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

FORM 8-K/A
(Amendment No. 1)

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

Date of Report (Date of earliest event reported): January 31, 2020

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

Delaware	001-38485	32-0546926
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

400 Crossing Boulevard
Bridgewater, NJ 08807
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (908) 947-3120

N/A
(Former name or former address, if changed since last report)

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))

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	**AMRX**	**New York Stock Exchange**

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).

Emerging growth company ☐

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

Explanatory Note

On February 4, 2020, Amneal Pharmaceuticals, Inc. (the "Company") filed a Current Report on Form 8-K (the "Initial Filing") disclosing that it had completed the previously announced transactions contemplated by the Equity Purchase Agreement (the "Purchase Agreement"), dated December 10, 2019, by and among the Jerry Brian Shirley Business Trust, the Darren Thomas Shirley Business Trust, the Steve Shirley Business Trust, the Jerry Shirley Business Trust, Troy Mizell, Darrell Calvert, AvKARE, Inc., Dixon-Shane, LLC d/b/a R&S Northeast LLC ("R&S Northeast" and together with AvKARE, Inc. the "Target") and Rondo Acquisition LLC, a wholly-owned subsidiary of the Company ("Rondo"). Pursuant to the Purchase Agreement, Rondo acquired approximately 65% of the Target, for approximately $254 million in cash and the issuance of approximately $44.2 million in long-term and $1 million in short term promissory notes to the Target's shareholders (collectively, the "Transactions"). The Transactions closed on January 31, 2020.

This Amendment No. 1 on Form 8-K/A amends the Initial Filing to include the required historical financial statements of the Target and the pro forma financial information required by Items 9.01(a) and 9.01(b) of Form 8-K as well as the related auditor consents, and should be read in conjunction with the Initial Filing.

The pro forma financial information included as Exhibit 99.3 to this Current Report on Form 8-K/A has been presented for informational purposes only, as required by Form 8-K, and does not purport to represent the actual results of operations that the Company and the Target would have achieved had the companies been combined at and during the period presented in the pro forma financial information, and is not intended to project the future results of operations that the combined company may achieve following the Transactions.

Except as described above, all other information in the Initial Filing remains unchanged.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of business acquired

The audited financial statements of each of AvKARE, Inc. and R&S Northeast as of December 31, 2019 and for the year then are filed as Exhibits 99.1 and 99.2, respectively, and are incorporated herein by reference.

(b) Pro forma financial information

The unaudited pro forma condensed combined financial information of Amneal Pharmaceuticals, Inc. as of December 31, 2019 and the year then ended is filed as Exhibit 99.3 and is incorporated herein by reference.

(d) Exhibits

The following exhibits

Exhibit No.	Description
23.1	Consent of Crowe LLP - AvKARE, Inc.
23.2	Consent of Crowe LLP - Dixon-Shane, LLC
99.1	Audited Financial Statements of AvKARE, Inc. as of December 31, 2019 and for the year then ended.
99.2	Audited Financial Statements of Dixon-Shane, LLC dba R&S Northeast LLC as of December 31, 2019 and for the year then ended.
99.3	Unaudited Pro Forma Condensed Combined Financial Information of Amneal Pharmaceuticals, Inc. as of December 31, 2019 and for the year then ended December 31, 2019.
104	Cover Page Interactive Data File - The cover page from the Company's Current Report on Form 8-K/A filed on April 17, 2020 is formatted in Inline XBRL (included as Exhibit 101).

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.

Date: April 17, 2020

AMNEAL PHARMACEUTICALS, INC.

By: /s/ Anastasios Konidaris
Name: Anastasios Konidaris
Title: Senior Vice President and Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in the Registration Statement No. 333-224700 on Form S-8 and No. 333-230022 and 333-224702 on Form S-3 of Amneal Pharmaceuticals, Inc. of our report dated April 17, 2020 on the financial statements of AvKare, Inc., which is included in this Current Report Amendment No. 1 on Form 8-K/A.

/s/ Crowe LLP

Franklin, Tennessee
April 17, 2020

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in the Registration Statement No. 333-224700 on Form S-8 and No. 333-230022 and 333-224702 on Form S-3 of Amneal Pharmaceuticals, Inc. of our report dated April 17, 2020 on the financial statements of Dixon-Shane LLC dba R&S Northeast, LLC which is included in this Current Report Amendment No. 1 on Form 8-K/A.

/s/ Crowe LLP

Franklin, Tennessee
April 17, 2020

AVKARE, INC.
FINANCIAL STATEMENTS
December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
AvKARE, Inc.
Pulaski, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of AvKARE, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to 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 audit. We conducted our audit 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 AvKARE, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13, on January 31, 2020 the Company was purchased by Rondo Acquisition, LLC, a wholly-owned subsidiary of Amneal Pharmaceuticals, Inc.

/s/ Crowe LLP

Franklin, Tennessee
April 17, 2020

AVKARE, INC.
BALANCE SHEET
December 31, 2019

ASSETS	
Current assets	
Cash	$ 1,015,136
Accounts receivable, net	42,868,256
Inventory	801,044
Related party receivable	27,369,481
Prepaid expenses and other current assets	651,881
Total current assets	72,705,798
Equipment and software	
Furniture, fixtures and equipment	670,073
Software	2,566,961
	3,237,034
Less: accumulated depreciation and amortization	(1,798,607)
Total equipment and software, net	1,438,427
Other assets	
Deferred income taxes	229,705
Investment	130,459
Total assets	$74,504,389
LIABILITIES AND STOCKHOLDERS’ EQUITY	
Current liabilities	
Accounts payable	$ 1,768,421
Accrued expenses	15,847,425
Related party payable	3,271,106
Income taxes payable	452,147
Distribution fees payable	2,608,532
Chargebacks payable	11,181,474
Total current liabilities	35,129,105
Stockholders’ equity	
Common stock—$1 par value, 10,000 shares authorized, 1,000 shares issued and outstanding	1,000
Retained earnings	39,374,284
Total stockholders’ equity	39,375,284
Total liabilities and stockholders’ equity	$74,504,389

See accompanying notes to the financial statements.

AVKARE, INC.
STATEMENT OF INCOME
December 31, 2019

Sales, net	$281,410,979
Cost of sales	231,606,978
Gross profit	49,804,001
Operating expenses	
Advertising	63,396
Bank charges	43,314
Charitable contributions	58,334
Computer expense	62,638
Depreciation and amortization	410,112
Dues and subscriptions	217,008
Employee benefits	137,031
Insurance	723,982
Miscellaneous	256,166
Professional fees	2,495,996
Rent and leases	317,532
Repairs and maintenance	5,820
Research and development	2,249,860
Salaries and wages	5,448,516
Supplies	91,429
Taxes and licenses	183,278
Travel and entertainment	670,514
Utilities and telephone	167,915
Total operating expenses	13,602,841
Income from operations	36,201,160
Other income	
Equity in earnings on investment	233,230
Miscellaneous income	56,598
Income before state income taxes	36,490,988
Provision for state income taxes	773,430
Net income	$ 35,717,558

See accompanying notes to the financial statements.

AVKARE, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
Year ended December 31, 2019

	Shares	Common Stock	Retained Earnings	Total
Balance at January 1, 2019	1,000	$ 1,000	$ 29,156,726	$ 29,157,726
Net income	—	—	35,717,558	35,717,558
Distributions to shareholders	—	—	(25,500,000)	(25,500,000)
Balance at December 31, 2019	1,000	$ 1,000	$ 39,374,284	$ 39,375,284

See accompanying notes to the financial statements.

AVKARE, INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

Cash flows from operating activities	
Net income	$ 35,717,558
Adjustments to reconcile net income to net cash from operating activities	
Depreciation and amortization	410,112
Loss on sale of equipment and software	33,025
Equity earnings on investment	(233,230)
Deferred income taxes	13,460
Changes in assets and liabilities	
Accounts receivable	6,341,313
Inventory	(16,467)
Related party	(1,752,388)
Prepaid expenses	1,101,846
Accounts payable	(665,524)
Accrued expenses	2,235,994
Checks written in excess of bank balance	(113,883)
Distribution fees payable	(650,589)
Chargebacks payable	(4,469,784)
Income taxes payable	248,355
Net cash from operating activities	38,199,798
Cash flows from investing activities	
Distribution received from investment	233,230
Purchases of equipment and software	(30,965)
Net cash from investing activities	202,265
Cash flows from financing activities	
Advances to related parties, net	(11,886,927)
Distributions to stockholders	(25,500,000)
Net cash from financing activities	(37,386,927)
Net change in cash and cash equivalents	1,015,136
Cash and cash equivalents at beginning of year	—
Cash and cash equivalents at end of year	$ 1,015,136
Supplemental disclosures of cash flow information	
State income taxes paid	$ 511,615

See accompanying notes to the financial statements.

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Nature of Business: AvKARE, Inc. (a Tennessee corporation and referred to herein as the "Company") provides pharmaceuticals, medical and surgical products and services primarily to governmental agencies. The Company is subject to regulations of the Food and Drug Administration ("FDA") and the Drug Enforcement Agency ("DEA"). The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America. The Company is a wholesale distributor of bottle and unit dose pharmaceuticals under the registered names of AvKARE and AvPAK, as well as medical and surgical products.

Organization: AvKARE, Inc. was incorporated under the laws of the state of Tennessee on March 13, 2007. The primary location is Pulaski, Tennessee with representatives also located in Arizona, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Missouri, New Jersey, New York, Ohio, Texas, Utah, Virginia and Illinois.

Recently Issued Accounting Pronouncements: On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments thereto (collectively, "Topic 606"). Topic 606 supersedes virtually all existing revenue recognition guidance, including industry-specific guidance, and replaces it with a single, comprehensive framework for recognizing revenue from contracts with customers. Topic 606 also requires enhanced disclosure about the Company's revenue from contracts with customers.

The Company elected to adopt Topic 606 using the modified retrospective transition method, including the practical expedient to apply Topic 606 only to contracts not completed as of the date of adoption. The adoption of ASC 606 did not have a material impact on the Company's financial statements as of and for the year ended December 31, 2019. Because there were no material changes to the Company's accounting policies for revenue recognition, no adjustment was made to retained earnings upon adoption. For further details on the Company's revenue recognition policies under Topic 606, refer to Note 3.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the distribution fees, chargeback liabilities and sales returns.

Statement of Cash Flows: For the purpose of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

A rollforward of the major categories of sales-related deductions for the year ended December 31, 2019, is as follows:

	Contract Charge-backs and Distribution Fee Allowances	Cash Discount Allowances	Accrued Returns Allowance
Balance at January 1, 2019	$ 18,910,379	$ 1,130,652	$11,408,657
Provision related to sales recorded in the period	175,262,878	9,787,803	7,801,383
Credits/payments issued during the period	(180,383,251)	(10,119,747)	(4,716,804)
Balance at December 31, 2019	$ 13,790,006	$ 798,708	$14,493,236

Further discussion of these sales-related deductions are included in Notes 3, 9 and 10.

Accounts Receivable: Trade account receivables are stated net of an allowance for doubtful accounts. The Company's primary customers are governmental agencies and companies that resell the products to commercial hospitals or a governmental agency ("prime vendors"); therefore, bad debts are not a material expense. The Company estimates the allowance for doubtful accounts based on its assessment of collectability of delinquent accounts. The allowance for doubtful accounts was $18,065 at December 31, 2019.

A cash discount is provided to prime vendors. On occasion, prime vendors are given extended terms for special stocking orders. The provisions for cash discounts are estimated based upon invoice billings to prime vendors and historical payment experience.

Inventory: Inventory includes finished goods and is stated at the lower of cost (first-in, first-out) or net realizable value. A majority of the Company's sales are shipped directly from the supplier to the customer.

Investment: The Company's investment in Dixon-Shane, LLC d/b/a R&S Northeast, LLC (R&S), consists of a 1% stock ownership in a major supplier.

Equipment and Software: Equipment and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line and various accelerated methods at rates calculated to amortize the cost of the assets over their estimated useful lives. Costs of major additions and betterments that extend the useful lives of equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Interest costs directly related to, and incurred during, a construction program, if applicable, are capitalized. No interest was capitalized in 2019 related to major additions. Estimated useful lives are five to seven years for equipment, seven years for furniture and fixtures and three to five years for software.

Income Taxes: The Company elected to be taxed as an "S" corporation whereby the profits or (losses) are taxed to the shareholders on their personal returns. Accordingly, no provision or liability for federal income taxes has been included in the financial statements. The provision or liability for state income taxes is based on the income reported for financial statement purposes (after exclusion of non-taxable income and nondeductible expenses, if any).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

It includes deferred taxes resulting from the recognition of certain revenue and expenses in different periods for tax reporting purposes. The current income tax provision approximates taxes to be paid or refundable for the applicable period. Balance sheet amounts for deferred taxes are recognized on the temporary differences between the basis of assets and liabilities as measured by tax laws and their basis as reported in the financial statements.

The Company recognizes a tax benefit only if it is “more likely than not” the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded.

The Company is no longer subject to examination by taxing authorities for years before 2016. The Company has not recorded any unrecognized tax benefits and does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2019.

Research and Development Costs: Research and development expenditures, which are expensed as incurred, totaled $2,249,860 for the year ended December 31, 2019. Included in these costs were expenditures for stability studies related to unit dose testing of certain pharmaceutical products of $1,942,783 for the year ended December 31, 2019.

Advertising Costs: The Company expenses the costs of advertising when these costs are incurred. Advertising costs included in operating expenses were $63,396 for the year ended December 31, 2019.

Fair Value of Financial Instruments: Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Value is determined using pricing models, discounted cash flow methodologies, or similar techniques and also includes instruments for which the determination of fair value requires significant judgment or estimation.

The Company believes the carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, and accounts payable approximate their fair values because of the short maturities of these instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Recently Issued Accounting Pronouncements but Not Yet Effective:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to improve financial reporting of leasing transactions. Topic 842 requires lessees to recognize most leases on their balance sheet, makes selected changes to lessor accounting and requires disclosure of additional key information about leases. In July 2018, the FASB issued clarifying guidance to the topic in ASU No. 2018-11 and No. 2018-10, “Leases (Topic 842),” which defined several practical expedients for adoption and clarified new accounting methodologies. The standard is effective for annual and interim reporting periods beginning after December 15, 2020. The Company is currently evaluating the full effect this standard will have on its financial statements but expects that the operating leases disclosed in Note 12 will be reflected on the balance sheet as right-of-use assets and liabilities after being discounted for the Company’s incremental borrowing rate.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, which introduced an expected credit loss methodology for the measurement and recognition of credit losses on most financial instruments, including trade receivables and off-balance sheet credit exposure. Under this guidance, an entity is required to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of losses. This ASU also requires disclosure of information regarding how a company developed its allowance, including changes in the factors that influenced management’s estimate of expected credit losses and the reasons for those changes. The guidance is effective on January 1, 2020 with early adoption permitted. The Company is currently evaluating the effect this standard will have on its financial statements.

NOTE 3 – REVENUE RECOGNITION

The Company’s performance obligation is the supply of finished pharmaceutical and related products to its customers. The Company’s customers consist primarily of pharmaceutical wholesalers. The Company generally maintains contracts with these wholesaler customers and requires submission of a purchase order for purchases. The Company also has direct purchase customers, including government facilities, hospitals, retail pharmacies, and other health facilities for which purchase orders are required for purchases. Some commercial customers are given the opportunity to purchase pharmaceutical products directly through the Company’s order direct site. Additionally, some products are sold direct to consumer on Amazon as well as through an online system accessed from the Company’s website.

Revenue is recognized at a point in time when the Company transfers control of its products to the customer, which occurs either upon shipment or upon delivery, depending on the terms with the customer.

Substantially all of the Company’s gross revenues relate to products which are transferred to the customer at a point in time.

The Company records freight billed to customers in sales. The corresponding costs incurred for shipping and handling related to these customer billed freight costs are recorded in cost of sales in the accompanying statement of income.

NOTE 3 – REVENUE RECOGNITION—(Continued)

The Company offers standard payment terms to its customers, which typically require payment net 30 after an invoice is received. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues. The consideration amounts due from some customers as a result of product sales are subject to variable consideration, as described further below.

The Company offers standard product warranties which provide assurance that the product is manufactured and delivered in compliance and conformity with laws of applicable regulatory agencies, and that Company is either Manufacturer or an Authorized Distributor of the product. Estimated warranty costs are accrued at the date of sale.

The Company's revenue, net of allowances and returns, by customer type were as follows for the year end December 31, 2019:

Government Drug Sales	$ 384,523,351
Non-Government Drug Sales	68,241,322
Durable and Disposable Medical Supplies	29,069,808
Less: Variable Consideration	(200,423,502)
	$ 281,410,979

Variable Consideration

The Company includes an estimate of variable consideration in its transaction price at the time of sale. Sources of variable consideration include: chargebacks, distribution fees, GPO (Group Purchasing Organizations) fees, cash discounts, and sales returns.

The Company's estimates for variable consideration are adjusted as required at each reporting period for specific known developments that may result in a change in the amount of total consideration it expects to receive. The Company assesses whether its estimate of variable consideration is constrained and has determined that the constraint does not apply.

Chargebacks

In the case an indirect customer purchases product from their preferred wholesaler instead of directly from the Company, and the contract price charged to the indirect customer is lower than the price paid to the wholesaler, the Company pays the direct customer (wholesaler) a chargeback for the price differential. The Company accrues an estimate of chargebacks at the time of sale based on the level of inventory of its products in the wholesaler inventory that remain subject to chargebacks and historical chargeback rates. The estimate of the level of products in the inventory is based primarily on data provided by key customers. See Note 9 for further description.

Distribution Fees

The Company agrees to pay the prime customer a wholesale service fee for each product sold based on fee schedules for contracted and non-contracted sales. The Company's distribution fee accruals in most cases are based on actual net sales and contractual service fees. See Note 10 for further description.

NOTE 3 – REVENUE RECOGNITION—(Continued)

Group Purchasing Organization Fees

The Company pays fees to GPOs for administrative services that the GPOs perform in connection with the purchases of product by the GPO participants who are the Company's indirect customers. The Company's GPO fee accruals are based on actual net sales, contractual fee rates negotiated with GPOs. See Note 10 for further description.

Prompt Payment (Cash) Discounts

The Company provides customers with prompt payment discounts which may result in adjustments to the price that is invoiced for the product transferred, in the case that payments are made within a defined period. The Company's prompt payment discount accruals are based on invoice sales amount, which are gross sales, and contractual discount rates and historical experience.

Sales Returns

The Company permits the return of product under certain circumstances, mainly upon product expiration, instances of shipping errors or where product is damaged in transit, some overstock situations, and occurrences of product recalls. The Company's product returns accrual is primarily based on estimates of future product returns based on actual sales, estimated lag time of returns, historical return rates, and estimated product life. Estimated sales returns of $14,493,236 are included within accrued expenses as of December 31, 2019. The Company also has an agreement with R&S in which R&S will pay 40% of the costs of certain products that are returned and unsaleable. A related party receivable of $4,044,835 has been recorded at December 31, 2019 as part of this agreement.

NOTE 4—ACCOUNTS RECEIVABLE

Trade accounts receivable, net is comprised of the following:

Gross accounts receivable	$42,886,321
Allowance for doubtful accounts	(18,065)
Trade accounts receivable, net	$42,868,256

Approximately 89% of total sales are represented by sales to two customers for 2019. Likewise, approximately 85% of gross accounts receivable at December 31, 2019, were from these customers.

NOTE 5 –ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following:

Accrued cash discounts	$ 798,708
Accrued salary and bonus	288,040
Accrued sales returns	14,493,236
Accrued other	267,441
Total accrued expenses	$15,847,425

NOTE 6 – LINE OF CREDIT

The Company and R&S entered into a joint credit agreement with Wells Fargo Bank, NA. The agreement provides for a joint revolving line of credit with a maximum combined borrowing limit of $55,000,000. The agreement calls for interest to be calculated at the Daily Three Month LIBOR plus 1.75% with a maturity date of June 29, 2020. The line of credit includes a mandatory lock box arrangement and a subjective acceleration clause, accordingly, any outstanding borrowings on the line of credit are classified as a current liability on the balance sheet. The credit agreement also includes a master sweep arrangement whereby excess cash of each borrower is used to pay down the joint borrowings. Accordingly, the Company has recorded a receivable from R&S of $19,722,628 as of December 31, 2019 for excess cash that had been swept against the outstanding joint borrowings. Available advances are limited to a combined borrowing base based joint revolving line of credit at December 31, 2019 was $48,299,122. The Company and AvKare are jointly subject to certain restrictive covenants under the credit agreement and were in compliance with these covenants as of December 31, 2019. The covenants include the calculation of a fixed charge ratio and audited financial statements within 120 days of December 31, 2019. In conjunction with the subsequent transaction discussed in Note 13, the line of credit was paid off on January 31, 2020.

At December 31, 2019, the total loan advanced consisted of the following for the Company and R&S:

Dixon-Shane LLC dba R&S Northeast LLC	$6,700,878
AvKare, Inc.	—
	$6,700,878

NOTE 7– STATE INCOME TAXES

The following is a summary of the components of state income tax expense for the year ended December 31, 2019:

Current	$759,970
Deferred	13,460
Provision for income taxes	$773,430

Significant components of the Company’s net deferred tax assets and liabilities as of December 31, 2019 are as follows:

Deferred tax assets:	
Excess book allowance for uncollectible accounts	$ 353
Accrued expenses	243,038
Other items	3,067
	246,458
Deferred tax liabilities:	
Excess tax depreciation over book	(16,753)
	(16,753)
Total	$229,705

NOTE 8 – RELATED PARTY TRANSACTIONS

The Company owns a 1% investment interest in one of its major suppliers, R&S, as described in Note 2 which also provides similar products to its customers. The Company purchased $202,379,777 or 87% of its total products for sale from this supplier during the year ended December 31, 2019; that is reported in cost of sales on the statements of income. The Company owes R&S $3,271,106 as of December 31, 2019 that is reported in related party payables. At December 31, 2019, the Company has a receivable of $19,722,628 from R&S related to the master sweep arrangement under the joint line of credit (see Note 6). The Company also has an additional receivable of $7,646,853 as of December 31, 2019 for amounts due as part of a Logistics Agreement in which R&S will pay a portion of returns of expired products and various other receivables. The Company also rented office space from R&S at a monthly amount of $2,778 through May 31, 2019. Effective June 1, 2019 the Company signed a new lease for $1,275 per month with a yearly increase of 3%. The lease expires June 1, 2029. The rent totaled $33,336 for the year ended December 31, 2019.

The Company leases its operating facilities from an entity owned by the stockholders under an operating lease through December 2025 subject to an annual increase of 5%. Lease expense for this facility totaled $276,757 for the year ended December 31, 2019.

The Company made purchases of $295,839 for packaging supplies from an entity owned by a stockholder during the year ended December 31, 2019.

The Company also paid a monthly management fee to AvMEDICAL beginning in May 2019. The fees consisted of the monthly net income from Med/Surg sales less a 1.5% administration fee paid to AvKARE. Fees paid to AvMEDICAL in 2019 totaled $3,537,502. Med/Surg sales totaled approximately $29 million in 2019.

NOTE 9 – CHARGEBACKS

The Company incurs a chargeback (rebate) liability for products sold by its prime vendors to the government under contract pricing arrangements for the difference between the contract price and the wholesale acquisition cost billed to the prime vendor. Prime vendors can also chargeback the difference in the lowest contract price and the wholesale acquisition cost for AvKARE and AVPAK products. The Company establishes a chargeback (rebate) liability in the period of the related sale, which is recorded as a reduction to sales in the statements of income. At December 31, 2019, the chargeback liability was $11,181,474. The total chargeback expense for the year ended December 31, 2019 was $158,819,344.

NOTE 10 – DISTRIBUTION FEES

The Company has a wholesale fee agreement with several prime customers. The Company agrees to pay the prime customer a wholesale service fee, referred to as a distribution fee, for each product sold based on fee schedules for contracted and non-contracted sales. Also, the Company has similar fee agreements with commercial customers through Group Purchasing Organizations. The Company establishes a distribution fee liability in the same period as the related sale which is recorded as a reduction to sales in the statements of income. At December 31, 2019, the distribution fee liability was $2,608,532. Total distribution fees for the year ended December 31, 2019 was $16,443,534.

NOTE 11 – RETIREMENT PLAN

The Company has a defined-contribution employee benefit plan incorporating provisions of section 401(k) of the Internal Revenue Code. Substantially all employees are eligible to participate in the plan. Matching contributions made by the Company equal 100% of each participant's contributions up to 3% of annual compensation and 50% of each participant's contributions between 3% and a maximum of 5% of annual compensation. Expenses related to this plan included in the accompanying financial statements totaled $112,925 during the year ended December 31, 2019.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in litigation, claims, contingencies and other legal matters. The Company expenses legal costs, including those legal costs expected to be incurred in connection with a loss contingency, as incurred. Management does not believe that the resolution of any of these matters is likely to have a material adverse effect on our results of operations, financial position or cash flows.

The Company and R&S have entered into a joint line of credit agreement with Wells Fargo Bank (see Note 6).

The Company has entered into certain operating lease agreements with related parties as described in Note 8. Total rental expense for 2019 was $317,532.

The following is a schedule by year of future minimum non-cancelable lease payments as of December 31, 2019:

Year Ending December 31,	Related Party	Other	Total
2020	$ 306,163	$5,148	$ 311,311
2021	321,159	—	321,159
2022	336,897	—	336,897
2023	353,411	—	353,411
2024	370,741	—	370,741
Thereafter	454,702	—	454,702
	$ 2,143,073	$5,148	$2,148,221

NOTE 13 – SUBSEQUENT EVENTS

On January 31, 2020 the Company was purchased by Rondo Acquisition, LLC, a wholly-owned subsidiary of Amneal Pharmaceuticals, Inc. pursuant to a purchase agreement dated December 10, 2019. The agreement calls for the purchase of approximately 65% of the Company and R&S for approximately $299 million.

On January 31, 2020, Rondo Acquisition, LLC, entered into a new revolving credit and term loan agreement. The agreement provides for a principal amount equal to $210 million consisting of a revolving credit facility of $30 million and term loan of $180 million. The Company, along with several other subsidiaries of Amneal Pharmaceuticals, Inc., is a guarantor on these loans.

During January 2020, AvKare, Inc. was converted to a limited liability company.

NOTE 13 – SUBSEQUENT EVENTS—(Continued)

On January 30, 2020, the Company entered into an agreement with AvMEDICAL, LLC, a related party. The agreement called for the sale of the Med/Surg contracts to AvMEDICAL for $220,000 as well as the sale of related inventory and personal property of $320,223. The Company also paid a monthly management fee to AvMEDICAL beginning in May 2019. The fees consisted of the monthly net income from Med/Surg sales less a 1.5% administration fee paid to AvKARE. Fees paid to AvMEDICAL in 2019 totaled $3,537,502. Med/Surg sales totaled approximately $29 million in 2019.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the company could be materially adversely affected. The extent to which the coronavirus may impact business activity or results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

The Company has evaluated subsequent events through April 17, 2020 the date which the financial statements were available to be issued. There were no events requiring recording or disclosure in the financial statements for the year ended December 31, 2019 other than the items discussed above.

Exhibit 99.2

DIXON-SHANE LLC
DBA R & S NORTHEAST LLC
Fountain Run, Kentucky

FINANCIAL STATEMENTS
December 31, 2019

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
of Dixon-Shane LLC dba R & S Northeast LLC
Fountain Run, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Dixon-Shane LLC dba R & S Northeast LLC, which comprise the balance sheet as of December 31, 2019 and the related statements of income, members' equity, and cash flows for the year then ended, and the related notes to 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 audit. We conducted our audit 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dixon-Shane LLC dba R & S Northeast LLC, as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10, on January 31, 2020 the Company was purchased by Rondo Acquisition, LLC, a wholly-owned subsidiary of Amneal Pharmaceuticals, Inc.

/s/ Crowe LLP

Franklin, Tennessee
April 17, 2020

DIXON-SHANE LLC DBA R & S NORTHEAST LLC
BALANCE SHEET
December 31, 2019

Assets	
Current assets:	
Accounts receivable, net	$ 22,957,687
Inventory, net	73,241,361
Related party receivable	3,271,106
Chargeback receivable, net	21,142,176
Prepaid and other assets	364,170
Total current assets	120,976,500
Property and equipment:	
Building and improvements	514,560
Furniture, fixtures, software and equipment	6,680,219
	7,194,779
Less: accumulated depreciation	(3,740,610)
Total property and equipment	3,454,169
Goodwill	5,507,994
Total assets	$ 129,938,663
LIABILITIES AND MEMBERS' EQUITY	
Accounts payable	$ 67,055,760
Accrued expenses	3,334,561
Checks issued in excess of deposits	433,693
Related party payables	27,591,807
Line of credit	6,700,878
Total liabilities	105,116,699
Members' equity	24,821,964
Total liabilities and members' equity	$ 129,938,663

See accompanying notes to financial statements.

DIXON-SHANE LLC DBA R & S NORTHEAST LLC
STATEMENT OF INCOME
Year Ended December 31, 2019

Sales	$321,506,567
Cost of goods sold	272,497,661
Gross profit	49,008,906
Operating expenses:	
Salaries	5,137,783
Commissions	882,574
Rent	383,260
Insurance	970,033
Freight-out	2,805,642
Taxes and licenses	1,351,294
Travel and entertainment	676,161
Supplies	300,862
Professional and consulting fees	1,916,032
Telephone and utilities	216,879
Advertising	63,473
Depreciation	839,453
Miscellaneous expense	944,131
Bad debt expense	235,497
Interest expense	884,907
Repairs and maintenance	304,221
Retirement plan contributions	143,202
Total operating expenses	18,055,404
Net income	$ 30,953,502

See accompanying notes to financial statements.

DIXON-SHANE LLC DBA R & S NORTHEAST LLC
STATEMENT OF MEMBERS' EQUITY
Year Ended December 31, 2019

Balance at January 1, 2019	$ 16,638,810
Net income	30,953,502
Distributions	(22,770,348)
Balance at December 31, 2019	$ 24,821,964

See accompanying notes to financial statements.

DIXON-SHANE LLC DBA R & S NORTHEAST LLC
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019

Cash flows from operating activities	
Net income	$ 30,953,502
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	839,453
Bad debt expense	235,497
Change in assets and liabilities:	
Accounts receivable	(6,266,383)
Inventory	32,567,665
Related party	(460,961)
Chargeback receivable	(3,015,731)
Prepaid expenses and other assets	(178,252)
Checks issued in excess of deposits	294,914
Accounts payable and accrued expenses	(27,370,630)
Net cash from operating activities	27,599,074
Cash flows from investing activities	
Purchase of property and equipment	(236,951)
Net cash from investing activities	(236,951)
Cash flows from financing activities	
Cash distributions	(21,000,000)
Advances from related parties, net	11,886,927
Net payments on line of credit	(18,192,444)
Payments on long-term debt	(56,606)
Net cash from financing activities	(27,362,123)
Net change in cash and cash equivalents	—
Cash and cash equivalents at beginning of year	—
Cash and cash equivalents at end of year	$ —
Supplemental disclosures of cash flow information	
Interest paid	$ 884,907
Supplemental Noncash Investing and Financing Activities	
Property and Equipment distributed to members	$ 1,770,348

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Nature of Business: Dixon-Shane LLC dba R & S Northeast LLC (the "Company") is a packager and wholesale distributor of pharmaceuticals and vitamins to its retail and institutional customers who are located throughout the United States of America.

Organization: The Company was organized under the laws of the state of Kentucky on April 25, 2002. The Company is 99% owned by individual trusts and 1% owned by AvKARE, Inc. (AvKARE).

Recently Issued Accounting Pronouncements: On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments thereto (collectively, "Topic 606"). Topic 606 supersedes virtually all existing revenue recognition guidance, including industry-specific guidance, and replaces it with a single, comprehensive framework for recognizing revenue from contracts with customers. Topic 606 also requires enhanced disclosure about the Company's revenue from contracts with customers.

The Company elected to adopt Topic 606 using the modified retrospective transition method, including the practical expedient to apply Topic 606 only to contracts not completed as of the date of adoption. The adoption of ASC 606 did not have a material impact on the Company's financial statements as of and for the year ended December 31, 2019. Because there were no material changes to the Company's accounting policies for revenue recognition, no adjustment was made to retained earnings upon adoption. For further details on the Company's revenue recognition policies under Topic 606, refer to Note 3.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for doubtful accounts, chargeback receivables, inventory obsolescence reserve and sales returns.

Statement of Cash Flows: For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Accounts Receivable: Trade account receivables are stated net of an allowance for doubtful accounts. The Company estimates the allowance based on its historical experience and the relationship between actual bad debts and net sales. The allowance for doubtful accounts was $382,547 at December 31, 2019.

Chargeback Receivable: When a sale occurs on a contract item, the difference between the cost paid to the manufacturer by the Company and the contract cost that the customer has with the manufacturer is rebated back to the Company by the manufacturer. The Company establishes a chargeback (rebate) receivable in the same period as the related sale that is recorded as a deduction to cost of goods sold. At December 31, 2019 the total chargeback receivable was $21,142,176 net of allowance for doubtful accounts of $86,146 at December 31, 2019.

Inventories: Inventories primarily consists of pharmaceuticals and vitamins and are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories are recorded net of obsolescence reserves of $3,851,474 at December 31, 2019.

Property and Equipment: Property and equipment is stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using a combination of straight-line and accelerated methods over the estimated useful lives of the assets. Estimated useful lives are five to ten years.

Long-Lived Assets: The Company reviews its long-lived assets, other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On long-lived assets classified as held and used, the Company determines whether the sum of undiscounted estimated cash flows expected from the use of the assets is less than the carrying value. If such measurement indicates possible impairment, the estimated fair value of the assets is compared to their net book values in order to measure the impairment charge, if any. There was no impairment for the year ended December 31, 2019. When long-lived assets held and used are reclassified as held for sale, the assets are recorded at the lower of carrying value or fair value, less selling costs. There were no assets classified as held for sale at December 31, 2019.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Goodwill: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the assets might be impaired. If the Company determines that goodwill has been impaired, the amount of impairment will be charged to operations in the year of impairment. No goodwill impairment was recognized for the year ended December 31, 2019. Goodwill is stated net of prior impairment loss at December 31, 2019 as follows:

Original Balance	$6,647,994
Prior impairment losses	1,140,000
Balance, net	$5,507,994

Fair Value of Financial Instruments:

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Value is determined using pricing models, discounted cash flow methodologies, or similar techniques and also includes instruments for which the determination of fair value requires significant judgment or estimation.

The Company believes the carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, and accounts payable approximate their fair values because of the short maturities of these instruments. The fair value of the line of credit approximates carrying value due to the variable interest rate associated with the debt.

Income Taxes: The Company is a limited liability company and has elected to be taxed as a partnership whereby the profits or (losses) are taxed to the members. Accordingly, no provision or liability for federal income taxes has been included in the financial statements. The provision or liability for state income taxes is based on the income reported for financial statement purposes (after exclusion of non-taxable income and nondeductible expenses, if any). The current income tax provision approximates taxes to be paid or refundable for the applicable period.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

The Company recognizes a tax benefit only if it is “more likely than not” the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded. The Company has not recorded any unrecognized tax benefits and does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2019.

Advertising Costs: Advertising costs are charged to expense as incurred. Advertising costs included in operating expenses was $63,473 for the year ended December 31, 2019.

Recently Issued Accounting Pronouncements but Not Yet Effective:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to improve financial reporting of leasing transactions. Topic 842 requires lessees to recognize most leases on their balance sheet, makes selected changes to lessor accounting and requires disclosure of additional key information about leases. In July 2018, the FASB issued clarifying guidance to the topic in ASU No. 2018-11 and No. 2018-10, “Leases (Topic 842),” which defined several practical expedients for adoption and clarified new accounting methodologies. The standard is effective for annual and interim reporting periods beginning after December 15, 2020. The Company is currently evaluating the full effect this standard will have on its financial statements but expects that the operating leases disclosed in Note 9 will be reflected on the balance sheet as right-of-use assets and liabilities after being discounted for the Company’s incremental borrowing rate.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, which introduced an expected credit loss methodology for the measurement and recognition of credit losses on most financial instruments, including trade receivables and off-balance sheet credit exposure. Under this guidance, an entity is required to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of losses. This ASU also requires disclosure of information regarding how a company developed its allowance, including changes in the factors that influenced management’s estimate of expected credit losses and the reasons for those changes. The guidance is effective on January 1, 2020 with early adoption permitted. The Company is currently evaluating the effect this standard will have on its financial statements.

NOTE 3 – REVENUE RECOGNITION

The Company's performance obligation is the supply of finished pharmaceutical products to its customers. The Company's customers consist primarily of retail and institutional companies. The Company's customer contracts generally consist of a customer submitted purchase order. Customers generally purchase product by direct channel sales from the Company.

Revenue is recognized at the point in time the Company transfers control of its products to the customer, which typically occurs when the product is shipped to the customer. Substantially all of the Company's gross revenues relate to products which are transferred to the customer at a point in time.

The Company records freight billed to customers in freight-out as part of operating expenses. The corresponding costs incurred for shipping and handling related to these customer billed freight costs are recorded included in freight-out in the accompanying statement of income.

The Company offers standard payment terms which typically require payment 30 to 60 days after an invoice is received, to its customers and has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing, since the period between when the Company transfers the product to the customer and when the customer pays for that product is one year or less. Amounts due from customers as a result of product sales include variable consideration, as described further below.

The Company offers standard product warranties which provide assurance that the product will function as expected and in accordance with specifications. Customers cannot purchase warranties separately and these warranties do not give rise to a separate performance obligation. Estimated costs to satisfy product warranties are accrued for at the date of sale.

The Company permits the return of product under certain circumstances, mainly upon product expiration, instances of shipping errors or where product is damaged in transit. The Company has an agreement with AvKare in which they will pay 40% of the costs of the products that are returned and unsalable to AvKare which is included in related party payables as $4,044,835 as of December 31, 2019.

A rollforward of the major categories of sales-related deductions for the year ended December 31, 2019 is as follows:

	Returns Allowance
Balance at January 1, 2019	$ 4,688,567
Provision related to sales recorded in the period	1,615,039
Credits/payments issued during the period	(2,258,771)
Balance at December 31, 2019	$ 4,044,835

The returns allowance is recorded as a payable to AvKARE for the R&S portion of the total returns allowance recorded by AvKARE (see Note 7).

The Company's revenue by type were as follows for the year end December 31, 2019:

AvKare (related party)	$202,379,777
Commissions from Manufacturers	1,925,375
Distribution to Clinics	119,716,316
Less: Allowances and Returns	(2,514,901)
	$321,506,567

Variable Consideration

The Company includes an estimate of variable consideration in its transaction price at the time of sale.

The Company assesses whether or not an estimate of its variable consideration is constrained and has determined that the constraint does not apply to any forms of variable consideration. The Company's estimates for variable consideration are adjusted as required at each reporting period for specific known developments that may result in a change in the amount of total consideration it expects to receive.

NOTE 3 – REVENUE RECOGNITION—(Continued)

Sales Returns

The Company permits the return of product under certain circumstances, mainly upon product expiration, instances of shipping errors or where product is damaged in transit, and occurrences of product recalls. The Company's product returns accrual is primarily an estimate of future product returns based generally, on actual net sales, estimates of the level of inventory of its products in the distribution channel that remain subject to returns, estimated lag time of returns and historical return rates. The estimate of the level of products in the distribution channel is based primarily on data provided by key customers.

NOTE 4 – ACCOUNTS RECEIVABLE

Trade accounts receivable, net is comprised of the following:

Gross accounts receivable	$23,340,234
Allowance for doubtful accounts	(382,547)
Trade accounts receivable, net	$22,957,687

NOTE 5 – ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following:

Accrued interest	$ 77,066
Accrued salaries	132,921
Accrued sales tax	32,488
Accrued credit memos	2,514,116
Accrued other	577,970
Total accounts payable and accrued expenses	$3,334,561

Approximately 42% of the total purchase volume is represented by purchases from major suppliers during the year ended December 31, 2019. The Company purchased approximately $65.8 million (23%) of its volume from Amneal Pharmaceuticals, Inc. Amneal is the parent of Rondo Acquisition, LLC which purchased the Company in January 2020. See Note 10 for further discussion of the transaction.

NOTE 6 – LINE OF CREDIT

The Company and AvKARE entered into a joint credit agreement with Wells Fargo Bank, NA. The agreement provides for a joint revolving line of credit with a maximum combined borrowing limit of $55,000,000. The agreement calls for interest to be calculated at the Daily Three-Month LIBOR plus 1.75% with a maturity date of June 29, 2020. The line of credit includes a mandatory lock box arrangement and a subjective acceleration clause, accordingly, any outstanding borrowings on the line of credit are classified as a current liability on the balance sheet. The credit agreement also includes a master sweep arrangement whereby excess cash of each borrower is used to pay down the joint borrowings. Accordingly, the Company has recorded a payable to AvKARE of $19,722,628 as of December 31, 2019 for excess cash that had been swept against the outstanding joint borrowings.

NOTE 6 – LINE OF CREDIT—(Continued)

Available advances are limited to a borrowing base based on percentages of eligible accounts receivable and inventory combined for both Companies, as defined. The amount of availability on the joint revolving line of credit at December 31, 2019 was $48,299,122. The Company and AvKare are jointly subject to certain restrictive covenants under the credit agreement and were in compliance with these covenants as of December 31, 2019. The covenants include the calculation of a fixed charge ratio and audited financial statements within 120 days of December 31, 2019. In conjunction with the subsequent transaction discussion in Note 10, the line of credit was paid off on January 31, 2020.

At December 31, 2019, the total loan advanced consisted of the following for the Company and AvKARE:

Dixon-Shane LLC dba R&S Northeast LLC	$6,700,878
AvKARE, Inc.	—
	$6,700,878

NOTE 7 – RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019, the Company sold inventory in the amount of $202,379,777 to AvKARE. The Company has accrued $7,646,853 payable to AvKARE at December 31, 2019 for product returns and other related party payables. Additionally, as discussed in Note 6, the Company has recorded a payable to AvKARE of $19,722,628 as of December 31, 2019 for excess cash that had been swept against the outstanding joint borrowings. The Company also had related party receivables from AvKARE of $3,271,106 as of December 31, 2019.

The Company paid Apace KY, LLC (a related party) $14,109,793 for pharmaceutical repackaging costs during the year ended December 31, 2019. The Company also has a related party payable to Apace KY, LLC of $222,326 as of December 31, 2019.

The Company leases office and warehouse space from Tracy Properties LLC (a related party) at a monthly rental of $22,000 which expired January 1, 2018. The lease became a month to month lease upon expiration per the rental agreement. In June 2019, two new leases were signed with Tracy Properties, LLC for properties in Kentucky and Pennsylvania with monthly rent of $44,318 which will increase 3% each year beginning June 1, 2020. The leases expire June 1, 2029. The Company also subleases warehouse space to AvKARE through a lease signed June 1, 2019 for $1,275 per month with a yearly increase of 3% beginning June 1, 2020. The lease with AvKare was a month to month lease for $2,778 per month for the period for January through May 2019. Rent expense (net of the sublease of $33,336) under these leases was $383,260 for the year ended December 31, 2019.

NOTE 8 – RETIREMENT PLAN

The Company has a defined-contribution employee benefit plan incorporating provisions of section 401(k) of the Internal Revenue Code. Substantially all employees are eligible to participate in the plan. Matching contributions made by the Company equal 100% of each participant’s contributions up to 3% of annual compensation and 50% of each participant’s contributions between 3% and a maximum of 5% of annual compensation. Expenses related to this plan included in the accompanying financial statements totaled $143,202 during the year ended December 31, 2019.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Company and AvKARE have entered into a joint line of credit agreement with Wells Fargo Bank (see Note 6).

The Company has entered into certain operating lease and sub-lease agreements with related parties as described in Note 7. Total rental expense under those leases and other operating leases for 2019 was $383,260. Future minimum non-cancelable lease payments net of sublease payments as of December 31, 2019 are as follows:

2020	$ 506,474
2021	519,700
2022	531,659
2023	547,609
2024	564,037
Thereafter	2,698,275
	$5,367,754

NOTE 10 – SUBSEQUENT EVENTS

On January 31, 2020 the Company was purchased by Rondo Acquisition, LLC, a wholly-owned subsidiary of Amneal Pharmaceuticals, Inc. pursuant to a purchase agreement dated December 10, 2019. The agreement calls for the purchase of approximately 65% of the Company and R&S for approximately $299 million.

On January 31, 2020, Rondo Acquisition, LLC, entered into a new revolving credit and term loan agreement. The agreement provides for a principal amount equal to $210 million consisting of a revolving credit facility of $30 million and term loan of $180 million. The Company, along with several other subsidiaries of Amneal Pharmaceuticals, Inc., is a guarantor on the loans.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the company could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

The Company has evaluated subsequent events through April 17, 2020, the date which the financial statements were available to be issued. There were no events requiring recording or disclosure in the financial statements for the year ended December 31, 2019, other than the items discussed above.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information of Amneal Pharmaceuticals, Inc. (“Amneal”) is presented to illustrate the estimated effects of:

- the acquisition of a controlling interest in AvKARE, Inc. (“AvKARE”) and its related affiliate Dixon-Shane, LLC (d/b/a R&S Northeast, “R&S”) consummated on January 31, 2020, (the “Acquisition”);
- the issuance of long-term and short-term promissory notes to the selling shareholders of AvKARE and R&S pursuant to the terms of the purchase agreement (the “Sellers Notes”); and
- the senior secured first lien credit facilities in an aggregate principal amount of $210 million entered into in connection with the Acquisition (the “Acquisition Financing”).

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 combines the historical consolidated statement of operations of Amneal and the statements of income of AvKARE and R&S, giving effect to the Acquisition, the Sellers Notes and the Acquisition Financing as if each had occurred on January 1, 2019. The unaudited pro forma condensed combined balance sheet as of December 31, 2019 combines the historical consolidated balance sheet of Amneal and the balance sheets of AvKARE and R&S, giving effect to the Acquisition, the Sellers Notes and the Acquisition Financing as if each had occurred on December 31, 2019. See “Note 1. Description of the Acquisition, Sellers Notes and Acquisition Financing” for additional information on the Acquisition, the Sellers Notes and the Acquisition Financing.

The historical consolidated financial information of Amneal has been adjusted to give effect to pro forma events that are (1) directly attributable to the Acquisition, the Sellers Notes and the Acquisition Financing, (2) factually supportable and (3) with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial information. In addition, the unaudited pro forma condensed combined financial information is based on and should be read in conjunction with the following historical consolidated financial statements and notes:

- the audited consolidated financial statements of Amneal as of December 31, 2019 and December 31, 2018 and for each of the three years in the period ended December 31, 2019 and the related notes included in Amneal’s Annual Report on Form 10-K for the year ended December 31, 2019;
- the audited consolidated financial statements of AvKARE as of December 31, 2019 and for the year then ended and the related notes; and
- the audited consolidated financial statements of R&S as of December 31, 2019 and for the year then ended and the related notes.

The accompanying unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of U.S. Securities and Exchange Commission (“SEC”) Regulation S-X. This unaudited pro forma condensed combined financial information is presented for informational purposes only and is based upon available information and reflects estimates and certain assumptions made by our management that we believe are reasonable. Actual adjustments may differ materially from the information presented herein. The unaudited pro forma condensed combined financial information does not purport to represent what the results of operations or financial condition would have been had the Acquisition, the Sellers Notes and the Acquisition Financing actually occurred on the dates indicated, nor does it purport to project the results of operations or financial condition for any future period or as of any future date. Our actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The Acquisition is considered a business combination and, therefore, will be accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board’s Accounting Standards Codification Topic 805 *Business Combinations*. Under the acquisition method of accounting for purposes of this unaudited pro forma condensed combined financial information, management has determined a purchase price, calculated as described in “Note 3. Estimated Purchase Price and Preliminary Purchase Price Allocation” herein. The AvKARE and R&S assets acquired and liabilities assumed in connection with the Acquisition are recorded at their estimated acquisition date fair values. A final determination of the fair values for certain assets and liabilities will be completed as soon as the information necessary to complete the analysis is obtained, but no later than one year from the acquisition date. Differences between these preliminary estimates and the final acquisition accounting may occur and these differences could be material.

The unaudited pro forma condensed combined financial information does not reflect the costs of any integration activities or the benefits or ongoing additional costs that may result from integrating AvKARE and R&S.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF DECEMBER 31, 2019
(in thousands)

	Historical					
	Amneal	AvKARE after reclassifications (Note 4)	R&S after reclassifications (Note 4)	Acquisition adjustments (Note 5)	Acquisition Financing adjustments (Note 6)	Pro forma
Assets						
Current assets:						
Cash and cash equivalents	$ 151,197	$ 1,015	$ —	$ (254,000) (a)	$ 183,398 (a)	$ 81,610
Restricted cash	1,625	—	—	—	—	1,625
Trade accounts receivable, net	604,390	28,678	22,958	(11,980) (c)	—	644,046
Inventories	381,067	801	73,241	—	—	455,109
Prepaid expenses and other current assets	70,164	652	21,506	2,640 (a)	—	94,962
Related party receivables	1,767	27,369	3,271	(30,640) (c)	—	1,767
Total current assets	1,210,210	58,515	120,976	(293,980)	183,398	1,279,119
Property, plant and equipment, net	477,997	1,438	3,454	461 (f)	—	483,350
Goodwill	419,504	—	5,508	90,469 (k)	—	515,481
Intangible assets, net	1,382,753	—	—	137,400 (e)	—	1,520,153
Deferred tax asset, net	—	230	—	(230) (l)	—	—
Operating lease right-of-use assets	53,344	—	—	—	—	53,344
Operating lease right-of-use assets - related party	16,528	—	—	5,612 (g)	—	22,140
Financing lease right-of-use assets - related party	61,284	—	—	—	—	61,284
Other assets	44,270	130	—	(130) (c)	586 (a)	44,856
Total assets	$ 3,665,890	$ 60,313	$ 129,938	$ (60,398)	$ 183,984	$ 3,979,727
Liabilities and Stockholders' Equity						
Current liabilities:						
Accounts payable and accrued expenses	$ 507,483	$ 17,667	$ 70,823	$ (11,980) (c)	$ —	$ 583,993
Current portion of long-term debt, net	21,479	—	—	—	5,973 (a)	27,452
Revolving credit facility	—	—	6,701	(6,701) (a)	7,500 (a)	7,500
Current portion of notes payable - related party	—	—	—	1,000 (b)	—	1,000
Current portion of operating lease liabilities	11,874	—	—	—	—	11,874
Current portion of operating and financing lease liabilities - related party	3,601	—	—	417 (g)	—	4,018
Related party payables	5,969	3,271	27,592	(30,640) (c)	—	6,192
Total current liabilities	550,406	20,938	105,116	(47,904)	13,473	642,029
Long-term debt, net	2,609,046	—	—	—	170,511 (a)	2,779,557
Notes payable - related party	—	—	—	35,033 (b)	—	35,033
Operating lease liabilities	43,135	—	—	—	—	43,135
Operating lease liabilities - related party	15,469	—	—	5,195 (g)	—	20,664
Financing lease liabilities - related party	61,463	—	—	—	—	61,463
Other long-term liabilities	39,583	—	—	—	—	39,583
Total long-term liabilities	2,768,696	—	—	40,228	170,511	2,979,435
Redeemable non-controlling interest	—	—	—	11,475 (h)	—	11,475
Stockholders' equity:						
Preferred stock	—	—	—	—	—	—
Class A common stock	1,470	—	—	—	—	1,470
Class B common stock	1,522	—	—	—	—	1,522
Common stock	—	1	—	(1) (j)	—	—
Members' equity	—	—	24,822	(24,822) (c),(j)	—	—
Additional paid-in capital	606,966	—	—	—	—	606,966
Stockholders' accumulated deficit	(377,880)	39,374	—	(39,374) (j)	—	(377,880)
Accumulated other comprehensive loss	(68)	—	—	—	—	(68)
Total Amneal Pharmaceuticals, Inc. stockholders' equity	232,010	39,375	24,822	(64,197)	—	232,010
Non-controlling interests	114,778	—	—	—	—	114,778
Total stockholders' equity	346,788	39,375	24,822	(64,197)	—	346,788
Total liabilities and stockholders' equity	$ 3,665,890	$ 60,313	$ 129,938	$ (60,398)	$ 183,984	$ 3,979,727

The accompanying notes are an integral part of this unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(in thousands, except per share amounts)

	Historical						
	Amneal	AvKARE after reclassifications (Note 4)	R&S after reclassifications (Note 4)	Acquisition adjustments (Note 5)	Acquisition Financing adjustments (Note 6)	Non-controlling Interest adjustments (Note 7)	Pro forma
Net revenue	$ 1,626,373	$ 281,411	$ 321,507	$ (297,447) (c),(d)	$ —	$ —	$1,931,844
Cost of goods sold	1,147,214	234,555	271,801	(294,912) (c),(d)	—	—	1,358,658
Cost of goods sold impairment charges	126,162	—	—	—	—	—	126,162
Gross profit	352,997	46,856	49,706	(2,535)	—	—	447,024
Selling, general and administrative	289,598	10,655	17,400	35,450 (d),(e),(f),(i)	—	—	353,103
Research and development	188,049	—	—	—	—	—	188,049
In-process research and development impairment charges	46,619	—	—	—	—	—	46,619
Acquisition, transaction-related and integration expenses	16,388	—	—	—	—	—	16,388
Restructuring and other charges	34,345	—	—	—	—	—	34,345
Charges related to legal matters, net	12,442	—	—	—	—	—	12,442
Intellectual property legal development expenses	14,238	—	—	—	—	—	14,238
Operating (loss) income	(248,682)	36,201	32,306	(37,985)	—	—	(218,160)
Other (expense) income:							
Interest expense, net	(168,205)	—	(958)	(2,792) (a),(b)	(9,703) (a)	—	(181,658)
Foreign exchange loss	(4,962)	—	—	—	—	—	(4,962)
Gain on sale of international businesses	7,258	—	—	—	—	—	7,258
Gain from reduction of tax receivable agreement liability	192,884	—	—	—	—	—	192,884
Other income	1,465	290	—	—	—	—	1,755
Total other income (expense), net	28,440	290	(958)	(2,792)	(9,703)	—	15,277
(Loss) income before income taxes	(220,242)	36,491	31,348	(40,777)	(9,703)	—	(202,883)
Provision for income taxes	383,331	773	394	—	—	—	384,498
Net (loss) income	(603,573)	35,718	30,954	(40,777)	(9,703)	—	(587,381)
Less: Net loss (income) attributable to non-controlling interests	241,656	—	—	—	—	(11,356) (a)	230,300
Net (loss) income attributable to Amneal Pharmaceuticals, Inc.	$ (361,917)	$ 35,718	$ 30,954	$ (40,777)	$ (9,703)	$ (11,356)	$ (357,081)

Net loss per share attributable to Amneal Pharmaceuticals, Inc.'s common stockholders:		
Class A and Class B-1 basic and diluted	$ (2.74)	$ (2.70)
Weighted-average common shares outstanding:		
Class A and Class B-1 basic and diluted	132,106	132,106

The accompanying notes are an integral part of this unaudited pro forma condensed combined financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. DESCRIPTION OF THE ACQUISITION, SELLERS NOTES AND ACQUISITION FINANCING

On January 31, 2020, Rondo Acquisition LLC (“Rondo”), a newly-formed Delaware limited liability company and wholly-owned subsidiary of Amneal, a Delaware corporation, consummated the previously-announced acquisition pursuant to a definitive equity purchase agreement dated December 10, 2019 (the “Purchase Agreement”) of approximately 65% of both AvKARE, a Tennessee corporation, and R&S, a Kentucky limited liability company, for approximately $254 million, paid in cash at or in connection with the closing, including proceeds from the Acquisition Financing (as defined below) entered into at closing, as well as through the issuance of approximately $44.2 million in long-term promissory notes to the AvKARE and R&S selling shareholders (the “Sellers Notes”) and approximately $1 million in a short-term promissory note (the “Short-term Seller Note”) (the “Acquisition”). AvKARE and R&S were acquired and are held by Rondo through its ownership of Rondo Partners, LLC, a Delaware limited liability company (“Rondo Partners”), which is an indirect owner of AvKARE and R&S after consummation of the Acquisition. The Sellers Notes issued at the closing of the Acquisition accrue interest at a rate of 5% per annum, not compounded, until June 30, 2025.

The Sellers Notes are subject to prepayment at the option of Rondo Partners, LLC, as the obligor, without premium or penalty, and mandatory payment commencing on June 30, 2025 and on June 30 of each calendar year thereafter if certain financial targets are achieved. Additionally, the Sellers Notes automatically become payable upon the earlier to occur of (x) a sale or change of control of the obligor or (y) January 31, 2030.

Pursuant to the terms of the Purchase Agreement, and contemporaneously with the consummation of certain of the transactions contemplated therein, Amneal has obtained senior secured first lien credit facilities in an aggregate principal amount of $210 million, which is comprised of $180 million term loan (the “Term Loan”) and available $30 million revolving credit facility (the “Revolver”) (collectively, the “Acquisition Financing”) of which $7.5 million was drawn on the Revolver at closing. The terms of the Acquisition Financing are described in Amneal’s Current Report on Form 8-K filed with the SEC on February 4, 2020.

2. BASIS OF PRESENTATION

The unaudited pro forma condensed combined financial information presents the pro forma condensed combined financial position and results of operations of Amneal based upon the historical financial statements of Amneal, AvKARE and R&S after giving effect to the Acquisition, the Sellers Notes and the Acquisition Financing and are intended to reflect the impact of such on Amneal’s consolidated financial statements.

The Acquisition will be accounted for as a business combination, with Amneal treated as the “acquirer” and AvKARE and R&S treated as the “acquired” companies for financial reporting purposes. Under the acquisition method of accounting, the total estimated purchase price of an acquisition is allocated to the net tangible and intangible assets based on their estimated fair values. Such valuations are based on available information and certain assumptions that management believes are reasonable. The preliminary allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed is based on various preliminary estimates. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing this unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting may occur and these differences could be material. The differences, if any, could have a material impact on the accompanying unaudited pro forma condensed combined financial information and Amneal’s future results of operations and financial position.

The unaudited pro forma condensed combined financial information includes certain reclassifications to align the historical financial statement presentation of AvKARE and R&S to Amneal. See “Note 4. Reclassifications” herein for additional information on the reclassifications.

The unaudited pro forma condensed combined statement of operations does not reflect the non-recurring expenses expected to be incurred in connection with the Acquisition, the Sellers Notes and the Acquisition Financing, including fees to attorneys, accountants and other professional advisors, and other transaction-related costs. However, the impact of such expenses is reflected in the unaudited pro forma condensed combined balance sheet. Further, the unaudited pro forma condensed combined financial information does not reflect the restructuring or integration activities that have yet to be determined, other costs that may be incurred to achieve cost or growth synergies of Amneal, or ongoing incremental costs related to the Acquisition. As no assurance can be made that the costs will be incurred or the cost or growth synergies will be achieved, no adjustment has been made.

The unaudited pro forma condensed combined financial information does not necessarily reflect what the combined company's financial condition or results of operations would have been had the transactions occurred on the dates indicated. It also may not be useful in predicting our future financial position and results of operations. Our actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

3. ESTIMATED PURCHASE PRICE AND PRELIMINARY PURCHASE PRICE ALLOCATION

The pro forma adjustments include a preliminary allocation of the estimated purchase price of AvKARE and R&S to the estimated fair values of assets acquired and liabilities assumed at the acquisition date.

Estimated purchase price

The purchase price is calculated as follows (in thousands):

Cash		$254,000
Sellers Notes	(a)	35,033
Short-term Seller Note	(b)	1,000
Settlement of Amneal trade accounts receivable from R&S	(c)	11,980
Working Capital Adjustment	(d)	(2,640)
Fair value of consideration transferred		$299,373

(a) A preliminary fair value estimate of $35 million has been assigned to the Seller Notes. The fair value of the Sellers Notes was estimated using the Monte-Carlo simulation approach under the option pricing framework.
(b) Represents the principal amount due on the Short-term Seller Note, which approximates fair value.
(c) Represents trade accounts receivable from R&S that was effectively settled upon the Acquisition.
(d) Represents estimated working capital adjustment pursuant to the terms of the Purchase Agreement.

Preliminary purchase price allocation

The following is a summary of the preliminary purchase price allocation giving effect to the Acquisition as if it had been consummated on December 31, 2019 (in thousands)(e):

Cash and cash equivalents		$ 1,015
Trade accounts receivable, net		51,636
Inventories	(a)	74,042
Prepaid expenses and other current assets		22,158
Property, plant and equipment, net	(b)	5,353
Goodwill	(c)	95,977
Intangible assets, net	(d)	137,400
Operating lease right-of-use assets - related party		5,612
Total assets acquired		393,193
Accounts payable and accrued expenses		76,510
Current portion of operating and financing lease liabilities - related party		417
Related party payables		223
Operating lease liabilities - related party		5,195
Total liabilities assumed		82,345
Redeemable non-controlling interest	(f)	11,475
Net assets acquired		$299,373

(a) The acquired inventory consists mainly of finished goods, and the preliminary estimated fair value is consistent with the historical carrying value of the acquired inventory. The preliminary fair value considers the net realizable value of the finished goods, excluding the estimated distribution margin to be generated.

(b) A preliminary fair value estimate of $5.4 million has been assigned to property, plant and equipment. The fair value approximates the current cost of replacing an asset with another asset of equivalent economic utility adjusted further for obsolescence and physical depreciation.

(c) A preliminary estimate of goodwill arising from the transaction is $96.0 million. Goodwill is calculated as the excess of the fair value of the consideration transferred and fair value of the non-controlling interest over the net assets recognized and represents the expected revenue synergies. Factors that contributed to the recognition of goodwill include Amneal's intent to diversify its business and open growth opportunities in the large, complex and growing federal healthcare market.

(d) A preliminary fair value estimate of $137.4 million has been assigned to intangible assets. The estimated fair values of the Customer relationships, Government contracts and National contracts were determined using the "income approach," which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. The estimated fair value of the Trade name was determined using the "relief from royalty method," which is a valuation technique that provides an estimate of the fair value of an asset equal to the present value of the after-tax royalty savings attributable to owning the intangible asset. The estimated fair value of the Government licenses was determined using the "with-and-without method," which is a valuation technique that provides an estimate of the fair value that is equal to the difference between the present value of the prospective revenues and expenses for the business with and without the subject intangible asset in place. The assumptions, including the expected projected cash flows, utilized in the preliminary purchase price allocation and in determining the purchase price were based on management's best estimates as of the closing date of the Acquisition on January 31, 2020.

(e) There are no material differences between the book and tax bases of the balances recorded in the preliminary purchase price allocation.

(f) A preliminary fair value estimate of $11.5 million has been assigned to the redeemable non-controlling interest. The fair value of the redeemable non-controlling interest was estimated using the Monte-Carlo simulation approach under the option pricing framework. The non-controlling interest is redeemable at the option of both the non-controlling interest holder and Amneal. The fair value of the redeemable non-controlling interest considers these redemption rights.

Some of the more significant assumptions inherent in the development of those asset valuations include the estimated net cash flows for each year for each asset (including net revenues, cost of sales, selling and marketing costs and working capital / contributory asset charges), the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, competitive trends impacting the asset and each cash flow stream, as well as other factors. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

The estimated fair value of the identifiable intangible assets and a preliminary estimate of their weighted average useful lives are as follows (in thousands):

	Estimated fair value	Weighted average estimated useful life
Tradename - AvPAK	$ 500	6 years
Customer Relationships - AvPAK	13,000	10 years
Government contracts - AvKARE	28,600	4 years
Government licenses - AvKARE	66,700	7 years
National contracts - AvKARE	28,600	5 years
	$ 137,400	

The acquisition method of accounting is dependent upon certain valuations that are provisional and subject to change. Accordingly, the pro forma adjustments are preliminary and made solely for the purpose of providing this unaudited pro forma condensed combined financial information. A final determination of the fair value for certain assets and liabilities will be completed as soon as the information necessary to complete the analysis is the obtained, but no later than one year from the acquisition date. Differences between these preliminary estimates and the final acquisition accounting may occur and these differences could be material.

4. RECLASSIFICATIONS

Certain reclassifications have been made to amounts to the historical financial information of AvKARE and R&S to conform to the financial statement presentation of Amneal, including reclassifying the following:

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

AvKARE reclassifications in the unaudited pro forma condensed combined balance sheet as of December 31, 2019 (in thousands)

	AvKARE before reclassifications	Reclassifications	Notes	AvKARE after reclassifications
Assets				
Current assets:				
Cash and cash equivalents	$ 1,015	$ —		$ 1,015
Trade accounts receivable, net	42,868	(14,190)	(1)	28,678
Inventories	801	—		801
Prepaid expenses and other current assets	652	—		652
Related party receivables	27,369	—		27,369
Total current assets	72,705	(14,190)		58,515
Property, plant and equipment, net	—	1,438	(2)	1,438
Equipment and software	1,438	(1,438)	(2)	—
Deferred tax asset, net	230	—		230
Other assets	—	130	(3)	130
Investment	130	(130)	(3)	—
Total assets	$ 74,503	$ (14,190)		$ 60,313
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued expenses	$ 17,615	$ 52	(1),(4),(5)	$ 17,667
Income taxes payable	452	(452)	(4)	—
Distribution fees payable	2,609	(2,609)	(5)	—
Chargebacks payable	11,181	(11,181)	(1)	—
Related party payables	3,271	—		3,271
Total current liabilities	35,128	(14,190)		20,938
Stockholders' equity				
Common stock	1	—		1
Stockholders' accumulated deficit	39,374	—		39,374
Total stockholders' equity	39,375	—		39,375
Total liabilities and stockholders' equity	$ 74,503	$ (14,190)		$ 60,313

(1) Reclassification of "Chargebacks payable" ($11.2 million) and "Accounts payable and accrued expenses" ($3 million) to "Trade accounts receivable, net".
(2) Reclassification of "Equipment and software" to "Property, plant and equipment, net".
(3) Reclassification of AvKARE's equity investment in R&S from "Investment" to "Other assets".
(4) Reclassification of "Income taxes payable" to "Accounts payable and accrued expenses".
(5) Reclassification of "Distribution fees payable" to "Accounts payable and accrued expenses".

AvKARE reclassifications in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 (in thousands)

	AvKARE before reclassifications	Reclassifications	Notes	AvKARE after reclassifications
Net revenue	$ 281,411	$ —		$ 281,411
Cost of goods sold	231,607	2,948	(1)	234,555
Gross profit	49,804	(2,948)		46,856
Selling, general and administrative	—	10,655	(1)	10,655
Operating expenses	13,603	(13,603)	(1)	—
Operating (loss) income	36,201	—		36,201
Other (expense) income:				
Equity in earnings on investment	233	(233)	(2)	—
Other income (expense)	57	233	(2)	290
Total other income (expense), net	290	—		290
(Loss) income before income taxes	36,491	—		36,491
Provision for (benefit from) income taxes	773	—		773
Net (loss) income	$ 35,718	$ —		$ 35,718

(1) Reclassification of "Operating expenses" to "Selling, general and administrative" ($10.7 million) and "Cost of goods sold" ($2.9 million).
(2) Reclassification of AvKARE's share of R&S' income from "Equity in earnings on investment" to "Other income (expense)".

R&S reclassifications in the unaudited pro forma condensed combined balance sheet as of December 31, 2019 (in thousands)

	R&S before reclassifications	Reclassifications	Notes	R&S after reclassifications
Assets				
Current assets:				
Trade accounts receivable, net	$ 22,958	$ —		$ 22,958
Inventories	73,241	—		73,241
Prepaid expenses and other current assets	364	21,142	(1)	21,506
Chargeback receivable, net	21,142	(21,142)	(1)	—
Related party receivables	3,271	—		3,271
Total current assets	120,976	—		120,976
Property, plant and equipment, net	3,454	—		3,454
Goodwill	5,508	—		5,508
Total assets	$ 129,938	$ —		$ 129,938
Liabilities and Members' Equity				
Current liabilities:				
Accounts payable and accrued expenses	$ 70,389	434	(2)	$ 70,823
Checks issued in excess of deposits	434	(434)	(2)	—
Revolving credit facility	6,701	—		6,701
Related party payables	27,592	—		27,592
Total current liabilities	105,116	—		105,116
Members' equity	24,822	—		24,822
Total liabilities and members' equity	$ 129,938	$ —		$ 129,938

(1) Reclassification of chargebacks owed from manufacturers from "Chargeback receivables, net" to "Prepaid expenses and other current assets".
(2) Reclassification of "Checks issued in excess of deposits" to "Accounts payable and accrued expenses".

R&S reclassifications in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2019 (in thousands)

	R&S before reclassifications	Reclassifications	Notes	R&S after reclassifications
Net revenue	$ 321,507	$ —		$ 321,507
Cost of goods sold	272,498	(697)	(1)	271,801
Gross profit	49,009	697		49,706
Selling, general and administrative	—	17,400	(1),(2)	17,400
Operating expenses	18,055	(18,055)	(2)	—
Operating (loss) income	30,954	1,352		32,306
Other (expense) income:				
Interest expense, net	—	(958)	(2)	(958)
Total other income (expense), net	—	(958)		(958)
(Loss) income before income taxes	30,954	394		31,348
Provision for (benefit from) income taxes	—	394	(2)	394
Net (loss) income	$ 30,954	$ —		$ 30,954

(1) Reclassification of "Cost of goods sold" to "Selling, general and administrative".
(2) Reclassification of "Operating expenses" to "Selling, general and administrative" ($16.7 million), "Interest expense, net" ($1 million) and "Provision for income taxes" ($0.4 million).

5. ACQUISITION RELATED PRO FORMA ADJUSTMENTS

The unaudited pro forma condensed combined financial information reflects the following adjustments related to the Acquisition:

(a) Cash consideration and working capital adjustment

Represents the adjustment to record the cash consideration of $254 million, of which $6.7 million was utilized by the sellers to repay R&S's line of credit balance. The pro forma adjustment to remove interest expense applicable to the line of credit is $0.9 million. This also represents the adjustment to record the amount receivable from the working capital adjustment of $2.6 million.

(b) Seller Notes and Short-term Seller Note

Represents the adjustment to record the estimated fair value of the Seller Notes of $35 million and the Short-term Seller Note of $1 million. Pro forma interest expense and accretion of the Seller Notes is $3.8 million. The interest expense on the Short-term Seller Note is not material.

(c) Elimination of transactions between Amneal, AvKARE and R&S

Represents the adjustment to eliminate transactions between Amneal, AvKARE and R&S in the unaudited pro forma condensed combined balance sheet as follows:

- Settlement of trade balances between Amneal ($12 million receivable) and R&S ($12 million payable);
- Elimination of related party balances between AvKARE ($27.4 million receivable and $3.3 million payable) and R&S ($3.3 million receivable and $27.4 million payable); and
- Elimination of AvKARE's investment in R&S ($0.1 million).

Represents the adjustment to eliminate transactions between Amneal, AvKARE and R&S in the unaudited pro forma condensed combined statement of operations as follows:

- Elimination of Amneal's sales to R&S ($66.5 million net revenue and $66.5 million cost of goods sold); and
- Elimination of R&S' sales to AvKARE ($202.4 million net revenue and $202.4 million cost of goods sold).

(d) Elimination of AvMedical

Represents the adjustment to eliminate the results of the AvMedical business which was not acquired in the Acquisition ($28.6 million of net revenue, $26 million cost of goods sold, and $0.3 million selling, general and administrative) from AvKARE's historical results.

(e) Intangible assets

Represents the adjustment to record AvKARE and R&S's intangible assets at their estimated fair value of $137.4 million. Pro forma estimated intangible asset amortization based on the pattern in which the economic benefits are expected to be consumed or otherwise used up and an estimated weighted average useful life of 6 years for acquired definite-lived intangible assets is $37.8 million.

For each $1 million increase or decrease in the fair value of definite-lived intangible assets assuming a weighted-average useful life of 6 years, annual amortization expense would increase or decrease by approximately $0.2 million.

(f) Property, plant and equipment

Represents the adjustment to record AvKARE and R&S's property, plant and equipment at an estimated fair value of $5.4 million. The pro forma estimated adjustment to depreciation expense is $0.1 million.

For each $1 million increase or decrease in the fair value of property, plant and equipment assuming a weighted-average useful life of 5 years, annual depreciation expense would increase or decrease by approximately $0.2 million.

(g) Leases

Represents the adjustment to record AvKARE and R&S's operating lease right-of-use assets – related party at an estimated fair value of $5.6 million and operating lease liabilities - related party at an estimated fair value of $5.6 million, of which $0.4 million is a current liability.

(h) Redeemable non-controlling interest

Represents the adjustment to record the estimated fair value of the redeemable non-controlling interest of $11.5 million.

(i) Transaction costs

Represents the elimination of transaction costs incurred by Amneal ($1.2 million), AvKARE ($0.5 million) and R&S ($0.5 million) which are directly attributable to the transaction, but which are not expected to have a continuing impact.

(j) Shareholders' equity

Represents the adjustment to eliminate AvKARE and R&S's historical stockholders' equity.

(k) Goodwill

Represents the adjustment to eliminate R&S's historical goodwill of $5.5 million and to recognize goodwill related to the Acquisition of $96.0 million.

(l) Income taxes

Amneal estimated that, as of December 31, 2019, it generated a cumulative consolidated three year pre-tax loss. Therefore, Amneal concluded that it is more likely than not that it will not realize the benefits of these deferred tax assets.

6. ACQUISITION FINANCING RELATED PRO FORMA ADJUSTMENTS

The unaudited pro forma condensed combined financial information reflects the following adjustments related to the Acquisition Financing, the proceeds of which were used in part to fund the Acquisition:

(a) Term Loan and Revolver

Represents the drawdown of $176.5 million of borrowings under the Term Loan, net of debt issuance costs of $3.5M, and $7.5 million under the Revolver, including debt issuance costs of $0.6 million classified as other assets. Pro forma interest expense, including amortization of debt issuance costs, related to the Term Loan and Revolver is $9.7 million.

A 0.125% change in the interest rate would result in an increase or a decrease in the pro forma interest expense by $0.2 million.

7. NON-CONTROLLING INTEREST PRO FORMA ADJUSTMENTS

The unaudited pro forma condensed combined financial information reflects Amneal's weighted average ownership of Amneal Pharmaceuticals LLC (44.2%) and Amneal Pharmaceuticals LLC ownership of Rondo Partners (65.1%).

(a) Non-controlling interest

The adjustment to reflect the income attributable to the non-controlling interests is $11.4 million. The adjustment was calculated as follows:

(i) The historical income of AvKARE and R&S and the pro forma adjustments impacting Rondo Partners, totaling income of $15.1 million, have been attributed as follows:

- $5.3 million of income to the non-controlling interest of Rondo Partners (34.9%)
- $9.8 million of income to Amneal Pharmaceuticals LLC (65.1%)

(ii) Additionally, the Rondo Partners income attributable to Amneal Pharmaceuticals LLC and the pro forma adjustments impacting Amneal Pharmaceuticals LLC, totaling income of $10.9 million, of which $9.8 million relates to the historical income of AvKare and R&S and $1.1 million relates to an adjustment to eliminate Amneal's transaction costs related to the Acquisition, have been attributed as follows:

- $6.1 million of income to the non-controlling interest of Amneal Pharmaceuticals LLC (55.8%)
- $4.8 million of income to Amneal (44.2%)