

Neos Therapeutics, Inc.
Form 424B5
November 05, 2018

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Registration No. 333-212809

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale thereof is not permitted.

Subject to Completion, November 5, 2018

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated August 12, 2016)

Shares

Common Stock

We are offering up to _____ shares of our common stock, par value \$0.001 per share, at a price of \$ _____ per share. Our common stock is listed on the Nasdaq Global Market under the symbol "NEOS." On November 2, 2018, the last reported sale price of our common stock was \$2.87 per share.

We are an "emerging growth company" under applicable Securities and Exchange Commission rules and will be subject to reduced public company reporting requirements for this prospectus and future filings.

Our business and an investment in our common stock involve significant risks. These risks are described under the caption "Risk Factors" beginning on page S-9 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Per Share

Total

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Public offering price	\$	\$
Underwriting discounts and commissions(1)	\$	\$
Proceeds to us before expenses	\$	\$

(1) We have agreed to reimburse the underwriter for certain expenses. See "Underwriting." The underwriter has also agreed to reimburse us for certain fees and expenses in relation to this offering.

We have granted the underwriter an option for a period of 30 days from the date of this prospectus supplement to purchase up to _____ additional shares of our common stock. If the underwriter exercises its option in full, the total underwriting discounts and commissions payable by us will be \$ _____, and the total proceeds to us, before expenses, will be \$ _____.

Delivery of the shares of common stock is expected to be made on or about _____, 2018.

Sole Book-Running Manager

Cantor

The date of this prospectus supplement is _____, 2018

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PROSPECTUS

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Neos Therapeutics, Inc. and other trademarks or service marks of Neos Therapeutics appearing in this prospectus supplement and the accompanying prospectus are the property of Neos Therapeutics. This prospectus supplement and the accompanying prospectus may refer to brand names, trademarks, service marks or trade names of other companies and organizations, and those brand names, trademarks, service marks and trade names are the property of their respective holders.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of common stock. The second part is the accompanying prospectus, which provides more general information, some of which may not apply to this offering. The information included or incorporated by reference in this prospectus supplement also adds to, updates and changes information contained or incorporated by reference in the accompanying prospectus. If information included or incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus or the information incorporated by reference therein, then this prospectus supplement or the information incorporated by reference in this prospectus supplement will apply and will supersede the information in the accompanying prospectus and the documents incorporated by reference therein.

This prospectus supplement is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a "shelf" registration process. Under the shelf registration process, we may from time to time offer and sell any combination of the securities described in the accompanying prospectus up to a total dollar amount of \$125.0 million, of which this offering is a part.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus prepared by us or on our behalf. We have not, and the underwriter has not, authorized any other person to provide you with information different from that contained in this prospectus supplement and the accompanying prospectus or incorporated by reference in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell or soliciting an offer to buy these securities under any circumstance in any jurisdiction where the offer or solicitation is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and any free writing prospectus prepared by us or on our behalf is accurate only as of the date of the respective document in which the information appears, and that any information in documents that we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus supplement or any sale of a security. Our business, financial condition, results of operations and prospects may have changed since those dates.

It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. We include cross-references in this prospectus supplement and the accompanying prospectus to captions in these materials where you can find additional related discussions. The table of contents in this prospectus supplement provides the pages on which these captions are located. You should read both this prospectus supplement and the accompanying prospectus, together with the additional information described in the sections entitled "Where You Can Find More Information" and "Incorporation by Reference" of this prospectus supplement, before investing in our common stock.

We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about, and observe any restrictions relating to, the offering of the common stock and the distribution of this prospectus supplement and the accompanying prospectus outside the United States. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, including the documents that we incorporate by reference, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but are not always, made through the use of words or phrases such as "may," "will," "could," "should," "expects," "intends," "target," "contemplates," "plans," "anticipates," "believes," "estimates," "predicts," "projects," "potential," or "continue," and similar expressions, or the negative of these terms, or similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this report, and in particular those factors referenced in the section "Risk Factors."

This prospectus supplement and the accompanying prospectus contain forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

our anticipated cash needs and our estimates regarding our anticipated expenses, capital requirements and our needs for additional financings;

our ability to commercialize Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER oral suspension, or Adzenys ER, or develop and commercialize any other future product or product candidate;

our ability to maintain our license for NT0501, to obtain regulatory approval of NT0501 and to otherwise realize the intended benefits of this license;

the effect of the amendment to our facility agreement and our ability to satisfy the repayment obligations thereunder;

the cost or other aspects of the future sales of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or the timing, cost or other aspects of the commercial launch and future sales of any other future product or product candidate;

our ability to increase our manufacturing and distribution capabilities for Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or any other future product or product candidate;

the attention deficit hyperactivity disorder patient market size and market adoption of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER by physicians and patients;

the therapeutic benefits, effectiveness and safety of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or any other future product or product candidate;

our expectations regarding the commercial supply of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER, or any other future products, or our generic Tussionex;

our ability to receive, and the timing of any receipt of the U.S. Food and Drug Administration, or FDA, approvals, or other regulatory action in the United States and elsewhere, for any future product candidate;

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our expectations regarding federal, state and foreign regulatory requirements;

our entry into the settlement and licensing agreement with Actavis Laboratories FL, Inc., or Actavis, the effect of our agreement with Actavis on its Abbreviated New Drug Application, or ANDA, and with the FDA for a generic version of Adzenys XR-ODT, and the expected timing of the manufacture and marketing of Actavis's generic version of Adzenys XR-ODT under the ANDA;

our product research and development activities, including the timing and progress of our clinical trials, and projected expenditures;

issuance of patents to us by the U.S. Patent and Trademark Office and other governmental patent agencies;

our ability to achieve profitability;

our staffing needs; and

the additional risks, uncertainties and other factors described under the caption "Risk Factors" in this prospectus and any prospectus supplement that we may file.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary provides an overview of selected information contained elsewhere in this prospectus supplement and the accompanying prospectus and does not contain all of the information you should consider before making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus supplement and the accompanying prospectus and the information incorporated herein and therein by reference, including our financial statements and the related notes included or incorporated by reference into this prospectus supplement and the accompanying prospectus. You should also consider, among other things, the matters described under "Risk Factors" beginning on page S-9 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in each case included or incorporated by reference in this prospectus supplement and the accompanying prospectus and the information incorporated herein and therein by reference. As used in this prospectus supplement and the accompanying prospectus, the terms "Neos," "we," "our," "us," or "the Company" refer to Neos Therapeutics, Inc. and its subsidiaries on a consolidated basis, unless the context otherwise indicates.

Company Overview

We are a pharmaceutical company focused on developing, manufacturing and commercializing products utilizing our proprietary modified-release drug delivery technology platform, which we have already used to develop Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER oral suspension, or Adzenys ER, for the treatment of attention deficit hyperactivity disorder, or ADHD. Our products and product candidates are modified release medications in patient-friendly, orally disintegrating tablets, or ODT, or oral suspension dosage forms. Our proprietary modified-release drug delivery platform has enabled us to create novel, extended-release ODT and oral suspension dosage forms. We received approval from the U.S. Food and Drug Administration, or FDA, for Adzenys XR-ODT, our amphetamine XR-ODT, on January 27, 2016 and launched the commercialization of this product on May 16, 2016. We received approval from the FDA for Cotempla XR-ODT, our methylphenidate XR-ODT for the treatment of ADHD in patients 6 to 17 years old, on June 19, 2017. We initiated an early experience program with limited product availability on September 5, 2017 before launching this product nationwide on October 2, 2017. Also, we received approval from the FDA for Adzenys ER, our amphetamine extended-release oral suspension, on September 15, 2017, and launched the commercialization of this product on February 26, 2018. We believe Adzenys XR-ODT and Cotempla XR-ODT are the first amphetamine XR-ODT and the first methylphenidate XR-ODT, respectively, for the treatment of ADHD on the market. In addition to our marketed products, we are developing NT-0400, our XR-ODT product candidate, for nausea and vomiting. We expect to initiate a clinical trial in the fourth quarter of 2018.

Other Recent Developments

License of NRX-101

On October 23, 2018, we entered into an Exclusive License Agreement, or the License Agreement, with NeuRx Pharmaceuticals LLC, or NeuRx, pursuant to which NeuRx granted an exclusive, royalty-bearing license to us to develop, manufacture, and commercialize certain pharmaceutical products containing NeuRx's proprietary compound designated as NRX 101, which we refer to as NT0501, on a world wide basis. NeuRx also granted us certain sub-license rights.

Under the License Agreement, we are required to make an upfront payment of \$175,000 and certain payments up to an aggregate of \$5.45 million upon the satisfaction of certain development milestones. In addition, NeuRx is entitled to royalty payments based on a multi-tier rate, ranging from high single digits to low double digits of aggregate annual net sales during the applicable term specified in the License Agreement on a product-by-product and country-by-country basis, subject to certain adjustment set forth in the License Agreement. If we grant a sublicense to one or more sublicensees

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under the license technology within four years following the date of the License Agreement, we are required to pay NeuRx 10% of the sublicensing revenue received from such sublicensees.

The term of the License Agreement is determined on a product-by-product and country-by-country basis, until the later of the expiration of the patent rights licensed to us and the expiration of regulatory-based exclusivity for such product in such country. The License Agreement may also be terminated by either party based upon certain uncured breach, or by us at any time with advanced notice.

Amendment to Facility Agreement

On November 5, 2018, we entered into a Second Amendment, or the Amendment, with Deerfield Private Design Fund III, L.P. and Deerfield Special Situations Fund, L.P., together, the Lenders, to our existing Facility Agreement, as amended, or the Agreement, with the Lenders. We borrowed a principal amount of \$60.0 million, or the Borrowings, pursuant to the Agreement in May 2016.

Pursuant to the terms of the Amendment, we have agreed to pay \$7.5 million in Borrowings upon completion of this offering. The remaining \$52.5 million of Borrowings is due as follows: \$7.5 million on May 11, 2019, \$15.0 million on May 11, 2020, or the 2020 Principal Payment, \$15.0 million on May 11, 2021 and \$15.0 million on May 11, 2022; provided, that the 2020 Principal Payment due date shall be extended to May 11, 2021 or May 11, 2022 subject to achievement of certain revenue milestones set forth in the Amendment. If all or any of the Borrowings are prepaid or required to be prepaid under the Agreement prior to December 31, 2021, then we shall pay, in addition to such prepayment and accrued interest thereon, a prepayment premium equal to 6.25% of the amount of principal prepaid. Additionally, we shall pay all interest which, absent such prepayment, would have accrued on the principal prepaid through May 11, 2020 in connection with a prepayment due as a result of a change of control or through December 31, 2020 in connection with any other prepayment. If such prepayment occurs after December 31, 2021 then no prepayment premium is due.

Pursuant to the Amendment, upon the effectiveness thereof, we will amend and restate our outstanding notes under the Agreement in the form of senior secured convertible notes, or the Convertible Notes. Under the terms of the Amendment and the Convertible Notes, beginning on or about May 11, 2019, we will have the right to pay Borrowings and future interest in shares of common stock not to exceed 2,135,625 shares in the aggregate. Additionally, the Lenders will have the right to convert the remaining Borrowings into shares of common stock not to exceed 3,796,668 shares in the aggregate, collectively, the Conversion Shares; provided, that the Lenders may only convert up to 50% of the remaining Borrowings on or before November 5, 2019. The Lenders' per share conversion price will be 95% (subject to adjustment as provided in the Convertible Notes) of the greater of (A) the average of the volume weighted average prices per share of our common stock on the Nasdaq Global Market for the three trading day period immediately preceding such conversion, and (B) \$10.00 (subject to adjustment as provided in the Convertible Notes). The Lenders' right to convert the remaining Borrowings into shares of common stock is memorialized in the Convertible Notes, or the Convertible Notes, to be issued to the Lenders upon effectiveness of the Amendment.

In connection with the Amendment and the issuance of the Convertible Notes pursuant thereto, we also entered into a Registration Rights Agreement with the Lenders, pursuant to which we agreed to register for sale the Conversion Shares within a specified time period following the issuance of the Convertible Notes.

The effectiveness of the Amendment is subject to the satisfaction or waiver of certain conditions set forth therein, including the completion of this offering. The Lenders have indicated an interest in purchasing an aggregate of \$7,500,000 of shares of our common stock in this offering at the public offering price. However, because indications of interest are not binding agreements or commitments to

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purchase, the underwriter may determine to sell more, less or no shares in this offering to the Lenders, and the Lenders could determine to purchase more, less or no shares in this offering.

Financial Update

Our cash, cash equivalents and short-term investments was approximately \$16.6 million at September 30, 2018, as compared to \$50.4 million and \$28.0 million at December 31, 2017 and June 30, 2018, respectively. In addition, we estimate that, for the three and nine months ended September 30, 2018, total net product revenues were \$12.5 million and \$34.6 million, respectively, which is an increase of 76.1% compared to \$7.1 million for the three months ended September 30, 2017 and an increase of 93.3% compared to \$17.9 million for the nine months ended September 30, 2017. Further, we estimate that for the three months ended September 30, 2018, net revenue per pack for Adzenys XR-ODT and Cotempla XR-ODT was approximately \$108 and \$108, respectively, as compared to net revenue per pack for Adzenys XR-ODT and Cotempla XR-ODT of approximately \$95 and \$89, respectively, for the three months ended June 30, 2018.

This financial data as of and for the three and nine months ended September 30, 2018 is preliminary and may change, and is based on information available to management as of the date of this prospectus supplement and is subject to completion by management of our financial statements as of and for the quarter ended September 30, 2018. We have provided estimates for preliminary revenues and revenue per unit described above primarily because our financial closing procedures for the quarter ended September 30, 2018 are not yet complete. There can be no assurance that our final results of operations for this period or cash position as of September 30, 2018 will not differ from these estimates, including as a result of review adjustments and any such changes could be material. The preliminary results of operations for the quarter ended September 30, 2018 are not necessarily indicative of the results to be achieved for any future period.

Our independent registered public accountants have not audited, reviewed or performed any procedures with respect to such preliminary financial data and accordingly do not express an opinion or any other form of assurance with respect thereto. These results could change as a result of further review. Complete quarterly results will be announced during our third quarter financial results conference call and included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.

Company Information

Our predecessor company was incorporated in Texas on November 30, 1994 as PharmaFab, Inc. and subsequently changed its name to Neostx, Inc. On June 15, 2009, we completed a reorganization pursuant to which substantially all of the capital stock of Neostx, Inc. was acquired by a newly formed Delaware corporation, named Neos Therapeutics, Inc. The remaining capital stock of Neostx, Inc. was acquired by us on June 29, 2015, and Neostx, Inc. was merged with and into Neos Therapeutics, Inc.

Our principal executive offices are located at 2940 N. Hwy 360, Grand Prairie, TX 75050 and our telephone number is (972) 408-1300. Our website address is www.neostx.com. The information contained on our website is not a part of, and should not be construed as being incorporated by reference into, this prospectus supplement or the accompanying prospectus.

Implications of Being an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we may take advantage of specified

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reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include, among others:

only two years of audited financial statements, in addition to any required unaudited interim financial statements with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure;

reduced disclosure about our executive compensation arrangements;

no non-binding advisory votes on executive compensation or golden parachute arrangements; and

exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting.

We may take advantage of these exemptions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company as of the last day of the fiscal year in which we have more than \$1.07 billion in annual revenue (as inflation-adjusted by the SEC from time to time), we have more than \$700 million in market value of our stock held by non-affiliates as of the prior June 30th, or the date on which we issue more than \$1 billion of non-convertible debt over a three-year period. We may choose to take advantage of some, but not all, of the available exemptions. We have taken advantage of certain reduced reporting burdens in this prospectus supplement and the accompanying prospectus and in documents incorporated herein and therein by reference. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.

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The Offering

Common stock offered by us	shares
Common stock to be outstanding immediately after this offering	shares (or shares if the underwriter exercises its option to purchase additional shares in full)
Underwriter's option to purchase additional shares	shares
Use of proceeds	We intend to use the proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, to fund the ongoing commercialization of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER; to fund the development of other product candidates and our post-marketing commitments for our commercial products; to satisfy outstanding indebtedness under our senior secured credit facility; and for general corporate purposes, including working capital. For a more complete description of our intended use of the proceeds from this offering, see "Use of Proceeds" on page S-14.
Risk factors	This investment involves a high degree of risk. You should carefully read "Risk Factors" on page S-9 of this prospectus supplement or otherwise incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors that you should consider before deciding to invest in our common stock.
Nasdaq Global Market symbol	"NEOS"
The number of shares of our common stock to be outstanding immediately after this offering is based on 29,014,788 shares outstanding as of June 30, 2018, and gives effect to the sale of shares of common stock, and does not include:	

3,576,062 aggregate shares of common stock issuable upon the exercise of stock options granted under our Neos Therapeutics, Inc. 2015 Stock Option and Incentive Plan, or 2015 Plan, and our Neos Therapeutics, Inc. 2018 Inducement Plan, or 2018 Plan, outstanding as of June 30, 2018 at a weighted-average exercise price of \$9.89 per share;

159,064 shares of common stock issuable upon vesting of restricted stock units under our 2015 Plan outstanding as of June 30, 2018.

70,833 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2018 at a weighted-average exercise price of \$12.00 per share; and

1,629,673 aggregate shares of common stock that are available for future issuance under our 2015 Plan and 2018 Plan as of June 30, 2018.

Except as otherwise indicated, we have presented the information in this prospectus supplement assuming no exercise by the underwriter in this offering of its option to purchase additional shares of common stock and no exercise of outstanding options or warrants described above.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Before deciding whether to invest in our common stock, you should consider carefully the risks and uncertainties described below. You should also consider the risks, uncertainties and assumptions discussed under the heading "Risk Factors" included in our most recent annual report on Form 10-K and our subsequent quarterly reports on Form 10-Q, each of which is on file with the SEC and are incorporated herein by reference, and which may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future. There may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results. If any of these risks actually occurs, our business, business prospects, financial condition or results of operations could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment. Please also read carefully the section above entitled "Cautionary Statement Regarding Forward-Looking Statements."

Risks Related to our Business

We do not have enough existing cash resources to fund our operations for the next twelve months and if we are unable to secure additional capital, we may be required to seek strategic alternatives, including but not limited to a potential business combination or a sale of our company or our business, or reduce or cease our operations.

We have incurred significant losses in each year since our reorganization in 2009. Our net losses were \$29.6 million and \$65.8 million for the six months ended June 30, 2018 and the year ended December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017, we had accumulated deficits of approximately \$295.0 million and \$265.3 million, respectively. We anticipate incurring substantial additional losses and may never achieve profitability.

We have devoted substantially all of our resources to funding our manufacturing operations and to our commercial products and product candidates which consist of implementation of our commercialization strategies, research and development activities, clinical trials for our product candidates, the general and administrative support of these operations and intellectual property protection and maintenance. We expect to continue to incur significant expenses and increasing operating losses as we operate commercial infrastructure to support sales and marketing for Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER, continue research and development activities for new product candidates, conduct post-marketing approval research activities for our approved products, manufacture supplies for our preclinical studies and clinical trials, continue to enforce our intellectual property rights, operate as a public company and service our outstanding indebtedness to our current lender. In addition, under the terms of our loan facility, we will be required to pay an aggregate of \$15.0 million in principal in May 2019, which, subject to the completion of this offering on its proposed terms, may be reduced to \$7.5 million in principal.

We estimate that as of September 30, 2018, we had approximately \$16.6 million in cash, cash equivalents and short-term investments. Based on our estimates, we expect that our current cash position will not be sufficient to fund our operations and continue as a going concern for at least the next twelve months. We have no additional committed external sources of funds and additional financing may not be available when we need it or may not be available on terms that are favorable to us. If we are unable to generate additional funds in this offering and in the future through financings, sales of our products, loans or from other sources or transactions, we will exhaust our resources and will be unable to maintain our currently planned operations. Additionally, even if we raise sufficient capital through equity or debt financing or transactions, there can be no assurances that the capital raised will be sufficient to enable us to develop our business to a level where it will be profitable or generate positive cash flow.

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In light of our cash position, we may be required to seek strategic alternatives, including but not limited to, strategic partnerships, a potential business combination or a sale of our company or our business, or otherwise reduce our operations. We cannot assure you that we would be able to take any of these actions or that any effort to sell additional debt or equity securities would be successful or would raise sufficient funds to meet our financial obligations. If additional financing is not available when required or is not available on acceptable terms, we may need to curtail, delay, modify or abandon our commercialization plans for our marketed products and we may be unable to take advantage of business opportunities or respond to competitive pressures, which could have a material adverse effect on our revenue, results of operations and financial condition. To preserve our cash resources, we may be required to reorganize our operations, such as through a reduction in force with respect to one or more functions within our company or across our company. If we are unable to fund our operations without additional external financing and therefore cannot sustain future operations, we may be required to cease our operations and/or seek bankruptcy protection.

Our failure to successfully identify, develop and market additional product candidates could impair our ability to grow.

As part of our growth strategy, we intend to identify, develop and market additional product candidates. We are exploring various therapeutic opportunities for our pipeline and proprietary technologies. We may spend several years completing our development of any particular current or future product candidates, and failure can occur at any stage. The product candidates to which we allocate our resources may not end up being successful. In addition, because our internal research capabilities are limited, we may be dependent upon pharmaceutical companies, academic scientists and other researchers to sell or license product candidates, approved products or the underlying technology to us. The success of this strategy depends partly upon our ability to identify, select, discover and acquire promising product candidates and products.

The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. For example, we may fail to realize the anticipated benefits of the license of NT0501, our in-licensed product candidate, and there is no assurance that we will be able to maintain the license for NT0501 at all. We may not be able to acquire the rights to additional product candidates on terms that we find acceptable, or at all.

In addition, future acquisitions and licensed product candidates may entail numerous operational and financial risks, including:

exposure to unknown liabilities;

disruption of our business and diversion of our management's time and attention to develop acquired products or technologies;

incurrence of substantial debt, dilutive issuances of securities or depletion of cash to pay for acquisitions;

higher than expected acquisition and integration costs;

difficulty in combining the operations and personnel of any acquired businesses with our operations and personnel;

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increased amortization expenses;

impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and

inability to motivate key employees of any acquired businesses.

Further, any product candidate that we acquire or in-license may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and other regulatory authorities.

Risks Related to This Offering and Our Common Stock

We have broad discretion in the use of the net proceeds from this offering and our existing cash and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering, including for any of the purposes described in the section entitled "Use of Proceeds," as well as our existing cash and cash equivalents, and you will be relying on the judgment of our management regarding such application. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. Our management might not apply the net proceeds or our existing cash in ways that ultimately increase the value of your investment. If we do not invest or apply the net proceeds from this offering or our existing cash and cash equivalents in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders. In addition, approximately \$7.5 million of the proceeds from this offering will be used for debt repayment to our lenders and not for an investment in our business.

You will experience immediate dilution in the book value per share of the securities you purchase in this offering and you could experience further dilution if we issue additional equity securities in the future.

Because the price per share of our common stock being offered is substantially higher than the net tangible book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of \$ per share, and a net tangible book value of \$(34.1) million, or \$(1.18) per share of common stock, as of June 30, 2018, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of \$ per share in the net tangible book value of the common stock you purchase. See "Dilution" for a more detailed discussion of the dilution you will incur if you purchase our securities in this offering.

Additionally, you could experience further dilution if we issue additional equity securities in the future. Any exercise of outstanding stock options, warrants or other equity awards will result in further dilution. In addition, we may sell shares or other securities in any other offering, including pursuant to the Common Stock Sales Agreement that we entered into in August 2016 with Cowen and Company, LLC, at a price per share that is less than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the price per share paid by investors in this offering. In addition, the amendment to our facility agreement will allow us to repay existing debt through issuance of our common stock in the future. See "Prospectus Supplement Summary Other Recent Developments Amendment to Facility Agreement." To the extent that such shares are issued at a price less than the price at which you purchase shares of common stock in this offering, you will experience further dilution.

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The trading price of the shares of our common stock could be highly volatile, and purchasers of our common stock could incur substantial losses.

Our stock began trading on the Nasdaq Global Market on July 23, 2015. Between that date and November 2, 2018, it has traded between \$2.85 and \$28.99 per share. Our stock price could be subject to wide fluctuations in response to a variety of factors, which include:

our anticipated cash needs and our estimates regarding our anticipated expenses, capital requirements and our needs for additional financings;

our ability to commercialize Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or develop and commercialize any other future product or product candidate;

the cost or other aspects of the future sales of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or the timing, cost or other aspects of the commercial launch and future sales of any other future product or product candidate;

our ability to increase our manufacturing and distribution capabilities for Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or any other future product or product candidate;

our ability to maintain our license for NT0501, to obtain regulatory approval of NT0501 and to otherwise realize the intended benefits of this license;

the effect of the amendment to our facility agreement and our ability to satisfy the repayment obligations thereunder;

the attention deficit hyperactivity disorder patient market size and market adoption of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER by physicians and patients;

the therapeutic benefits, effectiveness and safety of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER or any other future product or product candidate;

our expectations regarding the commercial supply of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER, or any other future products, or our generic Tussionex;

our ability to receive, and the timing of any receipt of the U.S. Food and Drug Administration, or FDA, approvals, or other regulatory action in the United States and elsewhere, for any future product candidate;

our expectations regarding federal, state and foreign regulatory requirements;

our entry into the settlement and licensing agreement with Actavis Laboratories FL, Inc., or Actavis, the effect of our agreement with Actavis on its Abbreviated New Drug Application, or ANDA, and with the FDA for a generic version of Adzenys XR-ODT, and the expected timing of the manufacture and marketing of Actavis's generic version of Adzenys XR-ODT under the ANDA;

our product research and development activities, including the timing and progress of our clinical trials, and projected expenditures;

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issuance of patents to us by the U.S. Patent and Trademark Office and other governmental patent agencies;

our ability to achieve profitability;

our staffing needs;

fluctuations in stock market prices and trading volumes of similar companies;

general market conditions and overall fluctuations in U.S. equity markets;

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variations in our quarterly operating results;

changes in our financial guidance or securities analysts' estimates of our financial performance;

changes in accounting principles;

our ability to raise additional capital and the terms on which we can raise it;

sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;

additions or departures of key personnel;

discussion of us or our stock price by the press and by online investor communities; and

other risks and uncertainties described in these risk factors.

As a result, you may not be able to sell your shares of common stock at or above the price at which you purchase them. In addition, the stock market in general, and the Nasdaq Global Market and the stock of biotechnology and emerging pharmaceutical companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance.

We may be subject to adverse legislative or regulatory tax changes that could negatively impact our financial condition.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders', tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$ million, or \$ million if the underwriter exercises in full its option to purchase additional shares.

The principal purpose of this offering is to obtain additional capital to support our operations. We expect to use the net proceeds of this offering, in addition to our existing cash resources and potential borrowings under our debt facilities, as follows:

to fund the ongoing commercialization of Adzenys XR-ODT, Cotempla XR-ODT and Adzenys ER;

to fund the development of other product candidates and our post-marketing commitments for our commercial products; and

the remainder to fund working capital and other general corporate purposes.

In addition, we intend to use approximately \$7.5 million in proceeds from this offering to satisfy the outstanding indebtedness under our senior secured credit facility with Deerfield Private Design Fund III, L.P. and Deerfield Special Situation Fund, L.P. The current interest rate on our outstanding debt under our senior secured credit facility is 12.95% per annum and (after giving effect to the repayment of principal from the proceeds of this offering) a payment of \$7.5 million is due in May 2019. Following the May 2019 payment, the senior secured credit facility requires us to make a yearly payment of \$15 million against principal beginning in May 2020 (unless such payment is deferred in accordance with the Amendment) and all outstanding principal and interest is due in May 2022. See "Prospectus Supplement Summary Other Recent Developments Amendment to Facility Agreement."

The amounts and timing of our use of the remaining net proceeds from this offering will depend on a number of factors, such as the timing and progress of our research and development efforts, the timing and progress of any collaborative or strategic partnering efforts, the competitive environment for our planned products and the degree and rate of market acceptance for our approved products. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the remaining net proceeds to us from this offering. Accordingly, our management will have broad discretion in the timing and application of these proceeds. Pending application of the net proceeds as described above, we intend to temporarily invest the proceeds in short-term, interest-bearing instruments.

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MARKET FOR COMMON STOCK

Our common stock is traded under the symbol "NEOS" and is quoted on the Nasdaq Global Market. The following table sets forth the high and low sales prices for shares of our common stock, as reported by the Nasdaq Global Market for the periods indicated.

Year Ended December 31, 2018	High	Low
First Quarter	\$ 11.69	\$ 7.92
Second Quarter	\$ 8.70	\$ 5.95
Third Quarter	\$ 6.94	\$ 4.61
Fourth Quarter (through November 2, 2018)	\$ 4.93	\$ 2.85

Year Ended December 31, 2017	High	Low
First Quarter	\$ 7.90	\$ 4.85
Second Quarter	\$ 9.60	\$ 6.60
Third Quarter	\$ 9.40	\$ 6.30
Fourth Quarter	\$ 13.15	\$ 7.25

Year Ended December 31, 2016	High	Low
First Quarter	\$ 15.20	\$ 7.57
Second Quarter	\$ 11.40	\$ 7.15
Third Quarter	\$ 9.99	\$ 6.33
Fourth Quarter	\$ 9.23	\$ 5.30

On November 2, 2018, the closing price for the common stock as reported on the Nasdaq Global Market was \$2.87.

As of October 30, 2018, there were 64 stockholders of record, which excludes stockholders whose shares were held in nominee or street name by brokers.

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DIVIDEND POLICY

We have never paid or declared any cash dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. In addition, the terms of our outstanding indebtedness restrict our ability to pay dividends, and any future indebtedness that we may incur could preclude us from paying dividends. We intend to retain all available funds and any future earnings to fund the development and expansion of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon a number of factors, including our results of operations, financial condition, future prospects, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of our senior secured credit facility with Deerfield Private Designs Fund III, L.P. and Deerfield Special Situations Fund, L.P.

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CAPITALIZATION

The following table sets forth our cash, cash equivalents and capitalization as of June 30, 2018:

on an actual basis; and

on an as adjusted basis, giving effect to the sale of _____ shares of common stock by us in this offering at the public offering price of \$ _____ per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table in conjunction with "Use of Proceeds" as well as our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the related notes, incorporated by reference into this prospectus supplement and the accompanying prospectus from our annual report on Form 10-K for the fiscal year ended December 31, 2017 and our subsequent quarterly reports on Form 10-Q, and incorporated by reference herein and therein.

	As of June 30, 2018	
	Actual	As Adjusted
	(unaudited)	
	(in thousands of dollars except share and per share data)	
Cash and Cash Equivalents	\$	18,318
Short-Term Investments		9,722
Long-Term Debt, including current portion		59,915
Stockholders' Equity:		
Preferred Stock, \$0.001 par value, no shares authorized, issued or outstanding, actual; 5,000,000 shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted		
Common Stock, \$0.001 par value, 100,000,000 shares authorized; 29,048,589 and 29,014,788 issued and outstanding, respectively, actual; 100,000,000 authorized, _____ and _____ shares issued and outstanding, respectively, as adjusted		29
Treasury Stock, at cost, 33,801 shares		(352)
Additional Paid-in Capital		276,637
Accumulated Deficit		(294,951)
Accumulated Other Comprehensive Income (Loss)		1
Total Stockholders' Equity (Deficit)		(18,636)
Total Capitalization	\$	41,279

The information above is illustrative only and our capitalization following the closing of this offering will be adjusted based on the actual offering price and other terms of this offering determined at pricing.

The actual and adjusted information set forth in the table above excludes the following:

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3,576,062 aggregate shares of common stock issuable upon the exercise of stock options granted under our Neos Therapeutics, Inc. 2015 Stock Option and Incentive Plan, or 2015 Plan, and our Neos Therapeutics, Inc. 2018 Inducement Plan, or 2018 Plan, outstanding as of June 30, 2018 at a weighted-average exercise price of \$9.89 per share;

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159,064 shares of common stock issuable upon vesting of restricted stock units under our 2015 Plan outstanding as of June 30, 2018;

70,833 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2018 at a weighted-average exercise price of \$12.00 per share; and

1,629,673 aggregate shares of common stock that are available for future issuance under our 2015 Plan and 2018 Plan as of June 30, 2018.

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DILUTION

If you purchase shares of our common stock in this offering, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the net tangible book value per share of our common stock after this offering. Our net tangible book value as of June 30, 2018 was \$(34.1) million, or \$(1.18) per share of common stock. "Net tangible book value" is total assets minus the sum of liabilities and intangible assets. "Net tangible book value per share" is net tangible book value divided by the total number of shares of common stock outstanding.

After giving effect to the sale by us of _____ shares of common stock at the public offering price of \$ _____ per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value as of June 30, 2018 would have been approximately \$ _____ million, or \$ _____ per share of common stock. This amount represents an immediate increase in net tangible book value of \$ _____ per share to existing stockholders and an immediate dilution of \$ _____ per share to purchasers in this offering.

The following table illustrates the dilution:

Public offering price per share of common stock	\$
Net tangible book value per share as of June 30, 2018	\$ (1.18)
Increase in net tangible book value per share attributable to this offering	\$
Pro forma net tangible book value per share after this offering	\$
Dilution per share to new investors	\$

The foregoing table and discussion are based on 29,014,788 shares of common stock outstanding as of June 30, 2018, and excludes:

3,576,062 aggregate shares of common stock issuable upon the exercise of stock options granted under our Neos Therapeutics, Inc. 2015 Stock Option and Incentive Plan, or 2015 Plan, and our Neos Therapeutics, Inc. 2018 Inducement Plan, or 2018 Plan, outstanding as of June 30, 2018 at a weighted-average exercise price of \$9.89 per share;

159,064 shares of common stock issuable upon vesting of restricted stock units under our 2015 Plan outstanding as of June 30, 2018;

70,833 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2018 at a weighted-average exercise price of \$12.00 per share; and

1,629,673 aggregate shares of common stock that are available for future issuance under our 2015 Plan and 2018 Plan as of June 30, 2018.

Table of Contents**UNDERWRITING**

Subject to the terms and conditions set forth in the underwriting agreement, dated _____, 2018, between us and Cantor Fitzgerald & Co., as the sole book-running manager of this offering, we have agreed to sell to the underwriter, and the underwriter has agreed to purchase from us, the shares of common stock shown opposite its name below.

Underwriter	Number of Shares
Cantor Fitzgerald & Co.	

The underwriting agreement provides that the obligations of the underwriter are subject to certain conditions precedent such as the receipt by the underwriter of officers' certificates and legal opinions and approval of certain legal matters by their counsel. The underwriting agreement provides that the underwriter will purchase all of the shares of common stock if any of them are purchased. We have agreed to indemnify the underwriter and certain of its controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriter may be required to make in respect of those liabilities.

The underwriter is offering the shares of common stock subject to its acceptance of the shares of common stock from us and subject to prior sale. The underwriter reserves the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Option to Purchase Additional Shares

We have granted to the underwriter an option, exercisable 30 days from the date of this prospectus supplement, to purchase, from time to time, in whole or in part, up to an aggregate of _____ shares from us at the public offering price set forth on the cover page of this prospectus supplement, less underwriting discounts and commissions.

Commission and Expenses

The underwriter has advised us that it proposes to offer the shares to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of \$ _____ per share. After the offering, the underwriter may change the offering price and other selling terms.

The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriter and the proceeds, before expenses, to us in connection with this offering.

	Per share		Total	
	Without Option to Purchase Additional Shares	With Option to Purchase Additional Shares	Without Option to Purchase Additional Shares	With Option to Purchase Additional Shares
Public offering price	\$	\$	\$	\$
Underwriting discounts and commissions	\$	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$	\$

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$ _____. We have also agreed to reimburse the underwriter for up to \$15,000 for its FINRA counsels' fees and expenses, which

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reimbursed fee is deemed underwriting compensation for this offering by FINRA. The underwriter has also agreed to reimburse us for certain fees and expenses in relation to this offering.

Listing

Our common stock is listed on the Nasdaq Global Market under the trading symbol "NEOS."

No Sales of Similar Securities

We, our directors and our executive officers have agreed, subject to certain specified exceptions, not to directly or indirectly, for a period of 90 days after the date of the underwriting agreement:

sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock, or publicly announce an intention to do the same,

establish or increase a put equivalent position, or liquidate or decrease a call equivalent position with respect to any shares of our common stock or any securities convertible into or exchangeable or exercisable for shares of our common stock, or publicly announce an intention to do the same, or

enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock, or publicly announce an intention to do the same.

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of the underwriter, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions in the immediately preceding paragraph do not apply in certain circumstances, including:

the sale of shares by us to the underwriter;

transactions relating to shares of common stock or other securities convertible into or exchangeable for common stock acquired in the offering or in the open market after completion of the offering;

certain gifts, if such transfer is not for value;

transfers to an immediate family member or any trust for the direct or indirect benefit of the party and/or an immediate family member of the party or to any corporation, partnership, limited liability company or other entity all of the beneficial ownership interests of which are held exclusively by the party and/or one or more immediate family members of the party, if such transfer is not for value;

transfers by will or intestate succession, if such transfer is not for value;

transfers to an affiliate of the party or distributions to partners, members of stockholders of the party, if such transfer is not for value;

transfers to us to satisfy tax withholding obligations or the exercise price upon a cashless net exercise pursuant to our equity incentive plans disclosed in this prospectus;

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exercise of any option, warrant or other rights to acquire common stock, the settlement of any stock-settled stock appreciation rights, restricted stock or restricted stock units or the conversion of any convertible security into common stock;

entrance into a trading plan pursuant to Rule 10b-5 under the Exchange Act, provided that such plan does not permit the sale of any common stock during the restricted period and no public announcement or filing is made regarding such plan during the restricted period; and

transfers pursuant to a bona-fide third-party tender offer, merger, consolidation or other similar transaction made to all holders of our securities involving a change of control of us, provided that in the event such tender offer, merger, consolidation or other transaction is not completed, such securities held by a party will remain subject to the lock-up agreement;

provided that (1) in the case of any transfer or distribution pursuant to the second through (and including) the sixth clauses above, no filing under Section 16(a) of the Exchange Act or public announcement is required or voluntarily made during the restricted period (other than a filing on a Form 5 made after the expiration of the restricted period or, in the case of the second clause above, any required beneficial ownership filings under Section 13 of the Exchange Act), (2) in the case of any transfer or distribution pursuant to the seventh or eighth clauses above, no filing under Section 16(a) of the Exchange Act or public announcement, reporting a reduction in beneficial ownership of shares of our common stock, is required or voluntarily made during the restricted period, (3) in the case of any transfer or distribution pursuant to the third through (and including) the sixth clauses above, the transferee agrees to sign and deliver a lock-up agreement substantially in the form of the lock-up agreements described above, and (4) in the case of the exercise of any option, warrant or other right to acquire shares of common stock pursuant to the eighth clause above, the shares of common stock underlying such option, warrant or other right, and all other shares of common stock and other securities subject to the terms of the lock-up agreements continue to be subject to the terms of the lock-up agreement. In addition, the restrictions in the immediately preceding paragraph do not apply to the issuance by the Company of shares of common stock upon the conversion of the Convertible Notes issued by the Company to Deerfield Special Situations Fund, L.P and Deerfield Private Design Fund III, L.P., with such conversion permitted at a conversion price that is equal to 95% (subject to adjustment as provided in the Convertible Notes) of the greater of (i) the average of the volume weighted average prices per share of our common stock on the Nasdaq Global Market for the three trading day period immediately preceding such conversion and (ii) \$10.00 (subject to adjustment as provided in the Convertible Notes), and the filing of a registration statement with the Commission registering those shares of common stock (see "Prospectus Supplement Summary Company Overview Amendment to Facility Agreement").

The underwriter may, in its sole discretion and at any time or from time to time before the termination of the 90-day period release all or any portion of the securities subject to lock-up agreements.

Market Making, Stabilization and Other Transactions

The underwriter may make a market in the common stock as permitted by applicable laws and regulations. However, the underwriter is not obligated to do so, and the underwriter may discontinue any market-making activities at any time without notice in its sole discretion. Accordingly, no assurance can be given as to the liquidity of the trading market for the common stock, that you will be able to sell any of the common stock held by you at a particular time or that the prices that you receive when you sell will be favorable.

The underwriter has advised us that it, pursuant to Regulation M under the Securities Exchange Act of 1934, as amended, may engage in short sale transactions, stabilizing transactions, syndicate covering transactions or the imposition of penalty bids in connection with this offering. These activities

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may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. Establishing short sales positions may involve either "covered" short sales or "naked" short sales.

"Covered" short sales are sales made in an amount not greater than the underwriter's option to purchase additional shares of our common stock in this offering. The underwriter may close out any covered short position by either exercising its option to purchase additional shares of our common stock or purchasing shares of our common stock in the open market. In determining the source of shares to close out the covered short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the option to purchase additional shares.

"Naked" short sales are sales in excess of the option to purchase additional shares of our common stock. The underwriter must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares of our common stock in the open market after pricing that could adversely affect investors who purchase in this offering.

A stabilizing bid is a bid for the purchase of shares of common stock on behalf of the underwriter for the purpose of fixing or maintaining the price of the common stock. A syndicate covering transaction is the bid for or the purchase of shares of common stock on behalf of the underwriter to reduce a short position incurred by the underwriter in connection with the offering. Similar to other purchase transactions, the underwriter's purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. A penalty bid is an arrangement permitting the underwriter to reclaim the selling concession otherwise accruing to a syndicate member in connection with the offering if the common stock originally sold by such syndicate member are purchased in a syndicate covering transaction and therefore have not been effectively placed by such syndicate member.

Neither we, nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. The underwriter is not obligated to engage in these activities and, if commenced, may end any of these activities at any time.

Passive Market Making

The underwriter may also engage in passive market making transactions in our common stock on the Nasdaq Global Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded. Passive market making may cause the price of our common stock to be higher than the price that otherwise would exist in the open market in the absence of those transactions. The underwriter is not required to engage in passive market making and, if commenced, may end passive market making activities at any time.

Electronic Distribution

A prospectus in electronic format may be made available by e-mail or on the web sites or through online services maintained the underwriter, selling group members (if any) or their affiliates. The underwriter may agree with us to allocate a specific number of shares of common stock for sale to

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online brokerage account holders. Any such allocation for online distributions will be made by the underwriter on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriter's web site and any information contained in any other web site maintained by the underwriter is not part of this prospectus supplement, has not been approved and/or endorsed by us or the underwriter and should not be relied upon by investors.

Other Activities and Relationships

The underwriter and certain of its affiliates are full service financial institutions engaged in a wide range of activities for their own accounts and the accounts of customers, which may include, among other things, corporate finance, mergers and acquisitions, merchant banking, equity and fixed income sales, trading and research, derivatives, foreign exchange, futures, asset management, custody, clearance and securities lending. The underwriter and certain of its affiliates have, from time to time, performed, and may in the future perform, various investment banking and financial advisory services for us and our affiliates, for which it received or will receive customary fees and expenses.

In addition, in the ordinary course of its business, the underwriter and its affiliates may, directly or indirectly, hold long or short positions, trade and otherwise conduct such activities in or with respect to debt or equity securities and/or bank debt of, and/or derivative products. Such investment and securities activities may involve our securities and instruments. The underwriter and its affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

Stamp Taxes

If you purchase shares of common stock offered in this prospectus supplement, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus supplement.

NOTICE TO INVESTORS

Canada

This prospectus supplement constitutes an "exempt offering document" as defined in and for the purposes of applicable Canadian securities laws. No prospectus has been filed with any securities commission or similar regulatory authority in Canada in connection with the offer and sale of the common stock. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this prospectus supplement or on the merits of the common stock and any representation to the contrary is an offence.

Canadian investors are advised that this prospectus supplement has been prepared in reliance on section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"). Pursuant to section 3A.3 of NI 33-105, this prospectus supplement is exempt from the requirement that the Company and the underwriter provide investors with certain conflicts of interest disclosure pertaining to "connected issuer" and/or "related issuer" relationships that may exist between the Company and the underwriter as would otherwise be required pursuant to subsection 2.1(1) of NI 33-105.

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Resale Restrictions

The offer and sale of the common stock in Canada is being made on a private placement basis only and is exempt from the requirement that the Company prepares and files a prospectus under applicable Canadian securities laws. Any resale of the common stock acquired by a Canadian investor in this offering must be made in accordance with applicable Canadian securities laws, which may vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with Canadian prospectus requirements, pursuant to a statutory exemption from the prospectus requirements, in a transaction exempt from the prospectus requirements or otherwise under a discretionary exemption from the prospectus requirements granted by the applicable local Canadian securities regulatory authority. These resale restrictions may under certain circumstances apply to resales of the common stock outside of Canada.

Representations of Purchasers

Each Canadian investor who purchases the common stock will be deemed to have represented to the Company and the underwriter that the investor (i) is purchasing the common stock as principal, or is deemed to be purchasing as principal in accordance with applicable Canadian securities laws, for investment only and not with a view to resale or redistribution; (ii) is an "accredited investor" as such term is defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions* ("NI 45-106") or, in Ontario, as such term is defined in section 73.3(1) of the *Securities Act* (Ontario); and (iii) is a "permitted client" as such term is defined in section 1.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

Taxation and Eligibility for Investment

Any discussion of taxation and related matters contained in this prospectus supplement does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a Canadian investor when deciding to purchase the common stock and, in particular, does not address any Canadian tax considerations. No representation or warranty is hereby made as to the tax consequences to a resident, or deemed resident, of Canada of an investment in the common stock or with respect to the eligibility of the common stock for investment by such investor under relevant Canadian federal and provincial legislation and regulations.

Rights of Action for Damages or Rescission

Securities legislation in certain of the Canadian jurisdictions provides certain purchasers of securities pursuant to an offering memorandum (such as this prospectus supplement), including where the distribution involves an "eligible foreign security" as such term is defined in Ontario Securities Commission Rule 45-501 *Ontario Prospectus and Registration Exemptions* and in Multilateral Instrument 45-107 *Listing Representation and Statutory Rights of Action Disclosure Exemptions*, as applicable, with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum, or other offering document that constitutes an offering memorandum, and any amendment thereto, contains a "misrepresentation" as defined under applicable Canadian securities laws. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed under, and are subject to limitations and defences under, applicable Canadian securities legislation. In addition, these remedies are in addition to and without derogation from any other right or remedy available at law to the investor.

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Language of Documents

Upon receipt of this document, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur Canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

Australia

This prospectus is not a disclosure document for the purposes of Australia's Corporations Act 2001 (Cth) of Australia, or Corporations Act, has not been lodged with the Australian Securities & Investments Commission and is only directed to the categories of exempt persons set out below. Accordingly, if you receive this prospectus in Australia:

You confirm and warrant that you are either:

a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act;

a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate to the company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made; or

a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act.

To the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor or professional investor under the Corporations Act any offer made to you under this prospectus is void and incapable of acceptance.

You warrant and agree that you will not offer any of the shares issued to you pursuant to this prospectus for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive, each referred to herein as a Relevant Member State, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, referred to herein as the Relevant Implementation Date, no offer of any securities which are the subject of the offering contemplated by this prospectus has been or will be made to the public in that Relevant Member State other than any offer where a prospectus has been or will be published in relation to such securities that has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the relevant competent authority in that Relevant Member State in accordance with the Prospectus Directive, except that with effect from and including the Relevant Implementation Date, an offer of such securities may be made to the public in that Relevant Member State:

to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as

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defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives of the underwriter for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of securities shall require the Company or the underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Hong Kong

No securities have been offered or sold, and no securities may be offered or sold, in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent; or to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong. No document, invitation or advertisement relating to the securities has been issued or may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

This prospectus has not been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may not be issued, circulated or distributed in Hong Kong, and the securities may not be offered for subscription to members of the public in Hong Kong. Each person acquiring the securities will be required, and is deemed by the acquisition of the securities, to confirm that he is aware of the restriction on offers of the securities described in this prospectus and the relevant offering documents and that he is not acquiring, and has not been offered any securities in circumstances that contravene any such restrictions.

Japan

The offering has not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 of Japan, as amended), or FIEL, and the Initial Purchaser will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means, unless otherwise provided herein, any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

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Singapore

This prospectus has not been and will not be lodged or registered with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or the invitation for subscription or purchase of the securities may not be issued, circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person as defined under Section 275(2), or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of any other applicable provision of the SFA.

Where the securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor as defined under Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Offer Shares under Section 275 of the SFA except:

to an institutional investor under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

where no consideration is given for the transfer; or

where the transfer is by operation of law.

Switzerland

The securities may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this prospectus nor any other offering or marketing material relating to the securities or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this prospectus nor any other offering or marketing material relating to the offering, the Company or the securities have been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus will not be filed with, and the offer of securities will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, or FINMA, and the offer of securities has not been and will not be authorized under the Swiss Federal Act on Collective

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Investment Schemes, or CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of securities.

Israel

This document does not constitute a prospectus under the Israeli Securities Law, 5728-1968, or the Securities Law, and has not been filed with or approved by the Israel Securities Authority. In the State of Israel, this document is being distributed only to, and is directed only at, and any offer of the shares is directed only at, investors listed in the first addendum, or the Addendum, to the Israeli Securities Law, consisting primarily of joint investment in trust funds, provident funds, insurance companies, banks, portfolio managers, investment advisors, members of the Tel Aviv Stock Exchange, underwriters, venture capital funds, entities with equity in excess of NIS 50 million and "qualified individuals", each as defined in the Addendum (as it may be amended from time to time), collectively referred to as qualified investors (in each case purchasing for their own account or, where permitted under the Addendum, for the accounts of their clients who are investors listed in the Addendum). Qualified investors will be required to submit written confirmation that they fall within the scope of the Addendum, are aware of the meaning of same and agree to it.

United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors (as defined in the Prospectus Directive) that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, referred to herein as the Order, and/or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order and other persons to whom it may lawfully be communicated. Each such person is referred to herein as a Relevant Person.

This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a Relevant Person should not act or rely on this document or any of its contents.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of our common stock to non-U.S. holders, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any U.S. state or local or any non-U.S. jurisdiction, U.S. federal estate or gift tax laws, the Medicare tax on net investment income or any alternative minimum tax consequences. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

banks, insurance companies or other financial institutions;

tax-exempt organizations;

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

persons that own, or are deemed to own, more than five percent of our capital stock;

certain former citizens or long-term residents of the United States;

persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction;

persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, for investment purposes);

S corporations, partnerships, or other entities or arrangements treated as partnerships for U.S. federal income tax purposes (or investors in any such entities);

persons deemed to sell our common stock under the constructive sale provisions of the Code;

regulated investment companies or real estate investment trusts;

pension plans;

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controlled foreign corporations;

passive foreign investment companies; or

persons that acquire our common stock as compensation for services.

In addition, if a partnership, including any entity or arrangement classified as a partnership for U.S. federal income tax purposes, holds our common stock, the tax treatment of a partner in such partnership generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

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You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any U.S. state or local or any non-U.S. or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are a beneficial owner of our common stock that is for United States federal income tax purposes (i) a foreign corporation, (ii) a nonresident alien individual, (iii) a foreign estate, the income of which, if from sources without the United States and not effectively connected with the conduct of a trade or business within the United States, is not subject to tax in the United States; or (iv) a trust that has not made an election to be treated as a U.S. holder under applicable Treasury regulations and that either (A) is not subject to the primary jurisdiction of a court within the United States, or (B) is not subject to the substantial control of one or more United States persons.

Distributions

As discussed under "Dividend Policy," above, we do not anticipate paying any dividends on our capital stock in the foreseeable future. If we were to make distributions on our common stock, those payments will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock, subject to the tax treatment described in the discussion below regarding taxable dispositions of our common stock. Any such distributions would also be subject to the discussions below regarding backup withholding and FATCA.

Subject to the discussion below regarding a dividend received by you that is effectively connected with the conduct of a U.S. trade or business, a dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with a valid IRS Form W-8BEN, IRS Form W-8-BEN-E or another appropriate version of IRS Form W-8 (or a successor form), in each case, certifying qualification for the reduced rate.

Dividends received by you that are effectively connected with the conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained by you in the United States) generally are exempt from such withholding tax. In order to obtain this exemption, you must provide us with a valid IRS Form W-8ECI or successor form or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits, subject to an applicable income tax treaty providing otherwise. In addition, if you are a corporate non-U.S. holder, you may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty on your earnings and profits in respect of such effectively connected dividend income.

If you are eligible for a reduced rate of withholding tax pursuant to a tax treaty, you may be able to obtain a refund of any excess amounts currently withheld if you file an appropriate claim for refund with the IRS.

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Gain on Sale or Other Taxable Disposition of Common Stock

Subject to the discussion below regarding backup withholding and FATCA, a non-U.S. Holder generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other taxable disposition of our common stock unless:

the gain is effectively connected with the conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment maintained by you in the U.S.), in which case you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and for a non-U.S. holder that is a corporation, such non-U.S. holder may be subject to the branch profits tax on any earnings and profits attributable to such gains at a 30% rate or such lower rate as may be specified by an applicable income tax treaty;

you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the taxable year in which the sale or disposition occurs and certain other conditions are met, in which case you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by certain U.S. source capital losses in the taxable year of disposition (even though you are not considered a resident of the United States) (subject to applicable income tax or other treaties); or

our common stock constitutes a U.S. real property interest by reason of our status as a "U.S. real property holding corporation" for U.S. federal income tax purposes, or a USRPHC, at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock. We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our real property and other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market (as determined under the Code), such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the applicable period that is specified in the Code.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will generally be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to additional information reporting and backup withholding at the then applicable rate (currently 24%) unless you establish an exemption, for example by properly certifying your non-U.S. status on an IRS Form W-8BEN, IRS Form W-8BEN-E or another appropriate version of IRS Form W-8 (or a successor form). Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

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Foreign Account Tax Compliance Act ("FATCA")

Provisions commonly referred to as "FATCA" may impose withholding tax on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities. The legislation imposes a 30% withholding tax on dividends on, or gross proceeds from the sale or other disposition of, our common stock paid to a foreign financial institution or to certain non-financial foreign entities, unless (i) the foreign financial institution undertakes certain diligence and reporting obligations, (ii) the non-financial foreign entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner and such entity meets certain other specified requirements, or (iii) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the requirements in (i) above, it must enter into an agreement with the U.S. Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. If the country in which a payee is resident has entered into an "intergovernmental agreement" with the United States regarding FATCA, that agreement may permit the payee to report to that country rather than to the U.S. Treasury. Under final regulations and published guidance, the obligation to withhold from payments made to a foreign financial institution or a foreign non-financial entity under FATCA with respect to dividends on our common stock are currently in effect, but with respect to the gross proceeds of a sale or other disposition of our common stock will not begin until January 1, 2019. Prospective investors should consult their tax advisors regarding FATCA.

The preceding discussion of U.S. federal income tax considerations is for general information only. It is not tax advice. Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.

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LEGAL MATTERS

The validity of the common stock being offered hereby will be passed upon by Goodwin Procter LLP, Boston, Massachusetts. Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, is acting as counsel for the underwriter in connection with certain legal matters related to this offering.

EXPERTS

The consolidated financial statements of Neos Therapeutics, Inc. appearing in our Annual Report on Form 10-K for the year ended December 31, 2017 have been audited by RSM US LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Exchange Act and, in accordance therewith, file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. These documents also may be accessed through the SEC's electronic data gathering, analysis and retrieval system, or EDGAR, via electronic means, including the SEC's home page on the Internet (www.sec.gov).

We have the authority to designate and issue more than one class or series of stock having various preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption. See "Description of Capital Stock" in the accompanying prospectus. We will furnish a full statement of the relative rights and preferences of each class or series of our stock which has been so designated and any restrictions on the ownership or transfer of our stock to any shareholder upon request and without charge. Written requests for such copies should be directed to Neos Therapeutics, Inc., 2940 N. Hwy 360, Grand Prairie, TX, 75050, Attention: Chief Financial Officer, or by telephone request to (972) 408-1300. Our website is located at www.neostx.com. Information contained on our website is not incorporated by reference into this prospectus and, therefore, is not part of this prospectus supplement or the accompanying prospectus.

INCORPORATION BY REFERENCE

The SEC allows us to "incorporate by reference" information that we file with them. Incorporation by reference allows us to disclose important information to you by referring you to those other documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus, and information that we file later with the SEC will automatically update and supersede this information. We filed a registration statement on Form S-3 under the Securities Act of 1933, as amended, with the SEC with respect to the securities being offered pursuant to this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus omit certain information contained in the registration statement, as permitted by the SEC. You should refer to the registration statement, including the exhibits, for further information about us and the securities being offered pursuant to this prospectus supplement and the accompanying prospectus. Statements in this prospectus supplement and the accompanying prospectus regarding the provisions of certain documents filed with, or incorporated by reference in, the registration statement are not necessarily complete and each statement is qualified in all respects by that reference. Copies of all or any part of the registration statement, including the documents

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Foreign exchange forward contracts

Financial liabilities:

Current derivative liabilities:

Interest rate swap contracts

1,798 1,798

Foreign exchange forward contracts

Non-current derivative liabilities:

Interest rate swap contracts

495 495

Foreign exchange forward contracts

Long-term debt, current and non-current

1,009,162 1,008,676

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	Fair Value Measurements at Reporting Date Using			
	December 31, 2016	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(U.S. Dollars in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 27,664	\$ 27,664	\$	\$
<i>Current derivative assets:</i>				
Interest rate swap contracts				
Foreign exchange forward contracts				
<i>Non-current derivative assets:</i>				
Interest rate swap contracts	3,154		3,154	
Foreign exchange forward contracts				
Financial liabilities:				
<i>Current derivative liabilities:</i>				
Interest rate swap contracts	2,039		2,039	
Foreign exchange forward contracts	1,265		1,265	
<i>Non-current derivative liabilities:</i>				
Interest rate swap contracts	285		285	
Foreign exchange forward contracts				
Long-term debt, current and non-current	745,649		743,898	

The Partnership's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2 or Level 3 as of September 30, 2017 and December 31, 2016.

8) Income Taxes

The Norwegian government is in negotiations with the EFTA Surveillance Authority to extend the effective date of the Norwegian Tonnage Tax regime (the tonnage tax regime). Pursuant to those negotiations, Norway has proposed restrictions that would eliminate the ability of companies that own vessels under certain bareboat charters to qualify for the tonnage tax regime. Companies that no longer qualify for the tonnage tax regime would instead be subject to Norwegian corporate income tax.

Subsidiaries of the Partnership collectively own four vessels under bareboat charters. Under the currently proposed changes to the tonnage tax regime, the subsidiaries that own those vessels would no longer qualify for the tonnage tax regime and would instead be subject to Norwegian corporate income tax, potentially as of January 1, 2018. The Partnership is evaluating potential alternatives that would avoid any of its subsidiaries being disqualified from the tonnage tax regime. However, until any changes to the tonnage tax regime are finalized, the Partnership can make no assurances that it can avoid the disqualification of certain of its subsidiaries from the tonnage tax regime. The negotiations between the Norwegian government and the EFTA Surveillance Authority have taken a longer time than initially indicated from the government. An extended period for existing tonnage taxed companies to comply with the potential new regulations until October 31, 2018 has been proposed.

Table of Contents**Components of Current and Deferred Tax Expense**

After the reorganization of the Partnership's predecessor's activities into the new group structure in February 2013, all profit from continuing operations in Norway is taxable within the tonnage tax regime. The consequence of the reorganization was a one-time entrance tax into the tonnage tax regime due to the Partnership's acquisition of the shares in the subsidiary that owns the *Fortaleza Knutsen* and the *Recife Knutsen*. Under the tonnage tax regime, the tax is based on the tonnage of the vessel and operating income is tax free. The net financial income and expense remains taxable as ordinary income tax for entities subject to the tonnage tax regime. For the portion of activities subject to the tonnage tax regime, tonnage taxes are classified as vessel operating expenses while the current and deferred taxes arising on net financial income and expense are reflected as income tax expense in the consolidated financial statements.

The total amount of the entrance tax was estimated to be approximately \$3.0 million, which was recognized in the three months ended March 31, 2013. The entrance tax is payable over several years and is calculated by multiplying the tax rate by the declining balance of the gain, which will decline by 20% each year. The amount payable will be affected by the change in tax rate which was reduced to 24% in 2017 from 25% in 2016, from 27% in 2014 and from 28% in 2013 and the fluctuation in currency rates. Approximately \$0.2 of the entrance tax was paid during the first quarter of 2017 and 2016. UK income tax is presented as income taxes payable, while \$0.8 million is presented as non-current deferred taxes payable.

Significant components of current and deferred income tax expense attributable to income from continuing operations for the three and nine months ended September 30, 2017 and 2016 as follows:

(U.S. Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Income before income taxes	\$ 21,082	\$ 19,360	\$ 49,432	\$ 41,607
Income tax (expense)	(3)	(3)	(9)	(9)
Effective tax rate	\$ 0%	\$ 0%	\$ 0%	\$ 0%

The Partnership records a valuation allowance for deferred tax assets when it is more likely than not that some of or all of the benefit from the deferred tax assets will not be realized. In assessing the realizability of deferred tax assets, which relates to financial loss carry forwards and other deferred tax assets within the tonnage tax regime, the Partnership considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized taking into account all the positive and negative evidence available. As of September 30, 2017 and December 31, 2016 there are no deferred tax assets recognized.

9) Vessels and Equipment

(U.S. Dollars in thousands)	Vessels & equipment	Accumulated depreciation	Net Vessels
Vessels, December 31, 2015	\$ 1,351,219	\$ (158,292)	\$ 1,192,927

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Additions	115,934		115,934
Drydock costs	4,258		4,258
Disposals	(2,498)	2,498	
Depreciation for the year		(56,230)	(56,230)
Vessels, December 31, 2016	\$ 1,468,913	\$ (212,024)	\$ 1,256,889
Additions	426,036		426,036
Drydock costs	12,492		12,492
Disposals	(1,508)	1,508	
Depreciation for the period		(51,505)	(51,505)
Vessels, September 30, 2017	\$ 1,905,933	\$ (262,021)	\$ 1,643,912

As of September 30, 2017 and December 2016, Vessels with a book value of \$1,644 million and \$1,257 million, respectively, are pledged as security held as a guarantee for the Partnership's long-term debt. See Note 11 Long-term debt.

Table of Contents**10) Intangible Assets**

<i>(U.S. Dollars in thousands)</i>	Above market time charter <i>Tordis Knutsen</i>	Above market time charter <i>Vigdis Knutsen</i>	Total intangibles
Intangibles, December 31, 2015	\$	\$	\$
Additions			
Amortization for the year			
Intangibles, December 31, 2016	\$	\$	\$
Additions	1,468	1,458	2,926
Amortization for the period	(177)	(100)	(277)
Intangibles, September 30, 2017	\$ 1,291	\$ 1,358	\$ 2,649

The intangible for the above market value of time charter contract associated with the *Tordis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.8 years as of the acquisition date. The intangible for the above market value of time charter contract associated with the *Vigdis Knutsen* is amortized to time charter revenue on a straight line basis over the remaining term of the contract of approximately 4.9 years as of the acquisition date. Also see Note 15 – Business Acquisitions.

11) Long-Term Debt

As of September 30, 2017 and December 31, 2016, the Partnership had the following debt amounts outstanding:

<i>(U.S. Dollars in thousands)</i>	Vessel	September 30, 2017	December 31, 2016
\$240 million loan facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	\$ 168,928	\$ 180,714
\$35 million revolving credit facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	23,000	25,000
\$140 million loan facility	<i>Fortaleza Knutsen & Recife Knutsen</i>	111,563	118,125
\$117 million loan facility	<i>Hilda Knutsen</i>		76,871
\$100 million loan facility	<i>Hilda Knutsen</i>	98,462	
\$117 million loan facility	<i>Torill Knutsen</i>	74,409	78,105
\$172.5 million loan facility	<i>Dan Cisne, Dan Sabia</i>	95,939	100,539
\$77.5 million loan facility	<i>Ingrid Knutsen</i>	64,368	67,652
\$74.5 million loan facility	<i>Raquel Knutsen</i>	69,721	73,643
\$25 million Seller's Credit and Seller's Loan	<i>Raquel Knutsen</i>		25,000
\$114.4 million loan facility	<i>Tordis Knutsen</i>	92,316	

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\$114.4 million loan facility	<i>Vigdis Knutsen</i>	93,581	
\$114.4 million loan facility	<i>Lena Knutsen</i>	91,875	
\$25 million revolving credit facility		25,000	
Total long-term debt		1,009,162	745,649
Less: current installments		71,561	60,314
Less: unamortized deferred loan issuance costs		2,035	1,330
Current portion of long-term debt		69,526	58,984
Amounts due after one year		937,601	685,335
Less: unamortized deferred loan issuance costs		4,492	2,673
Less: \$25 million Seller's Credit and Seller's Loan			25,000
Long-term debt, less current installments, Seller's Credit and Seller's Loan and unamortized deferred loan issuance costs		\$ 933,109	\$ 657,662

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The Partnership's outstanding debt of \$1,009.2 million as of September 30, 2017 is repayable as follows:

<i>(U.S. Dollars in thousands)</i>	Period repayment	Balloon repayment
Remainder of 2017	\$ 21,832	\$ 86,677
2018	71,203	86,677
2019	54,985	285,678
2020	44,053	
2021	44,653	70,811
2022 and thereafter	87,958	241,312
Total	\$ 324,684	\$ 684,478

As of September 30, 2017, the interest rates on the Partnership's loan agreements (other than tranche two of the \$77.5 million loan facility) were the London Interbank Offered Rate (LIBOR) plus a fixed margin ranging from 1.8% to 2.5%. On the export credit loan of \$44.6 million which is tranche two of the \$77.5 million loan facility secured by the *Ingrid Knutsen*, the annual rate is 3.85% composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The guarantee commission of 1.35% is classified as other finance expense.

In April 2015, KNOT Shuttle Tankers 24 AS, the subsidiary owning the *Tordis Knutsen*, as the borrower, entered into a secured loan facility (the Tordis Facility). As of the time of the acquisition of the *Tordis Knutsen* on March 1, 2017, the aggregate amount outstanding under the facility was \$114.4 million. The Tordis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in November 2021. The Tordis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Tordis Knutsen*. The *Tordis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Tordis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

In April 2015, KNOT Shuttle Tankers 25 AS, the subsidiary owning the *Vigdis Knutsen*, as the borrower, entered into a secured loan facility (the Vigdis Facility). As of the time of the acquisition of the *Vigdis Knutsen* on June 1, 2017, the aggregate amount outstanding under the facility was \$114.4 million. The Vigdis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in February 2022. The Vigdis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Vigdis Knutsen*. The *Vigdis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Vigdis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

In April 2015, KNOT Shuttle Tankers 26 AS, the subsidiary owning the *Lena Knutsen*, as the borrower, entered into a secured loan facility (the Lena Facility). As of the time of the acquisition of the *Lena Knutsen* on September 30, 2017, the aggregate amount outstanding under the facility was \$111.1 million. The Lena Facility is repayable in quarterly installments with a final balloon payment of \$68.6 million due at maturity in June 2022. The Lena Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Lena Knutsen*. The *Lena Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Lena Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

On May 26, 2017, the Partnership's subsidiary, KNOT Shuttle Tankers 14 AS, which owns the vessel *Hilda Knutsen*, entered into a new \$100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the New Hilda Facility). The New Hilda Facility is repayable in twenty-eight (28) consecutive quarterly

installments with a balloon payment of \$58.5 million due at maturity. The New Hilda Facility bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The facility matures in 2024 and is guaranteed by the Partnership and refinanced the \$117 million loan facility associated with the *Hilda Knutsen* that bore interest at a rate of LIBOR plus 2.5% and was due to be paid in full in August 2018. As part of the refinancing, the \$117 million loan facility including amortized loan expenses has been fully derecognized.

On August 31, 2017, the Partnership's subsidiary, KNOT Shuttle Tankers AS, which owns the vessel-owning entities, entered into an unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2019, bear interest at LIBOR plus 1.8% and have a commitment fee of 0.5% on the undrawn portion of the facility.

Table of Contents**12) Related Party Transactions****(a) Related Parties**

Net expenses (income) from related parties included in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016 are as follows:

<i>(U.S. Dollars in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Statements of operations:				
<i>Other income:</i>				
Guarantee income from KNOT (1)	\$ 247	\$ 196	\$ 933	\$ 577
<i>Operating expenses:</i>				
Technical and operational management fee from KNOT Management to Vessels (2)	1,166	733	3,193	2,198
<i>General and administrative expenses:</i>				
Administration fee from KNOT Management (3)	317	327	1,100	960
Administration fee from KOAS (3)	119	95	342	286
Administration fee from KOAS UK (3)	35	35	97	106
Administration and management fee from KNOT (4)	52	50	146	152
<i>Finance income (expense):</i>				
Interest expense charged from KNOT (5)			52	
Total	\$ 1,442	\$ 1,044	\$ 3,997	\$ 3,125

<i>(U.S. Dollars in thousands)</i>	At September 30,	At December 31,
	2017	2016
Balance Sheet:		
<i>Vessels:</i>		
Drydocking supervision fee from KNOT (6)	\$ 29	\$ 38
Drydocking supervision fee from KOAS (6)		16
Total	\$ 29	\$ 54

- (1) *Guarantee income from KNOT*: Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the initial charter of the *Windsor Knutsen* and *Bodil Knutsen* for a period of five years from the closing date of the IPO. In October 2015, the *Windsor Knutsen* commenced on a new Shell time charter with a hire rate below the hire rate in the initial charter. The difference between the new hire rate and the initial rate is paid by KNOT. See Note 12(b) Related Party Transactions Guarantees and Indemnifications. The *Vigdis Knutsen*

suffered damages to its hull in connection with a ship-to-ship loading on May 24, 2017 and the vessel went off-hire 6 days in June 2017 due to repairs of the damage. In connection with the *Vigdis Knutsen* acquisition, KNOT agreed to pay for the repair cost and charter hire lost in connection with the incident. The reimbursement from KNOT for lost charter hire is accounted for as guarantee income.

- (2) *Technical and operational management fee from KNOT Management to Vessels*: KNOT Management AS (KNOT Management) provides technical and operational management of the vessels on time charter including crewing, purchasing, maintenance and other operational services. In addition, there is also a charge for 24-hour emergency response services provided by KNOT for all vessels managed by KNOT.
- (3) *Administration fee from KNOT Management and Knutsen OAS Shipping AS (KOAS) and Knutsen OAS (UK) Ltd. (KOAS UK)*: Administration costs include the compensation and benefits of KNOT Management s management and administrative staff as well as other general and administration expenses. Some benefits are also provided by KOAS and KOAS UK. Net administration costs are total administration cost plus a 5% margin, reduced for the total fees for services delivered by the administration staffs and the estimated shareholder costs for KNOT that have not been allocated. As such, the level of net administration costs as a basis for the allocation can vary from year to year based on the administration and financing services offered by KNOT to all the vessels in its fleet each year. KNOT Management also charges each subsidiary a fixed annual fee for the preparation of the statutory financial statement.
- (4) *Administration and management fee from KNOT*: For bareboat charters, the shipowner is not responsible for providing crewing or other operational services and the customer is responsible for all vessel operating expenses and voyage expenses. However, each of the vessels under bareboat charters are subject to management and administration agreements with either KNOT Management or KNOT Management Denmark, pursuant to which these companies provide general monitoring services for the vessels in exchange for an annual fee.
- (5) *Interest expense charged from KNOT*: KNOT invoiced interest (expense) income for any outstanding payables to (receivable from) owners and affiliates to the vessel-owning subsidiaries.
- (6) *Drydocking supervision fee from KNOT and KOAS*: KNOT and KOAS provide supervision and hire out service personnel during drydocking of the vessels. The fee is calculated as a daily fixed fee.

Table of Contents**(b) Guarantees and Indemnifications**

Pursuant to the Omnibus Agreement, KNOT agreed to guarantee the payments of the hire rate under the initial charters of each of the *Windsor Knutsen* and the *Bodil Knutsen* for a period of five years from the closing date of the IPO.

In April 2014, the Partnership was notified that Shell would not exercise its option to extend the *Windsor Knutsen* time charter after the expiration of its initial term. The vessel was re-delivered on July 28, 2014. In order to comply with its obligations under the Omnibus Agreement, on July 29, 2014, KNOT and the Partnership entered into a time charter for the vessel at a rate of hire that would have been in effect during the option period under the previous Shell time charter. This charter was effective until the new Shell time charter commenced in October, 2015. The new Shell charter has a hire rate that is lower than the hire rate in the initial charter. The difference between the new hire and the initial rate is paid by KNOT.

Under the Omnibus Agreement, KNOT has agreed to indemnify the Partnership until April 15, 2018, against certain environmental and toxic tort liabilities with respect to certain assets that KNOT contributed or sold to the Partnership to the extent arising prior to the time they were contributed or sold. However, claims are subject to a deductible of \$0.5 million and an aggregate cap of \$5 million.

(c) Transactions with Management and Directors

See the footnotes to Note 12(a) Related Party Transactions for a discussion of the allocation principles for KNOT's administrative costs, including management and administrative staff, included in the consolidated statements of operations.

(d) Amounts Due from (to) Related Parties

Balances with related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At September 30, 2017	At December 31, 2016
Balance Sheet:		
Trading balances due from KOAS	\$ 23	\$ 108
Trading balances due from KNOT and affiliates	858	42
Amount due from related parties	\$ 881	\$ 150
Trading balances due to KOAS	\$ 1,328	\$ 543
Trading balances due to KNOT and affiliates	1,326	291
Amount due to related parties	\$ 2,654	\$ 834

Amounts due from (to) related parties are unsecured and intended to be settled in the ordinary course of business. They primarily relate to vessel management and other fees due to KNOT, KNOT Management, KOAS UK and KOAS.

Table of Contents**(e) Trade accounts payables**

Trade accounts payables to related parties are included in total trade accounts payables in the balance sheet. The balances to related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At September 30, 2017	At December 31, 2016
Balance Sheet:		
Trading balances due to KOAS	\$ 396	\$ 727
Trading balances due to KNOT and affiliates	846	394
 Trade accounts payables to related parties	 \$ 1,242	 \$ 1,121

(f) Long-term debt from related parties

The balances to related parties consisted of the following:

<i>(U.S. Dollars in thousands)</i>	At September 30, 2017	At December 31, 2016
Balance Sheet:		
Long-term debt from related parties (KNOT)	\$	\$ 25,000
 Total	 \$	 \$ 25,000

(g) Acquisitions from KNOT

On December 1, 2016, the Partnership acquired KNOT's 100% interest in Knutsen NYK Shuttle Tankers 19 AS, the company that owns and operates the *Raquel Knutsen*. This acquisition was accounted for as an acquisition of a business.

On March 1, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 24 AS, the company that owns and operates the *Tordis Knutsen*. This acquisition was accounted for as an acquisition of a business.

On June 1, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 25 AS, the company that owns and operates the *Vigdis Knutsen*. This acquisition was accounted for as an acquisition of a business.

On September 30, 2017, the Partnership acquired KNOT's 100% interest in KNOT Shuttle Tankers 26 AS, the company that owns and operates the *Lena Knutsen*. This acquisition was accounted for as an acquisition of a business.

The board of directors of the Partnership (the Board) and the conflicts committee of the Board (the Conflicts Committee) approved the purchase price for each transaction described above. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transactions. See Note 15 Business Acquisitions.

13) Commitments and Contingencies

Assets Pledged

As of September 30, 2017 and December 31, 2016, Vessels with a book value of \$ 1,644 million and \$1,257 million, respectively, were pledged as security held as guarantee for the Partnership's long-term debt and interest rate swap obligations. See Note 6 Derivative Instruments and Note 11 Long-Term Debt.

Claims and Legal Proceedings

From time to time, the Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position, results of operations or cash flows.

Insurance

The Partnership maintains insurance on all the Vessels to insure against marine and war risks, which include damage to or total loss of the Vessels, subject to deductible amounts that average \$0.15 million per Vessel, and loss of hire.

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Under the loss of hire policies, the insurer will pay a compensation for the lost hire rate agreed in respect of each Vessel for each day, in excess of 14 deductible days, for the time that the Vessel is out of service as a result of damage, for a maximum of 180 days. In addition, the Partnership maintains protection and indemnity insurance, which covers third-party legal liabilities arising in connection with the Vessels' activities, including, among other things, the injury or death of third-party persons, loss or damage to cargo, claims arising from collisions with other vessels and other damage to other third-party property, including pollution arising from oil or other substances. This insurance is unlimited, except for pollution, which is limited to \$1 billion per vessel per incident. The protection and indemnity insurance is maintained through a protection and indemnity association, and as a member of the association, the Partnership may be required to pay amounts above budgeted premiums if the member claims exceed association reserves, subject to certain reinsured amounts. If the Partnership experiences multiple claims each with individual deductibles, losses due to risks that are not insured or claims for insured risks that are not paid, it could have a material adverse effect on the Partnership's results of operations and financial condition.

14) Earnings per Unit and Cash Distributions

The calculations of basic and diluted earnings per unit are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>(U.S. Dollars in thousands, except per unit data)</i>				
Net income	\$ 21,079	\$ 19,357	\$ 49,423	\$ 41,598
Less: Series A Preferred unitholders' interest in net income	1,800		3,453	
Net income attributable to the unitholders of KNOT Offshore Partners LP	19,279	19,357	45,970	41,598
Less: Distributions (2)	16,379	15,027	49,137	45,149
Under (over) distributed earnings	2,900	4,330	(3,167)	(3,551)
Under (over) distributed earnings attributable to:				
Common unitholders (3)	2,846	4,243	(3,109)	(3,480)
Subordinated unitholders (3)				
General Partner	54	87	(58)	(71)
Weighted average units outstanding (basic) (in thousands):				
Common unitholders	29,694	27,194	29,612	22,817
Subordinated unitholders				4,377
General Partner	559	559	559	559
Weighted average units outstanding (diluted) (in thousands):				
Common unitholders	33,433	27,194	32,012	22,817
Subordinated unitholders				4,377

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General Partner	559	559	559	559
Earnings per unit (basic)				
Common unitholders (4)	\$ 0.637	\$ 0.697	\$ 1.524	\$ 1.563
Subordinated unitholders (4)				1.154
General Partner	0.637	0.697	1.520	1.594
Earnings per unit (diluted):				
Common unitholders	\$ 0.619	\$ 0.697	\$ 1.455	\$ 1.563
Subordinated unitholders (4)				1.154
General Partner	0.637	0.697	1.520	1.594
Cash distributions declared and paid in the period per unit (5)	0.520	0.520	1.560	1.560
Subsequent event: Cash distributions declared and paid per unit relating to the period (6)	0.520	0.520	0.520	0.520

- (1) Earnings per unit have been calculated in accordance with the cash distribution provisions set forth in the Partnership's Partnership Agreement.
- (2) This refers to distributions made or to be made in relation to the period irrespective of the declaration and payment dates and based on the number of units outstanding at the record date. This includes cash distributions to the IDR holder (KNOT) for the three months ended September 30, 2017 and 2016 of \$0.6 million and of \$0.6 million, respectively, and for the nine months ended September 30, 2017 and 2016 of \$1.9 million and of \$1.8 million, respectively.
- (3) On May 18, 2016 all subordinated units converted into common units on a one-for-one basis.
- (4) This includes the net income attributable to the IDR holder. The IDRs generally may not be transferred by KNOT until March 31, 2018. The net income attributable to IDRs for the three months ended September 30, 2017 and 2016 was \$0.6 million and \$0.6 million, respectively, and for the nine months ended September 30, 2017 and 2016 was \$1.9 million and \$1.8 million, respectively.
- (5) Refers to cash distributions declared and paid during the period.
- (6) Refers to cash distributions declared and paid subsequent to the period end.

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As of September 30, 2017, the Partnership had 29,694,094 common units outstanding, of which 21,036,226 are held by the public and 8,567,500 are held by KNOT. In addition, KNOT, through its ownership of the General Partner, held 558,674 general partner units and 90,368 common units. The Partnership also has 3,750,000 Series A Preferred Units outstanding.

Earnings per unit is determined by dividing net income, after deducting the distributions paid or to be made in relation to the period, by the weighted-average number of units (other than the Series A Preferred Units) outstanding during the applicable period. The General Partner's, common unitholders' and subordinated unitholders' interest in net income are calculated as if all net income was distributed according to the terms of the Partnership Agreement, regardless of whether those earnings would or could be distributed. The Partnership Agreement does not provide for the distribution of net income. Rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter less the amount of cash reserves established by the Board to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditures and anticipated credit needs and capital requirements and for funds to pay quarterly distributions on, and make any redemption payments on, the Series A Preferred Units. In addition, KNOT, as the initial holder of all IDRs, has the right, at the time when it has received incentive distributions at the highest level to which it is entitled (48.0% for each of the prior four consecutive fiscal quarters), to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Unlike available cash, net income is affected by non-cash items, such as depreciation and amortization, unrealized gains and losses on derivative instruments and unrealized foreign currency gains and losses.

For a description of the provisions of the Partnership Agreement relating to cash distributions, please see the Partnership's Form 8-A/A filed with the SEC on June 30, 2017.

15) Business Acquisitions

In December 2016, March 2017, June 2017 and September 2017, the Partnership acquired from KNOT equity interests in certain subsidiaries which own and operate the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen*, respectively.

The Board and the Conflicts Committee approved the purchase price for each transaction. The Conflicts Committee retained a financial advisor to assist with its evaluation of each of the transactions. The details of each transaction are as follows:

	Provisional <i>Lena Knutsen</i> September 30, 2017	Provisional <i>Vigdis Knutsen</i> June 1, 2017	Provisional <i>Tordis Knutsen</i> March 1, 2017	Final <i>Raquel Knutsen</i> December 1, 2016
<i>(U.S. Dollars in thousands)</i>				
Purchase consideration (1)	\$ 33,235	\$ 31,759	\$ 32,983	\$ 20,252
Less: Fair value of net assets acquired:				
Vessels and equipment (2)	142,457	145,772	145,754	116,751
Intangibles: Above market time charter		1,458	1,468	
Cash	470	3,438	609	7,146
Inventories	243	190	129	307
Derivative assets	1,729	226	1,377	207
Others current assets	193	128	1,348	183

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(1) The purchase price is comprised of the following:

<i>(U.S. Dollars in thousands)</i>	Provisional Lena Knutsen September 30, 2017	Provisional Vigdis Knutsen June 1, 2017	Provisional Tordis Knutsen March 1, 2017	Final Raquel Knutsen December 1, 2016
Cash consideration paid to KNOT (from KNOT)	\$ 33,343	\$ 28,109	\$ 31,242	\$ (12,019)
Purchase price adjustments	(108)	3,650	1,741	7,271
Seller's credit				12,981
Seller's loan				12,019
Purchase price	\$ 33,235	\$ 31,759	\$ 32,983	\$ 20,252

(2) Vessels and equipment includes allocation to dry docking for the *Raquel Knutsen* of \$1.7 million, *Tordis Knutsen* of \$2.8 million, *Vigdis Knutsen* of \$2.7 million and for the *Lena Knutsen* of \$2.7 million.

Raquel Knutsen

On December 1, 2016, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in Knutsen Shuttle Tankers 19 AS, the company that owns and operates the *Raquel Knutsen*. The purchase price was \$116.5 million less \$103.5 million of outstanding indebtedness related to the vessel plus other purchase price adjustments of \$7.3 million. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Raquel Knutsen* business contributed revenues of \$1.5 million and net income of \$0.2 million to the Partnership for the period from December 1, 2016 to December 31, 2016.

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the year ended December 31, 2016, giving effect to the Partnership's acquisition and financing of the *Raquel Knutsen* as if this acquisition had taken place on January 1, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	Year Ended December 31, 2016
Revenue	\$ 190,229
Net income	65,101

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2016. In addition, the pro forma adjustments reflect changes in guarantors as if the acquisition had taken place from the date of delivery of the vessel.

Table of Contents***Tordis Knutsen***

On March 1, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 24 AS (KNOT 24), the company that owns and operates the *Tordis Knutsen*. The purchase price was \$147.0 million less \$137.7 million of outstanding indebtedness plus \$21.1 million for a receivable owed by KNOT to KNOT 24 and approximately \$0.8 million for certain capitalized fees related to the financing of the *Tordis Knutsen* plus \$1.7 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The provisional allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Tordis Knutsen* business contributed revenues of \$11.9 million and net income of \$1.7 million to the Partnership for the period from March 1, 2017 to September 30, 2017.

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the nine months ended September 30, 2017, giving effect to the Partnership's acquisition and financing of the *Tordis Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Tordis Knutsen* was delivered from the yard in late 2016 and commenced on its time charter contract in January 2017, there are no pro forma figures for the year ended December 31, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	Nine Months Ended September 30, 2017	
Revenue	\$	159,609
Net income		47,944

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors and amortization of the above market time charter as if the acquisition had taken place from the date of delivery of the vessel.

Vigdis Knutsen

On June 1, 2017, KNOT Shuttle Tankers AS, acquired KNOT's 100% interest in KNOT Shuttle Tankers 25 AS (KNOT 25), the company that owns and operates the *Vigdis Knutsen*. The purchase price was \$147.0 million less \$137.7 million of outstanding indebtedness plus \$17.9 million for a receivable owed by KNOT to KNOT 25 and approximately \$0.9 million for certain capitalized fees related to the financing of the *Vigdis Knutsen* plus \$3.7 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The provisional allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The *Vigdis Knutsen* business contributed revenues of \$6.9 million and net income of \$1.6 million to the Partnership for the period from June 1, 2017 to September 30, 2017.

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The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the nine months ended September 30, 2017, giving effect to the Partnership's acquisition and financing of the *Vigdis Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Vigdis Knutsen* was delivered from the yard in February 2017 and commenced on its time charter contract in April 2017, there are no pro forma figures for the year ended December 31, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	Nine Months Ended September 30, 2017	
Revenue	\$	160,765
Net income		44,585

Included in the pro forma adjustments is depreciation related to the purchase price allocations performed on the acquired identifiable assets as if the acquisition had taken place on January 1, 2017. In addition, the pro forma adjustments reflect changes in guarantors and amortization of the above market time charter as if the acquisition had taken place from the date of delivery of the vessel.

Table of Contents***Lena Knutsen***

On September 30, 2017, KNOT Shuttle Tankers AS acquired KNOT's 100% interest in KNOT Shuttle Tankers 26 AS (KNOT 26), the company that owns and operates the *Lena Knutsen*. The purchase price was \$142.0 million less \$133.8 million of outstanding indebtedness plus \$24.1 million for a receivable owed by KNOT to KNOT 26 and approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* less \$0.1 million of post-closing adjustments for working capital and interest rate swaps. The Partnership accounted for this acquisition as an acquisition of a business. The purchase price of the acquisition has been allocated to the identifiable assets acquired. The provisional allocation of the purchase price to acquired identifiable assets was based on their fair values at the date of acquisition.

Revenue and profit contributions

The table below shows comparative summarized consolidated pro forma financial information for the Partnership for the nine months ended September 30, 2017, giving effect to the Partnership's acquisition and financing of the *Lena Knutsen* as if this acquisition had taken place on January 1, 2017. Since *Lena Knutsen* was delivered from the yard in June 2017 and commenced on its time charter contract in September 2017, there are no pro forma figures for the year ended December 31, 2016. The information is unaudited and is for illustration purposes only.

<i>(U.S. Dollars in thousands)</i>	Nine Months Ended September 30, 2017
Revenue	\$ 159,316
Net income	44,358

16) Equity Offering and Sale of Series A Preferred Units***Equity Offering***

<i>(U.S. Dollars in thousands)</i>	January 2017 Offering
Gross proceeds received	\$ 56,125
Less: Underwriters' discount	925
Less: Offering expenses	321
Net proceeds received	\$ 54,879

On January 10, 2017, the Partnership sold 2,500,000 common units, representing limited partner interests, in an underwritten public offering (the January 2017 Offering). The Partnership's total net proceeds from the January 2017 Offering were \$54.9 million.

The Partnership used the net proceeds from the January 2017 Offering to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes.

Sale of Series A Preferred units

<i>(U.S. Dollars in thousands)</i>	February 2017 Series A Preferred Units	June 2017 Series A Preferred Units	Total Series A Preferred Units
Gross proceeds received	\$ 50,000	\$ 40,000	\$ 90,000
Less: Fee	1,000	1,000	2,000
Less: Expenses	386	171	557
Net proceeds received	\$ 48,614	\$ 38,829	\$ 87,443

On February 2, 2017, the Partnership issued and sold in a private placement 2,083,333 Series A Preferred Units at a price of \$24.00 per unit. After deducting fees and expenses, the net proceeds from the sale were \$48.6 million. The Partnership used the net proceeds from the sale to fund the cash portion of the purchase price of the *Tordis Knutsen* and to repay debt and for general partnership purposes.

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On June 30, 2017, the Partnership (i) issued and sold in a second private placement 1,666,667 additional Series A Preferred Units at a price of \$24.00 per unit and (ii) amended and restated its Partnership Agreement to make certain amendments to the terms of the Series A Preferred Units, including the 2,083,333 Series A Preferred Units issued on February 2, 2017. After deducting estimated fees and expenses, the net proceeds of the sale were \$38.8 million. The Partnership used \$30.0 million of the net proceeds to repay the revolving credit facility, which was drawn in connection with acquisition of the *Vigdis Knutsen*.

The Series A Preferred Units rank senior to the common units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up. The Series A Preferred Units have a liquidation preference of \$24.00 per unit, plus any Series A unpaid cash distributions, plus all accrued but unpaid distributions on such Series A Preferred Unit with respect to the quarter in which the liquidation occurs to the date fixed for the payment of any amount upon liquidation. The Series A Preferred Units are entitled to cumulative distributions from their initial issuance date, with distributions being calculated at an annual rate of 8.0% on the stated liquidation preference and payable quarterly in arrears within 45 days after the end of each quarter, when, as and if declared by the Board.

The Series A Preferred Units will be generally convertible, at the option of the holders of the Series A Preferred Units, into common units commencing on February 2, 2019 at the then applicable conversion rate. The conversion rate will be subject to adjustment under certain circumstances. In addition, the conversion rate will be redetermined on a quarterly basis, such that the conversion rate will be equal to \$24.00 (the Issue Price) divided by the product of (x) the book value per common unit at the end of the immediately preceding quarter (pro-forma for per unit cash distributions payable with respect to such quarter) multiplied by (y) the quotient of (i) the Issue Price divided by (ii) the book value per common unit on February 2, 2017. In addition, the Partnership may redeem the Series A Preferred Units at any time between February 2, 2019 and February 2, 2027 at the redemption price specified in the Partnership Agreement, provided, however, that upon notice from the Partnership to the holders of Series A Preferred Units of its intent to redeem, such holders may elect, instead, to convert their Series A Preferred Units into common units at the then applicable conversion rate.

Upon a change of control of the Partnership, the holders of Series A Preferred Units will have the right to require cash redemption at 100% of the Issue Price. In addition, the holders of Series A Preferred Units will have the right to cause the Partnership to redeem the Series A Preferred Units on February 2, 2027 in, at the option of the Partnership, (i) cash at a price equal to 70% of the Issue Price or (ii) common units such that each Series A Preferred Unit receives common units worth 80% of the Issue Price (based on the volume-weighted average trading price, as adjusted for splits, combinations and other similar transactions, of the common units as reported on the NYSE for the 30 trading day period ending on the fifth trading day immediately prior to the redemption date) plus any accrued and unpaid distributions. In addition, at any time following February 2, 2019 and subject to certain conditions, the Partnership will have the right to convert the Series A Preferred Units into common units at the then applicable conversion rate if the aggregate market value (calculated as set forth in the partnership agreement) of the common units into which the then outstanding Series A Preferred Units are convertible, based on the then applicable conversion rate, is greater than 130% of the aggregate Issue Price of the then outstanding Series A Preferred Units.

For additional information about the Series A Preferred Units, please read the Partnership's Reports on Form 6-K filed with the Securities and Exchange Commission on February 2, 2017, May 17, 2017 and June 30, 2017 and Form 8-A/A filed on June 30, 2017.

17) Unit Activity

The following table shows the movement in the number of common units, subordinated units, general partner units and Series A Preferred Units from December 31, 2015 until September 30, 2017.

<i>(in units)</i>	Common Units	Subordinated Units	General Partner Units	Convertible Preferred Units
December 31, 2015	18,626,594	8,567,500	558,674	
Subordinated units converted to common units	8,567,500	(8,567,500)		
December 31, 2016	27,194,094		558,674	
January 6, 2017: Public offering	2,500,000			
February 2, 2017: Sale of Series A Preferred Units				2,083,333
June 30, 2017: Sale of Series A Preferred Units				1,666,667
September 30, 2017	29,694,094		558,674	3,750,000

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On August 12, 2015, the Board authorized a program for the Partnership to repurchase up to 666,667 of its common units. The board of directors of the General Partner concurrently authorized the General Partner to purchase up to 333,333 common units of the Partnership. On August 10, 2016, the Board and the board of directors of the General Partner authorized an extension of the common unit purchase program to August 31, 2017, and on August 9, 2017, the Board and the board of directors of the General Partner authorized a further extension of the program to August 31, 2018. No additional common units were purchased by the Partnership or the General Partner in 2016 or to date in 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

All purchases are made pursuant to a single program and are allocated approximately two-thirds to the Partnership and one-third to the General Partner. There is no obligation to purchase any specific number of common units and the program may be modified, suspended, extended or terminated at any time. Common units repurchased by the Partnership under the program have been cancelled.

The subordination period for the 8,567,500 subordinated units ended on May 18, 2016. All of the subordinated units, which were owned by KNOT, converted to common units on a one-for-one basis.

18) Subsequent Events

The Partnership has evaluated subsequent events from the balance sheet date through December 7, 2017, the date at which the unaudited condensed consolidated interim financial statements were available to be issued, and determined that there are no other items to disclose, except as follows:

During the fourth quarter of 2017, the *Carmen Knutsen* undertook her 5-year special survey drydocking. During dismantling for overhaul a technical default with its controllable pitch propeller was found as a result, the Vessel went to a different yard to complete the repair. Although all other work was at that time completed according to plan, the default has led to further off-hire.

The propeller shaft had to be sent to an external specialist for straightening back to the manufacturer's tolerances. Both the propeller and connecting shafts had to be machined and a new sleeve acquired. As a result of the additional work, the Vessel is expected back on hire in Brazil late in December 2017 or early January 2018.

The additional off-hire and technical costs will be subject to an insurance claim. Under its loss of hire insurance policies, the Partnership's insurer will pay the hire rate agreed in respect of the *Carmen Knutsen* for each day in excess of 14 deductible days while the Vessel was off hire. All Vessels under time charter have such loss of hire insurance to mitigate the loss of revenues as well as hull & machinery insurance to cover repair costs. The four Vessels under bareboat charter are insured by each charterer at its cost and carry no offhire risk as there are no offhire provisions in these contracts.

On November 15, 2017, the Partnership paid a quarterly cash distribution of \$0.52 per unit with respect to the quarter ended September 30, 2017. The total amount of the distribution was \$16.5 million. On November 15, 2017, the Partnership also paid distribution to Series A Preferred Unitholders with respect to the quarter ended September 30, 2017 in an aggregate amount equal to \$1.8 million.

On November 9, 2017, the Partnership sold 3,000,000 common units in a public offering. In connection with the offering, the General Partner contributed a total of \$1.2 million in order to maintain its 1.85% general partner interest in the Partnership. The Partnership's total net proceeds from the offering and the related General Partner's contribution were \$65.7 million.

On November 9, 2017, the Partnership announced that its subsidiary, KNOT Shuttle Tankers 15 AS, which owns the *Torill Knutsen*, has entered into a term sheet for a new \$100 million senior secured term loan facility (the New Torill Facility) with The Bank of Tokyo-Mitsubishi UFJ, which will act as agent. The New Torill Facility is expected to be repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The New Torill Facility is expected to bear interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility is expected to mature in 2023 and be guaranteed by the Partnership. The New Torill Facility would refinance a \$74.4 million loan facility associated with the *Torill Knutsen* that bears interest at a rate of LIBOR plus 2.5% and is due to be paid in full in November 2018. Closing of the New Torill Facility is anticipated to occur in January, 2018.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Unless the context otherwise requires, references in this report to the Partnership, we, our, us or like terms, refer to KNOT Offshore Partners LP and its subsidiaries. Those statements in this section that are not historical in nature should be deemed forward-looking statements that are inherently uncertain. See Forward-Looking Statements on page 46 for a discussion of the factors that could cause actual results to differ materially from those projected in these statements.

This section should be read in conjunction with our unaudited condensed consolidated financial statements for the interim periods presented elsewhere in this report, as well as our historical consolidated financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended December 31, 2016 (the 2016 20-F). Under our Partnership Agreement, KNOT Offshore Partners GP LLC, the general partner of the Partnership (the General Partner), has irrevocably delegated to the Partnership's board of directors the power to oversee and direct the operations of, and to manage and determine the strategies and policies of, the Partnership. During the period from the Partnership's initial public offering (IPO) in April 2013 until the time of the Partnership's first annual general meeting (AGM) on June 25, 2013, the General Partner retained the sole power to appoint, remove and replace all members of the Partnership's board of directors. From the first AGM, four of the seven board members became electable by the common unitholders and accordingly, from this date, the General Partner no longer retained the power to control the Partnership's board of directors and, hence, the Partnership. As a result, the Partnership is no longer considered to be under common control with Knutsen NYK Offshore Tankers AS (KNOT) and as a consequence, the Partnership no longer accounts for any vessel acquisitions from KNOT as transfer of a business between entities under common control.

General

We are a limited partnership formed to own, operate and acquire offshore shuttle tankers under long-term charters, which we define as charters of five years or more. Our fleet of shuttle tankers has been contributed to us by KNOT or purchased by us from KNOT. KNOT is jointly owned by TS Shipping Invest AS (TSSI) and Nippon Yusen Kaisha (NYK). TSSI is controlled by our Chairman and is a private Norwegian company with ownership interests in shuttle tankers, LNG tankers and product/chemical tankers. NYK is a Japanese public company with a fleet of approximately 800 vessels, including bulk carriers, containerships, tankers and specialized vessels.

As of September 30, 2017, we had a modern fleet of fourteen shuttle tankers that operate under long-term charters with major oil and gas companies engaged in offshore production. We intend to operate our vessels under long-term charters with stable cash flows and to grow our position in the shuttle tanker market through acquisitions from KNOT and third parties. Pursuant to the Omnibus Agreement we have entered into with KNOT in connection with the IPO (the Omnibus Agreement), we have the right to purchase from KNOT any shuttle tankers operating under charters of five or more years. This right will continue throughout the entire term of the Omnibus Agreement.

Recent Developments

Common Unit Offering

On November 9, 2017, the Partnership sold 3,000,000 common units, representing limited partner interests, in an underwritten public offering, raising approximately \$65.7 million in net proceeds, including \$1.2 million from the General Partner's contribution in order to maintain its 1,859% general partner interest.

Lena Knutsen Acquisition

On September 30, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, acquired KNOT Shuttle Tankers 26 AS (KNOT 26), the company that owns the shuttle tanker *Lena Knutsen*, from KNOT for a purchase price of \$142.0 million less \$133.8 million of outstanding indebtedness plus approximately \$24.1 million for a receivable owed by KNOT to KNOT 26 and approximately \$1.0 million for certain capitalized fees related to the financing of the *Lena Knutsen* adjusted by \$0.1 million of post-closing adjustments for working capital and interest rate swaps. On the closing of the acquisition, KNOT 26 repaid approximately \$41.9 million of the indebtedness, leaving an aggregate of approximately \$91.9 million of debt outstanding under the secured credit facility related to the vessel. The purchase price was settled in cash. On the closing of the acquisition, KNOT repaid the receivable in full.

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Cash Distributions

On August 15, 2017, the Partnership paid a quarterly cash distribution of \$0.52 per common unit and \$0.48 per Series A Preferred Unit with respect to the quarter ended June 30, 2017. The cash distributions amounted to \$16.4 million for common unitholders and \$1.0 million for Series A Preferred unitholders.

On November 15, 2017, the Partnership paid a quarterly cash distribution of \$0.52 per common unit and \$0.48 per Series A Preferred Unit with respect to the quarter ended September 30, 2017. The cash distributions amounted to \$16.4 million for common unitholders and \$1.8 million for Series A Preferred unitholders.

Extension of Windsor Knutsen Charter

On July 14, 2017, Shell utilized its option to extend the time charter of the vessel *Windsor Knutsen* by one additional year until October 2018. Following the extension, Shell has five remaining one-year options to extend the time charter until October 2023.

Partnership Matters

On August 9, 2017, the Partnership held its 2017 annual meeting of limited partners at which Hans Petter Aas was elected as a Class IV director of the Partnership whose term will expire at the 2021 annual meeting of limited partners.

Common Unit Purchase Program

On August 10, 2016, the boards of directors of the Partnership and the General Partner each authorized an extension of the common unit purchase program to August 31, 2017. Originally approved on August 12, 2015, the program authorized the Partnership to repurchase up to 666,667 of its common units and the General Partner to purchase up to 333,333 common units of the Partnership. On August 9, 2017, the Board and the board of directors of the General Partner authorized a further extension of the program to August 31, 2018. As of December 31, 2015, the Partnership and the General Partner had purchased 180,906 and 90,368 common units, respectively, pursuant to the program at an average purchase price of \$12.71 per unit. No additional common units had been purchased by the Partnership or the General Partner as of June 30, 2017. The Partnership and the General Partner may therefore purchase up to an additional 485,761 and 242,965 common units, respectively, under the extended program.

Revolving Credit Facility

On August 31, 2017, the Partnership entered into an unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2019, bear interest at LIBOR plus margin of 1.8% and have a commitment fee of 0.5% on the undrawn portion of the facility.

Refinancing of Torill Knutsen

On November 9, 2017, the Partnership's wholly owned subsidiary, KNOT Shuttle Tankers 15 AS, which owns the vessel *Torill Knutsen*, entered into a term sheet for a new \$100 million senior secured term loan facility (the New Torill Facility) with The Bank of Tokyo-Mitsubishi UFJ, which will act as agent. The New Torill Facility is expected to be repayable in 24 consecutive quarterly installments with a balloon payment of \$60.0 million due at maturity. The New Torill Facility is expected to bear interest at a rate per annum equal to LIBOR plus a margin of 2.1%. The facility is expected to mature in 2023 and be guaranteed by the Partnership. The New Torill Facility would refinance a \$74.4 million loan facility associated with the *Torill Knutsen* that bears interest at a rate of LIBOR plus 2.5% and is

due to be paid in full in November 2018. Closing of the New Torill Facility is anticipated to occur in January 2018.

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Results of Operations

Three Months Ended September 30, 2017 Compared with the Three Months Ended September 30, 2016

(U.S. Dollars in thousands)	Three Months Ended		\$ Change	% Change
	2017	2016		
Time charter and bareboat revenues	\$ 57,970	\$ 43,390	\$ 14,580	34%
Other income	247	197	50	25%
Vessel operating expenses	11,828	7,588	4,240	56%
Depreciation	18,379	13,920	4,459	32%
General and administrative expenses	1,285	908	377	0
Interest income	68	6	62	0%
Interest expense	(8,040)	(5,129)	(2,911)	57%
Other finance expense	(327)	(315)	(12)	4%
Realized and unrealized gain (loss) on derivative instruments	2,832	3,613	(781)	-22%
Net gain (loss) on foreign currency transactions	(176)	13	(189)	-1454%
Income tax benefit (expense)	(3)	(3)		0%
Net income	21,079	19,357	1,723	9%

Time Charter and Bareboat Revenues: Time charter and bareboat revenues increased by \$14.6 million to \$58.0 million for the three months ended September 30, 2017 compared to \$43.4 million for the three months ended September 30, 2016. The increase was mainly due to increased time charter revenues from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively.

Other income: Other income for the three months ended September 30, 2017 was \$0.25 million compared to \$0.20 million for the three months ended September 30, 2016. The slight increase is mainly connected to the KNOT guarantee regarding the *Windsor Knutsen*, which is classified as other income.

Vessel operating expenses: Vessel operating expenses for the three months ended September 30, 2017 were \$11.8 million, an increase of \$4.2 million from \$7.6 million in the three months ended September 30, 2016. The increase is mainly attributable to the increase of \$3.7 million due to the *Raquel Knutsen*, *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively. In addition there were higher operating expenses of \$0.4 million mainly due to the weakness of the U.S. dollar against the Norwegian Kroner (NOK) during the three months ended September 30, 2017 compared to same period last year.

Depreciation: Depreciation expense for the three months ended September 30, 2017 was \$18.4 million, an increase of \$4.5 million from \$13.9 million in the three months ended September 30, 2016. This increase was mainly due to the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively.

General and administrative expenses: General and administrative expenses for the three months ended September 30, 2017 were \$1.3 million, compared to \$0.9 million for the same period in 2016. The increase is mainly due to additional activity during the three months ended September 30, 2017 and the increased size of the fleet.

Interest income: Interest income for the three months ended September 30, 2017 was \$68,000, compared to \$6,000 for the three months ended September 30, 2016.

Interest expense: Interest expense for the three months ended September 30, 2017 was \$8.0 million, an increase of \$2.9 million from \$5.1 million for the three months ended September 30, 2016. The increase was mainly due to additional debt incurred in connection with the acquisition of the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the refinancing of the *Hilda Knutsen* and the drawdown of the revolver facility during the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

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Other finance expense: Other finance expense was \$0.3 million for the three months ended September 30, 2017 and \$0.3 million for the three months ended September 30, 2016. Other finance expense is primarily related to bank fees and guarantee commissions.

Realized and unrealized gain (loss) on derivative instruments: Realized and unrealized loss on derivative instruments for the three months ended September 30, 2017 was \$2.8 million, compared to \$3.6 million for the three months ended September 30, 2016, as set forth in the table below:

<i>(U.S. Dollars in thousands)</i>	Three Months Ended		\$ Change
	September 30,		
	2017	2016	
Realized gain (loss):			
Interest rate swap contracts	\$ (469)	\$ (671)	\$ 202
Foreign exchange forward contracts	446	(152)	598
Total realized gain (loss):	(23)	(823)	800
Unrealized gain (loss):			
Interest rate swap contracts	1,223	2,744	(1,521)
Foreign exchange forward contracts	1,632	1,692	(60)
Total unrealized gain (loss):	2,855	4,436	(1,581)
Total realized and unrealized gain (loss) on derivative instruments:	\$ 2,832	\$ 3,613	\$ (781)

As of September 30, 2017, the total notional amount of the Partnership's outstanding interest rate swap contracts that were entered into in order to hedge outstanding or forecasted debt obligations was \$655.5 million and the Partnership had entered into foreign exchange forward contracts, selling a total notional amount of \$25.0 million against the NOK at an average exchange rate of NOK 8.38 per 1.0 U.S. Dollar, which are economic hedges for certain vessel operating expenses and general expenses in NOK. Of the unrealized gain for the three months ended September 30, 2017, \$1.2 million related to mark-to-market gains on interest rate swaps due to an increase in swap rates during the quarter, and an unrealized gain of \$1.6 million related to foreign exchange contracts due to the strengthening of the NOK against the U.S. Dollar.

Net loss on foreign currency transactions: Net gain on foreign currency transactions for the three months ended September 30, 2017 was \$0.2 million compared to a loss of \$13,000 for the three months ended September 30, 2016.

Income tax (expense): Income tax expense for the three months ended September 30, 2017 and 2016 was \$3,000.

Net income: As a result of the foregoing, we earned net income of \$21.1 million for the three months ended September 30, 2017 compared to net income of \$19.4 million for the three months ended September 30, 2016.

Nine Months Ended September 30, 2017 Compared with the Nine Months Ended September 30, 2016

<i>(U.S. Dollars in thousands)</i>	Nine Months Ended			
	September 30,			
	2017	2016	\$ Change	% Change
Time charter and bareboat revenues	\$ 153,255	\$ 128,080	\$ 25,175	20%
Loss of hire insurance recoveries	3,426		3,426	
Other income	934	596	338	57%
Vessel operating expenses	31,537	23,210	8,327	36%
Depreciation	51,505	41,725	9,780	23%
General and administrative expenses	4,247	3,164	1,083	34%
Interest income	147	9	138	1533%
Interest expense	(21,506)	(15,213)	(6,293)	41%
Other finance expense	(956)	(916)	(40)	4%
Realized and unrealized gain (loss) on derivative instruments	1,816	(2,747)	4,563	-166%
Net gain (loss) on foreign currency transactions	(395)	(104)	(291)	280%
Income tax benefit (expense)	(9)	(9)		0%
Net income	49,423	41,598	7,826	19%

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Time Charter and Bareboat Revenues: Time charter and bareboat revenues increased by \$25.2 million to \$153.3 million for the nine months ended September 30, 2017 compared to \$128.1 million for the nine months ended September 30, 2016. This was principally due to increased revenues from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively, and full earnings from the *Bodil Knutsen* during the nine months ended September 30, 2017 compared to 21.1 days offhire due to planned drydocking in the same period last year. The increase was partially offset by a reduction in time charter earnings due to the *Windsor Knutsen* and the *Carmen Knutsen* drydocking during the nine months ended September 30, 2017, and lower utilization of the fleet during the nine months ended September 30, 2017 due to 14 days deductible offhire for the *Raquel Knutsen*.

Loss of hire insurance recoveries: Loss of hire insurance recoveries for the nine months ended September 30, 2017 were \$3.4 million compared to \$nil for the nine months ended September 30, 2016. The loss of hire insurance recoveries were related to a technical default with the *Raquel Knutsen*'s controllable pitch propeller. The *Raquel Knutsen* was offhire from February 22, 2017 to May 15, 2017.

Other income: Other income for the nine months ended September 30, 2017 was \$0.9 million compared to \$0.6 million for the nine months ended September 30, 2016. The increase is mainly connected to the reimbursement for repairs and lost hire from KNOT for the *Vigdis Knutsen* due to the hull damage incident in June 2017.

Vessel operating expenses: Vessel operating expenses for the nine months ended September 30, 2017 were \$31.5 million, an increase of \$8.3 million from \$23.2 million in the nine months ended September 30, 2016. The increase was primarily due to an increase of \$7.7 million from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively, and \$0.6 million was related to bunkers consumption in connection with the drydocking of the *Windsor Knutsen*.

Depreciation: Depreciation expense for the nine months ended September 30, 2017 was \$51.5 million, an increase of \$9.8 million from \$41.7 million in the nine months ended September 30, 2016. This increase was mainly due to the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in the results of operations from December 1, 2016, March 1, 2017 and June 1, 2017, respectively.

General and administrative expenses: General and administrative expenses for the nine months ended September 30, 2017 were \$4.2 million, compared to \$3.2 million for the same period in 2016. The increase is mainly due incremental expenses during the nine months ended September 30, 2017 in connection with the January 2017 common unit offering, private placement of Series A Preferred Units and the acquisitions of the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen*.

Interest income: Interest income for the nine months ended September 30, 2017 was \$147,000, compared to \$9,000 for the nine months ended September 30, 2016.

Interest expense: Interest expense for the nine months ended September 30, 2017 was \$21.5 million, an increase of \$6.3 million from \$15.2 million in the nine months ended September 30, 2016. The increase was mainly due to additional debt incurred in connection with the acquisition of the *Raquel Knutsen*, the *Tordis Knutsen*, the *Vigdis Knutsen*, the refinancing of the *Hilda Knutsen* and the drawdown of the revolver facility and higher LIBOR during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Other finance expense: Other finance expense was \$1.0 million for the nine months ended September 30, 2017 and \$1.0 million for the nine months ended September 30, 2016. Other finance expense is primarily related to bank fees

and guarantee commissions.

Realized and unrealized gain (loss) on derivative instruments: Realized and unrealized gain on derivative instruments for the nine months ended September 30, 2017 was \$1.8 million, compared to a loss of \$2.7 million for the nine months ended September 30, 2016, as set forth in the table below:

<i>(U.S. Dollars in thousands)</i>	Nine Months Ended		\$ Change
	September 30,		
	2017	2016	
Realized gain (loss):			
Interest rate swap contracts	\$ (2,076)	\$ (2,847)	\$ 771
Foreign exchange forward contracts	280	(468)	748
Total realized gain (loss):	(1,796)	(3,315)	1,519
Unrealized gain (loss):			
Interest rate swap contracts	948	(3,122)	4,070
Foreign exchange forward contracts	2,664	3,690	(1,026)
Total unrealized gain (loss):	3,612	568	3,044
Total realized and unrealized gain (loss) on derivative instruments:	\$ 1,816	\$ (2,747)	\$ 4,563

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The increase in net realized and unrealized gain on derivative instruments was mainly due to an increase in the unrealized gain from the interest rate swaps.

Net loss on foreign currency transactions: Net loss on foreign currency transactions for the nine months ended September 30, 2017 was \$0.4 million, compared to \$0.1 million for the nine months ended September 30, 2016.

Income tax expense: Income tax expense for the nine months ended September 30, 2017 and 2016 was \$9,000.

Net income: As a result of the foregoing, we earned net income of \$49.4 million for the nine months ended September 30, 2017 compared to net income of \$41.9 million for the nine months ended September 30, 2016.

Liquidity and Capital Resources

Liquidity and Cash Needs

We operate in a capital-intensive industry, and we expect to finance the purchase of additional vessels and other capital expenditures through a combination of borrowings from commercial banks, cash generated from operations and debt and equity financings. In addition to paying distributions, our other liquidity requirements relate to servicing our debt, funding investments (including the equity portion of investments in vessels), funding working capital and maintaining cash reserves against fluctuations in operating cash flows. We believe our current resources are sufficient to meet our working capital requirements for our current business. Generally, our long-term sources of funds are cash from operations, long-term bank borrowings and other debt and equity financings. Because we distribute our available cash, we expect that we will rely upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and other expansion capital expenditures.

Our funding and treasury activities are intended to maximize investment returns while maintaining appropriate liquidity. Cash and cash equivalents are held primarily in U.S. Dollars with some balances held in NOK, British Pounds and Euros. We have not made use of derivative instruments other than for interest rate and currency risk management purposes. We expect to continue to economically hedge our exposure to interest rate fluctuations in the future by entering into interest rate swap contracts.

We estimate that we will spend in total approximately \$20.2 million for the next dry-docking and classification surveys for our ten time charter vessels in our current fleet. As our fleet matures and expands, our dry-docking expenses will likely increase. Ongoing costs for compliance with environmental regulations are primarily included as part of our dry-docking and society classification survey costs or are a component of our vessel operating expenses. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations. There will be further costs related to voyages to and from the dry-docking yard that will depend on actual deviation from the vessel's ordinary trading area to dry-docking yard.

On November 9, 2017, the Partnership sold 3,000,000 common units in a public offering, raising approximately \$65.7 million in net proceeds, including \$1.2 million from the General Partner's contribution in order to maintain its 1.85% general partner interest.

As of September 30, 2017, the Partnership had available liquidity of \$50.1 million, which consisted of cash and cash equivalents of \$38.1 million and an undrawn revolving credit facility of \$12.0 million.

The consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As of September 30, 2017, the Partnership's net current liabilities were \$51.1 million. Included in current

liabilities are short term loan obligations that mature before September 30, 2018 and are therefore, presented as current debt.

The Partnership expects that its primary future sources of funds will be available cash, cash from operations, borrowings under any new loan agreements and the proceeds of any equity financings. The Partnership believes that these sources of funds (assuming the current rates earned from existing charters) will be sufficient to cover operational cash outflows and ongoing obligations under the Partnership's financing commitments to pay loan interest and make scheduled loan repayments and to make distributions on its outstanding units. Accordingly, the Partnership believes that its current resources, including its current undrawn revolving credit facilities of \$12.0 million, are sufficient to meet working capital requirements for its current business for at least the next twelve months.

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The following table summarizes our net cash flows from operating, investing and financing activities and our cash and cash equivalents for the periods presented:

<i>(U.S. Dollars in thousands)</i>	Nine Months Ended September 30,	
	2017	2016
Net cash provided by (used in) operating activities	\$ 158,421	\$ 83,110
Net cash provided by (used in) investing activities	(93,717)	(849)
Net cash provided by (used in) financing activities	(54,373)	(78,529)
Effect of exchange rate changes on cash	123	77
Net increase in cash and cash equivalents	10,454	3,732
Cash and cash equivalents at the beginning of the period	27,664	23,573
Cash and cash equivalents at the end of the period	38,118	27,382

Net cash provided by operating activities

Net cash provided by operating activities increased by \$75.3 million to \$158.4 million in the nine months ended September 30, 2017 compared to \$83.1 million in the nine months ended September 30, 2016. This was mainly due to higher earnings from the *Raquel Knutsen*, the *Tordis Knutsen* and the *Vigdis Knutsen* being included in our results of operations as of December 1, 2016, March 1, 2017 and June 1, 2017, respectively, and a decrease of working capital mainly as a result of decrease in amounts due from related parties. The increase was partially offset by increased dry docking expenditures and loss of earnings for the scheduled dry docking of the *Windsor Knutsen* in first quarter of 2017.

Net cash used in investing activities

Net cash used in investing activities was \$93.7 million in the nine months ended September 30, 2017 compared to \$0.8 million in the nine months ended September 30, 2016. Net cash used in investing activities in the nine months ended September 30, 2017 was higher due to acquisitions of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* on March 1, 2017, June 1, 2017 and September 30, 2017.

Net cash used in financing activities

Net cash used in financing activities during the nine months ended September 30, 2017 of \$54.4 million mainly related to the following:

The net proceeds from a public offering of common units in January 2017 of \$54.9 million;

The net proceeds from the issuance of Series A Preferred Units of \$87.4 million;

Proceeds of \$100 million from the refinancing of the *Hilda Knutsen*; and

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Proceeds from drawdowns under the two revolving credit facilities of \$78.0 million.

This was offset by the following:

Repayment of long-term debt of \$229.4 million, of which \$75.6 million was repaid in connection with refinancing of the *Hilda Knutsen*;

Repayment of long-term debt from related parties of \$93.4 million; and

Payment of cash distributions of \$50.8 million.

Net cash used in financing activities during the nine months ended September 30, 2016 of \$78.5 million mainly related to repayment of long-term debt of \$38.2 million and payment of cash distributions of \$45.1 million partially offset by a \$5.0 million drawdown under our revolving credit facility.

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As of September 30, 2017 and December 31, 2016, the Partnership had the following debt amounts outstanding:

<i>(U.S. Dollars in thousands)</i>	Vessel	September 30, 2017	December 31, 2016
\$240 million loan facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	\$ 168,928	\$ 180,714
\$35 million revolving credit facility	<i>Windsor Knutsen, Bodil Knutsen, Carmen Knutsen</i>	23,000	25,000
\$140 million loan facility	<i>Fortaleza Knutsen & Recife Knutsen</i>	111,563	118,125
\$117 million loan facility	<i>Hilda Knutsen</i>		76,871
\$100 million loan facility	<i>Hilda Knutsen</i>	98,462	
\$117 million loan facility	<i>Torill Knutsen</i>	74,409	78,105
\$172.5 million loan facility	<i>Dan Cisne, Dan Sabia</i>	95,939	100,539
\$77.5 million loan facility	<i>Ingrid Knutsen</i>	64,368	67,652
\$74.5 million loan facility	<i>Raquel Knutsen</i>	69,721	73,643
\$25 million Seller's Credit and Seller's Loan	<i>Raquel Knutsen</i>		25,000
\$114.4 million loan facility	<i>Tordis Knutsen</i>	92,316	
\$114.4 million loan facility	<i>Vigdis Knutsen</i>	93,581	
\$114.4 million loan facility	<i>Lena Knutsen</i>	91,875	
\$25 million revolving credit facility		25,000	
Total long-term debt		1,009,162	745,649

Less: current installments	71,561	60,314
Less: unamortized deferred loan issuance costs	2,035	1,330
Current portion of long-term debt	69,526	58,984
Amounts due after one year	937,601	685,335
Less: unamortized deferred loan issuance costs	4,492	2,673
Less: \$25 million Seller's Credit and Seller's Loan		25,000
Long-term debt, less current installments, Seller's Credit and Seller's Loan and unamortized deferred loan issuance costs	\$ 933,109	\$ 657,662

The Partnership's outstanding debt of \$1,009.2 million as of September 30, 2017 is repayable as follows:

<i>(U.S. Dollars in thousands)</i>	Period repayment	Balloon repayment
Remainder of 2017	\$ 21,832	\$
2018	71,203	86,677
2019	54,985	285,678
2020	44,053	
2021	44,653	70,811
2022 and thereafter	87,958	241,312
Total	\$ 324,684	\$ 684,478

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As of September 30, 2017, the interest rates on the Partnership's loan agreements (other than tranche two of the \$77.5 million loan facility) were the London Interbank Offered Rate (LIBOR) plus a fixed margin ranging from 1.8% to 2.5%. On the export credit loan of \$44.6 million which is tranche two of the \$77.5 million loan facility secured by the *Ingrid Knutsen*, the annual rate is 3.85% composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The guarantee commission of 1.35% is classified as other finance expense.

\$220 Million Term Loan Facility and \$35 Million Revolving Credit Facilities

In June 2014, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS entered into a senior syndicate secured loan facility in an aggregate amount of \$240 million (the Senior Secured Loan Facility) to repay existing debt under previous credit facilities and a \$10.5 million seller's credit from KNOT. The Senior Secured Loan Facility consisted of (i) a \$220 million term loan (the Term Loan Facility) and (ii) a \$20 million revolving credit facility (the Revolving Credit Facility).

The Revolving Credit Facility terminates in June 2019, and bears interest at LIBOR plus a fixed margin of 2.125%, and has a commitment fee equal to 40% of the margin of the Revolving Credit Facility calculated on the daily undrawn portion of the Revolving Credit Facility. The Term Loan Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The Term Loan Facility bears interest at LIBOR plus a margin of 2.125%.

On June 30, 2016, the Partnership's subsidiaries KNOT Shuttle Tankers 18 AS, KNOT Shuttle Tankers 17 AS and Knutsen Shuttle Tankers 13 AS, as borrowers, entered into an amended and restated senior secured credit facility (the Amended Senior Secured Loan Facility), which amended the Senior Secured Loan Facility. The Amended Senior Secured Loan Facility includes a new revolving credit facility tranche of \$15 million, bringing the total revolving credit commitments under the facility to \$35 million. The new revolving credit facility matures in June 2019, bears interest at LIBOR plus a fixed margin of 2.5% and has a commitment fee equal to 40% of the margin of the revolving facility tranche calculated on the daily undrawn portion of such tranche. The other material terms of the Senior Secured Loan Facility remain unaltered.

The *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen* , assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Amended Senior Secured Loan Facility. The Amended Senior Secured Loan Facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS, and secured by vessel mortgages on the *Windsor Knutsen*, the *Bodil Knutsen* and the *Carmen Knutsen* .

The Amended Senior Secured Loan Facility contains the following financial covenants:

The aggregate market value of the *Windsor Knutsen* , *Bodil Knutsen* and *Carmen Knutsen* shall not be less than 110% of the outstanding balance under the Amended Senior Secured Loan Facility for the first two years, 120% for the third and fourth years, and 125% thereafter;

Positive working capital for the borrowers and the Partnership;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on

its employment contract;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Amended Senior Secured Loan Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrowers and the guarantors were in compliance with all covenants under this facility.

\$100 Million Hilda Loan Facility

On May 26, 2017, the Partnership's subsidiary, KNOT Shuttle Tankers 14 AS, which owns the vessel *Hilda Knutsen*, entered into a new \$100 million senior secured term loan facility with Mitsubishi UFJ Lease & Finance (Hong Kong) Limited (the *New Hilda Facility*). The *New Hilda Facility* replaced the \$117 million loan facility, which was due to be paid in full in August 2018. The *New Hilda Facility* is repayable in twenty-eight (28) consecutive quarterly installments with a balloon payment of \$58.5 million due at maturity. The *New Hilda Facility* bears interest at a rate per annum equal to LIBOR plus a margin of 2.2%. The facility matures in 2024.

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The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The New Hilda Facility contains the following primary financial covenants:

Market value of the *Hilda Knutsen* shall not be less than 110% of the outstanding balance under the Hilda Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;

Positive working capital of the borrower and the Partnership;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The New Hilda Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$117 Million Torill Loan Facility

In November 2011, Knutsen Shuttle Tankers 15 AS, the subsidiary owning the *Torill Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$117 million (the *Torill Facility*). The *Torill Facility* is repayable in quarterly installments over five years with a final balloon payment due at maturity in October 2018. The *Torill Facility* bears interest at LIBOR plus a fixed margin of 2.5%. The facility is secured by a vessel mortgage on the *Torill Knutsen*. The *Torill Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the *Torill Facility*. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors. The *Torill Facility* contains the following primary financial covenants:

Market value of the *Torill Knutsen* shall not be less than 110% of the outstanding balance under the *Torill Facility* for the first two years, 120% for the third and fourth year, and 125% thereafter;

Positive working capital of the borrower and the Partnership;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Torill Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$140 Million Secured Loan Facility

In June 2014, the Partnership's subsidiary Knutsen Shuttle Tankers XII KS, as the borrower, entered into a senior syndicate secured loan facility in the amount of \$140 million (the New Fortaleza and Recife Facility). The New Fortaleza and Recife Facility was drawn in November 2014 and replaced a \$160 million loan facility previously secured by the *Fortaleza Knutsen* and the *Recife Knutsen*. The New Fortaleza and Recife Facility is repayable in quarterly installments over five years with a final balloon payment due at maturity at June 2019. The facility bears interest at LIBOR plus a margin of 2.125%. The *Fortaleza Knutsen* and the *Recife Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the New Fortaleza and Recife Facility. The facility is guaranteed by the Partnership and KNOT Shuttle Tankers AS and is secured by vessel mortgages on the *Fortaleza Knutsen* and the *Recife Knutsen*.

The New Fortaleza and Recife Facility contains the following financial covenants:

The aggregate market value of the *Fortaleza Knutsen* and *Recife Knutsen* shall not be less than 110% of the outstanding balance under the New Fortaleza and Recife Facility for the first two years, 120% for the third and fourth year, and 125% thereafter;

Positive working capital of the borrower and the Partnership;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

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Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The New Fortaleza and Recife Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$172.5 Million Secured Loan Facility

In April 2014, KNOT Shuttle Tankers 20 AS and KNOT Shuttle Tankers 21 AS, the subsidiaries owning the *Dan Cisne* and *Dan Sabia*, as the borrowers, entered into a \$172.5 million senior secured loan facility. In connection with the Partnership's acquisition of the *Dan Cisne*, in December 2014, the \$172.5 million senior secured loan facility was split into a tranche related to the *Dan Cisne* (the *Dan Cisne Facility*) and a tranche related to *Dan Sabia* (the *Dan Sabia Facility*).

The *Dan Cisne Facility* and the *Dan Sabia Facility* are guaranteed by the Partnership and secured by a vessel mortgage on the *Dan Cisne* and *Dan Sabia*. The *Dan Cisne Facility* and the *Dan Sabia Facility* bear interest at LIBOR plus a margin of 2.4% and are repayable in semiannual installments with a final balloon payment due at maturity at September 2023 and January 2024, respectively.

The facilities contain the following financial covenants:

Market value of each of the *Dan Cisne* and *Dan Sabia* shall not be less than 100% of the outstanding balance under the *Dan Cisne Facility* and *Dan Sabia Facility*, respectively, for the first three years, and 125% thereafter;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%.

The facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrowers and the guarantor were in compliance with all covenants under this facility.

\$77.5 Million Secured Loan Facility

In June 2012, Knutsen NYK Shuttle Tankers 16 AS, the subsidiary owning the *Ingrid Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the *Ingrid Facility*). The *Ingrid Facility* includes two tranches. Tranche one is a commercial bank loan of \$22.4 million, repayable in semi-annual installments with a final balloon payment due at maturity in December 2018. Tranche one bears interest at LIBOR, plus a margin of 2.25%. Tranche two is an export credit loan of \$55.1 million, repayable in semi-annual installments and maturing in November 2025.

Tranche two bears interest at an annual fixed rate of 3.85%, composed of a 2.5% bank facility rate plus a commission of 1.35% to the export credit guarantor. The facility is secured by a vessel mortgage on the *Ingrid Knutsen*. The *Ingrid Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Ingrid Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Ingrid Facility contains the following financial covenants:

Market value of the *Ingrid Knutsen* shall not be less than 125% of the outstanding balance under the Ingrid Facility;

Positive working capital of the borrower and the Partnership;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract;

Minimum book equity ratio for the Partnership of 30%; and

Minimum EBITDA to interest ratio for the Partnership of 2.50.

The Ingrid Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

Table of Contents***\$74.5 Million Secured Loan Facility***

In December 2014, Knutsen Shuttle Tankers 19 AS, the subsidiary owning the *Raquel Knutsen*, as the borrower, entered into a secured loan facility in an aggregate amount of \$90.0 million (the *Raquel Facility*). The *Raquel Facility* is repayable in quarterly installments with a final balloon payment of \$30.5 million due at maturity in March 2025. The *Raquel Facility* bears interest at an annual rate equal to LIBOR plus a margin of 2.0%. The facility is secured by a vessel mortgage on the *Raquel Knutsen*. The *Raquel Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the *Raquel Facility*. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The *Raquel Facility* contains the following financial covenants:

Market value of the *Raquel Knutsen* shall not be less than 100% of the of the outstanding balance under the *Raquel Facility* for the first three years, and 125% thereafter;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and

Minimum book equity ratio for the Partnership of 30%.

The *Raquel Facility* also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25 Million Seller's Credit and Seller's Loan

As part of financing for the purchase of the *Raquel Knutsen*, on December 1, 2016 KNOT provided a \$13.0 million seller's credit (the *Seller's Credit*) and a \$12.0 million seller's loan (the *Seller's Loan*), each of which was guaranteed the Partnership, had a maturity date of December 2021 and bore interest at LIBOR plus a fixed margin of 4.5%.

Accrued interest on the *Seller's Credit* and the *Seller's Loan* accumulated and was capitalized. On January 13, 2017, the *Seller's Credit* and the *Seller's Loan* were repaid in full.

\$114.4 Million Tordis Loan Facility

In April 2015, KNOT Shuttle Tankers 24 AS, the subsidiary owning the *Tordis Knutsen*, as the borrower, entered into a secured loan facility (the *Tordis Facility*). The *Tordis Facility* is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in November 2021. The *Tordis Facility* bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Tordis Knutsen*. The *Tordis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the *Tordis Facility*. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The *Tordis Facility* contains the following financial covenants:

Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and

Minimum book equity ratio for the Partnership of 30%.

The Tordis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$114.4 Million Vigdis Loan Facility

In April 2015, KNOT Shuttle Tankers 25 AS, the subsidiary owning the *Vigdis Knutsen*, as the borrower, entered into a secured loan facility (the Vigdis Facility). The Vigdis Facility is repayable in quarterly installments with a final balloon payment of \$70.8 million due at maturity in February 2022. The Vigdis Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Vigdis Knutsen*. The *Vigdis Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Vigdis Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

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The Vigdis Facility contains the following financial covenants:

Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and

Minimum book equity ratio for the Partnership of 30%.

The Vigdis Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$114.4 Million Lena Loan Facility

In April 2015, KNOT Shuttle Tankers 26 AS, the subsidiary owning the *Lena Knutsen*, as the borrower, entered into a secured loan facility (the *Lena Facility*). As of the time of the acquisition of the *Lena Knutsen* on September 30, 2017, the aggregate amount outstanding under the facility was \$111.1 million. The Lena Facility is repayable in quarterly installments with a final balloon payment of \$68.6 million due at maturity in June 2022. The Lena Facility bears interest at an annual rate equal to LIBOR plus a margin of 1.9%. The facility is secured by a vessel mortgage on the *Lena Knutsen*. The *Lena Knutsen*, assignments of earnings, charterparty contracts and insurance proceeds are pledged as collateral for the Lena Facility. The Partnership and KNOT Shuttle Tankers AS are the sole guarantors.

The Lena Facility contains the following financial covenants:

Aggregate market value of the *Tordis Knutsen*, the *Vigdis Knutsen* and the *Lena Knutsen* shall not be less than 130% of the aggregate outstanding balance under the Tordis Facility, the Vigdis Facility and the Lena Facility at any time;

Minimum liquidity of the Partnership of \$21 million plus increments of \$1 million for each additional vessel acquired by the Partnership and \$1.5 million for each owned vessel with less than 12 months remaining tenor on its employment contract; and

Minimum book equity ratio for the Partnership of 30%.

The Lena Facility also identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of a vessel and customary events of default. As of September 30, 2017, the borrower and the guarantors were in compliance with all covenants under this facility.

\$25.0 Million Revolving Credit Facility

On August 31, 2017, the Partnership entered into an unsecured revolving credit facility of \$25 million with NTT Finance Corporation. The facility will mature in August 2019, bear interest at LIBOR plus margin of 1.8% and have a commitment fee of 0.5% on the undrawn portion of the facility.

Derivative Instruments and Hedging Activities

We use derivative instruments to reduce the risks associated with fluctuations in interest rates. We have a portfolio of interest rate swap contracts that exchange or swap floating rate interest rates, which, from a financial perspective, hedges our obligations to make payments based on floating interest rates. As of September 30, 2017, our net exposure to floating interest rate fluctuations on our outstanding debt was approximately \$271.0 million based on total interest bearing debt outstanding of \$1,009.2 million, less interest rate swaps of \$655.5 million, less a 3.85% fixed rate export credit loan of \$44.6 million and less cash and cash equivalents of \$38.1 million. Our interest rate swap contracts mature between March 2018 and August 2027. Under the terms of the interest rate swap agreements, we will receive from the counterparty interest on the notional amount based on three-month and six-month LIBOR and will pay to the counterparty a fixed rate. For the interest rate swap agreements above, we will pay to the counterparty a weighted average interest rate of 1.70%.

We enter into foreign exchange forward contracts in order to manage our exposure to the risk of movements in foreign currency exchange rate fluctuations. As of September 30, 2017, the total contract amount in foreign currency of our outstanding foreign forward contracts that were entered into to economically hedge our outstanding future payments in currencies other than the U.S. Dollar was NOK 209.5 million. We do not apply hedge accounting for derivative instruments.

Table of Contents**Contractual Obligations**

The following table summarizes our long-term contractual obligations as of September 30, 2017:

<i>(U.S. Dollars in thousands)</i>	Total	Payments Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	4-5 Years	
Long-term debt obligations (including interest) (1)	\$ 1,145,496	\$ 110,194	\$ 529,617	\$ 324,543	\$ 181,142
Total	\$ 1,145,496	\$ 110,194	\$ 529,617	\$ 324,543	\$ 181,142

(1) The long-term debt obligations have been calculated assuming interest rates based on the 6-month LIBOR as of September 30, 2017, plus the applicable margin for all periods presented.

Off-Balance Sheet Arrangements

Currently, we do not have any off-balance sheet arrangements.

Critical Accounting Estimates

The preparation of the unaudited condensed consolidated interim financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures about contingent assets and liabilities. We base these estimates and assumptions on historical experience and on various other information and assumptions that we believe to be reasonable. Our critical accounting estimates are important to the portrayal of both our financial condition and results of operations and require us to make subjective or complex assumptions or estimates about matters that are uncertain. For a description of our material accounting policies that involve higher degree of judgment, please read Note 2 – Summary of Significant Accounting Policies of our consolidated financial statement included in our 2016 20-F filed with the Securities and Exchange Commission (SEC).

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including interest rate, foreign currency exchange and concentration of credit risks. Historically, we have entered into certain derivative instruments and contracts to maintain the desired level of exposure arising from interest rate and certain foreign exchange risks. Our policy is to economically hedge our exposure to risks, where possible, within boundaries deemed appropriate by management.

Interest Rate Risks

A portion of our debt obligations and surplus funds placed with financial institutions are subject to movements in interest rates. It is our policy to obtain the most favorable interest rates available without increasing our foreign currency exposure. In keeping with this, our surplus funds may in the future be placed in fixed deposits with reputable financial institutions which yield better returns than bank deposits. The deposits generally have short-term maturities so as to provide us with the flexibility to meet working capital and capital investments.

We have historically used interest rate swap contracts to manage our exposure to interest rate risks. Interest rate swap contracts were used to convert floating rate debt obligations based on LIBOR to a fixed rate in order to achieve an overall desired position of fixed and floating rate debt. The extent to which interest rate swap contracts are used is determined by reference to our net debt exposure and our views regarding future interest rates. Our interest rate swap contracts do not qualify for hedge accounting, and movements in their fair values are reflected in the statements of operations under Realized and unrealized gain (loss) on derivative instruments. Interest rate swap contracts that have a positive fair value are recorded as Other current assets, while swaps with a negative fair value are recorded as Derivative liabilities.

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As of September 30, 2017, we were party to interest rate swap contracts with a combined notional amount of approximately \$655.5 million. Under the terms of the interest rate swap contracts, we receive LIBOR-based variable interest rate payments and make fixed rate payments rates between 1.25% per annum and 2.49% per annum for all periods. The interest rate swap contracts mature between March 2018 and August 2027. The notional amount and fair value of our interest rate swap contracts recognized as net assets as of September 30, 2017 are as follows:

<i>(U.S. Dollars in thousands)</i>	September 30, 2017	
	Notional Amount	Fair Value (asset)
Interest rate swap contracts	\$ 655,463	\$ 5,110

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As of September 30, 2017, our net exposure to floating interest rate fluctuations on its outstanding debt was approximately \$271.0 million, based on total net interest bearing debt of approximately \$1,009.2 million less the notional amount of our floating to fixed interest rate swaps of \$655.5 million, less a 3.85% fixed rate export credit loan of \$44.6 million and less cash and cash equivalent of \$38.1 million. A 1% change in short-term interest rates would result in an increase or decrease to our interest expense of approximately \$2.7 million on an annual basis as of September 30, 2017.

Foreign Currency Fluctuation Risks

We and our subsidiaries utilize the U.S. Dollar as our functional and reporting currency because all of our revenues and the majority of our expenditures, including the majority of our investments in vessels and our financing transactions, are denominated in U.S. Dollars. We could, however, earn revenue in other currencies and we currently incur a portion of our expenses in other currencies. Therefore, there is a risk that currency fluctuations could have an adverse effect on the value of our cash flows.

Our foreign currency risk arises from:

the measurement of monetary assets and liabilities denominated in foreign currencies converted to U.S. Dollars, with the resulting gain or loss recorded as Foreign exchange gain/(loss); and

the impact of fluctuations in exchange rates on the reported amounts of our revenues, if any, and expenses that are denominated in foreign currencies.

As of September 30, 2017, we had entered into foreign currency forward contracts, selling a total notional amount of \$25.0 million against NOK at an average exchange rate of NOK 8.38 per 1.0 U.S. Dollar, which are economic hedges for certain vessel operating expenses and general expenses in NOK. We did not apply hedge accounting to our foreign exchange forward contracts.

Concentration of Credit Risk

The market for our services is the offshore oil transportation industry, and the customers consist primarily of major oil and gas companies, independent oil and gas producers and government-owned oil companies. As of September 30, 2017 and December 31, 2017, six customers accounted for substantially all of our revenues. Ongoing credit evaluations of our customers are performed and generally do not require collateral in our business agreements. Typically, under our time charters and bareboat charters, the customer pays for the month's charter the first day of each month, which reduces our level of credit risk. Provisions for potential credit losses are maintained when necessary.

We have bank deposits that expose us to credit risk arising from possible default by the counterparty. We manage the risk by using credit-worthy financial institutions.

Retained Risk

For a description of our insurance coverage, including the risks retained by us related to our insurance policies, please read Item 4. Information on the Partnership Business Overview Risk of Loss, Insurance and Risk Management in our 2016 20-F.

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FORWARD-LOOKING STATEMENTS

This Report on Form 6-K contains certain forward-looking statements concerning future events and our operations, performance and financial condition and assumptions related thereto. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, will likely result, intend or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include statements with respect to, among other things:

market trends in the shuttle tanker or general tanker industries, including hire rates, factors affecting supply and demand, and opportunities for the profitable operations of shuttle tankers;

KNOT's and our ability to build shuttle tankers and the timing of the delivery and acceptance of any such vessels by their respective charterers;

forecasts of our ability to make or increase distributions on our common units and to make distributions on the Series A Preferred Units and the amount of any such distributions;

our ability to integrate and realize the expected benefits from acquisitions.

our anticipated growth strategies;

the effects of a worldwide or regional economic slowdown;

turmoil in the global financial markets;

fluctuations in currencies and interest rates;

fluctuations in the price of oil;

general market conditions, including fluctuations in hire rates and vessel values;

changes in our operating expenses, including drydocking and insurance costs and bunker prices;

our future financial condition or results of operations and future revenues and expenses;

the repayment of debt and settling of any interest rate swaps;

our ability to make additional borrowings and to access debt and equity markets;

planned capital expenditures and availability of capital resources to fund capital expenditures;

our ability to maintain long-term relationships with major users of shuttle tonnage;

our ability to leverage KNOT's relationships and reputation in the shipping industry;

our ability to purchase vessels from KNOT in the future;

our continued ability to enter into long-term charters, which we define as charters of five years or more;

our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term charter;

the financial condition of our existing or future customers and their ability to fulfill their charter obligations;

timely purchases and deliveries of newbuilds;

future purchase prices of newbuilds and secondhand vessels;

any impairment of the value of our vessels;

our ability to compete successfully for future chartering and newbuild opportunities;

acceptance of a vessel by its charterer;

termination dates and extensions of charters;

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the expected cost of, and our ability to comply with, governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;

availability of skilled labor, vessel crews and management;

our general and administrative expenses and fees and expenses payable under the technical management agreements, management and administration agreements and the administrative services agreement;

modifications to the Norwegian Tonnage Tax regime;

the anticipated taxation of KNOT Offshore Partners and distributions to our unitholders;

estimated future maintenance and replacement capital expenditures;

our ability to retain key employees;

customers' increasing emphasis on environmental and safety concerns;

potential liability from any pending or future litigation;

potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;

future sales of our securities in the public market;

our business strategy and other plans and objectives for future operations; and

other factors listed from time to time in the reports and other documents that we file with the SEC. Forward-looking statements in this Report on Form 6-K are based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed herein, in our 2016 Form 20-F and in our Form 6-K for the quarter ended June 30, 2017. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

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SIGNATURE

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, thereunto duly authorized.

KNOT OFFSHORE PARTNERS LP

Date: December 8, 2017

By: /s/ John Costain

Name: John Costain
Chief Executive Officer and Chief Financial
Title: Officer