it does not consider any historical or future tax events that may impact the combined company.

(3) **Financial Statement Reclassification** - Adjustments were made to reclassify amounts to conform with the Company's financial statement presentation. Accordingly, there is no impact to net earnings.

Note 5 - Purchase Price Accounting and Related Adjustments

The Company expects to finalize its purchase price allocation within one year of the Closing Date. In addition, the Company continues to analyze and assess relevant information necessary to determine, recognize and record at fair value the assets acquired and liabilities assumed in the following areas: intangible assets, lease assets and liabilities, tax assets and liabilities, and certain existing or potential reserves, such as those for legal or contract-related matters. The activities the Company is currently undertaking, include but are not limited to the following: review of acquired contracts and other contract-related and legal matters, review and evaluation of the accounting policies, tax positions, and other tax-related matters. Further, the Company is in the process of obtaining input from third party valuation firms with respect to the fair value of the acquired tangible and intangible assets, and other information necessary to record and measure the assets acquired and liabilities assumed. Accordingly, the preliminary recognition and measurement of assets acquired and liabilities assumed as of Closing Date is subject to change.

The following preliminary purchase price allocation table presents the Company's preliminary estimates of the fair values of the assets acquired and liabilities assumed at the Closing Date (dollars in thousands):

Cash and cash equivalents	$	6,994
Accounts receivable		18,474
Inventories		10,400
Prepaid expenses and other current assets		3,564
Property and equipment		454
Finance lease asset[1]		22,747
Intangible assets		387,000
Other assets		340
Total fair value of assets acquired		449,973
Accounts payable		(2,573)
Accrued expenses and other current liabilities		(23,339)
Finance lease liability[1]		(22,747)
Deferred income tax liabilities		(69,515)
Total fair value of liabilities assumed		(118,174)
Total identifiable net assets	**$**	**331,799**
Goodwill		88,095
Total purchase price	**$**	**419,894**
Cash consideration paid[2]	$	297,200

[1] Refer to Note 6(A) for further discussion of the acquired finance lease asset and assumed lease liability.

[2] Represents total purchase price, less cash and cash equivalents acquired and contingent consideration liabilities recorded at the Closing Date

The acquired intangible assets include definite-lived intangible assets: acquired developed technology and product rights for the acquired Products and an indefinite-lived intangible asset: acquired in-process research & development (IPR&D)

related to the infusion pump product candidate. Definite-lived intangible assets are amortized over their estimated useful lives. Acquired IPR&D in a business combination is considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. Upon successful completion of the project, the capitalized amount is amortized over the estimated useful life. The preliminary amortization period and preliminary valuation may change materially during the measurement period; therefore, the related amortization expense could differ from the estimates used in the pro forma adjustments herein. Refer to Note 6(C).

Note 6 - Acquisition-related Adjustments

The following pro forma adjustments relate to the application of purchase accounting and other acquisition-related costs to the pro forma statements of operations for the six months ended June 30, 2020 and year ended December 31, 2019:

(A) **Merz Contract Adjustment** - USWM had an existing contract manufacturing agreement with Merz Pharma GmbH & Co. KGaA (Merz), for the manufacture and supply of MYOBLOC (Merz Agreement). In connection with the adoption of ASC 842 as of the Closing Date, the Company determined that the Merz Agreement contains an embedded finance lease under ASC 842 and recorded a finance right of use asset and corresponding lease liability. USWM previously had deferred and amortized certain costs associated with the Merz Agreement. This pro forma adjustment gives effect to the application of ASC 842 as if the finance lease was recorded as of January 1, 2019. The additional lease amortization expense is recorded within *Cost of goods sold*, in the amounts of $1.6 million and $3.2 million respectively This expense is partially offset by the elimination of the previously recorded deferred cost amortization expense, $1.1 million and $1.2 million for the six months ended June 30, 2020 and year ended December 31, 2019, respectively. In addition, a pro forma adjustment was recorded to reflect the additional interest expense of $0.2 million and $0.5 million for the six months ended June 30, 2020 and year ended December 31, 2019, respectively.

(B) **Acquisition-related Cost Elimination** - Acquisition-related expenses, including certain legal, accounting and other third-party advisor expenses, have been eliminated. Acquisition-related expenses were $8.4 million and $1.7 million for the six-months ended June 30, 2020 and year ended December 31, 2019, respectively. Acquisition-related expenses are not reflected in the pro forma statements of operations because these expenses do not have a continuing impact on the operating results of the combined company.

(C) **Intangible Asset Step-up Amortization Adjustment** - Excluding the acquired IPR&D, all amortization adjustments related to acquired intangible assets, are recorded to *Amortization of intangible assets*. The estimated amortization expense associated with the finite-lived intangible assets was computed using the straight-line method, and are based on their estimated useful lives.

Acquired IPR&D assets are considered to be indefinite-lived and are not amortized until the completion of the associated research and development efforts. The following table summarizes the preliminary purchase price allocation, the preliminary average remaining useful lives, and pro forma adjustments for identifiable finite-lived intangible assets acquired (dollars in thousands):

	Estimated Useful Lives (in years)	Estimated Fair Value	Period ended June 8, 2020	Year ended December 31, 2019
Acquired In-process Research & Development	n/a	$ 150,000	$ —	$ —
Acquired Developed Technology and Product Rights				
APOKYN PEN	12.5	190,000	6,755	15,200
XADAGO	10.5	34,000	1,439	3,238
MYOBLOC	12.5	13,000	462	1,040
Total Acquired Developed Technology and Product Rights	10.5 - 12.5	237,000	8,656	19,478
Total intangible assets		$ 387,000	$ 8,656	$ 19,478
Less: historical amortization of intangible assets			(737)	(2,207)
Pro forma adjustment			$ 7,919	$ 17,271

(D) **Inventory Step-up Amortization Adjustment** - This adjustment reflects the revaluation of USWM’s finished goods and work in process inventory to fair value. Fair value was estimated as approximately $10.4 million, an increase of $2.4 million from the carrying value at Closing Date. The fair value calculation is preliminary and subject to change.

After the acquisition, the step-up in inventory fair value of $2.4 million will increase cost of sales as the inventory is sold over a turnover period of approximately 18 months. As there is a continuing impact, the amortization of the inventory step-up was estimated based on the 18 month turnover period. The pro forma adjustments for the six months ended June 30, 2020 and year ended December 31, 2019 were $0.7 million and $1.6 million, respectively.

(E) **Employee Share-based Awards Amortization Adjustment -** Following the Closing Date, the Company granted share-based awards, under the Company's employee stock incentive plan, to certain employees of USWM who transferred to the Company. This pro forma adjustment, which reflects the recognition of the share-based compensation expense associated with these awards, was $0.1 million and $0.2 million in total for the six months ended June 30, 2020 and year ended December 31, 2019, respectively.

(F) **Income Tax Adjustment -** Reflects the income tax effects of the pro forma adjustments, calculated using a blended statutory tax rate of 25.2% and 25.3% for the six-month period ended June 30, 2020 and twelve-month period ended December 31, 2019, respectively. The statutory rate may differ materially from the Company’s effective tax rate following the acquisition. Moreover, it does not consider any historical or future tax events that may impact the combined company.