

---

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

---

**FORM 10-Q**

---

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended: **September 30, 2016**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: **001-36329**

---

**Recro Pharma, Inc.**

(Exact name of registrant as specified in its charter)

---

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**26-1523233**  
(I.R.S. Employer  
Identification No.)

**490 Lapp Road, Malvern, Pennsylvania**  
(Address of principal executive offices)

**19355**  
(Zip Code)

**(484) 395-2470**

(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

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

As of November 10, 2016, there were 12,163,660 shares of common stock, par value \$0.01 per share, outstanding.

---

**TABLE OF CONTENTS**  
**Index**

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Consolidated Financial Statements</u>	3
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
<u>PART II. OTHER INFORMATION</u>	32
Item 1. <u>Legal Proceedings</u>	32
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3. <u>Defaults Upon Senior Securities</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	32
<u>SIGNATURES</u>	34
<u>EXHIBIT INDEX</u>	35

---

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Consolidated Balance Sheets  
(unaudited)

(amounts in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24,752	\$ 19,779
Accounts receivable	12,400	8,580
Other receivables	60	36
Inventory	9,812	8,982
Prepaid expenses	1,668	757
Deferred equity costs	316	542
Total current assets	49,008	38,676
Property, plant and equipment, net	36,487	37,922
Deferred income taxes	15,989	15,637
Intangible assets, net	38,079	40,016
Goodwill	6,446	6,446
Total assets	<u>\$ 146,009</u>	<u>\$ 138,697</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,917	\$ 1,553
Accrued expenses	7,857	3,418
Current portion of long-term debt	1,498	4,516
Total current liabilities	11,272	9,487
Long-term debt	22,738	25,244
Warrants	3,817	3,770
Contingent consideration-long term	67,551	59,846
Total liabilities	105,378	98,347
Commitments and contingencies (Note 12)		
Shareholders' equity		
Preferred stock, \$0.01 par value. Authorized, 10,000,000 shares; none issued and outstanding	—	—
Common stock, \$0.01 par value. Authorized, 50,000,000 shares; issued and outstanding, 11,863,660 shares at September 30, 2016 and 9,224,315 shares at December 31, 2015	119	92
Additional paid-in capital	91,378	71,321
Accumulated deficit	(50,866)	(31,063)
Total shareholders' equity	40,631	40,350
Total liabilities and shareholders' equity	<u>\$ 146,009</u>	<u>\$ 138,697</u>

See accompanying notes to unaudited consolidated financial statements.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Consolidated Statements of Operations  
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
(amounts in thousands, except share and per share data)				
<b>Revenue:</b>				
Manufacturing, royalty and profit sharing revenue	\$ 16,188	\$ 16,120	\$ 50,260	\$ 32,824
Research and development revenue	763	419	1,713	2,375
Total revenue	<u>16,951</u>	<u>16,539</u>	<u>51,973</u>	<u>35,199</u>
<b>Operating expenses:</b>				
Cost of sales (excluding amortization of intangible assets)	5,745	10,039	25,563	19,228
Research and development	7,046	2,716	23,175	7,260
General and administrative	3,841	3,478	9,263	8,492
Amortization of intangible assets	646	646	1,937	1,238
Change in warrant valuation	402	(762)	47	119
Change in contingent consideration valuation	3,192	586	7,705	2,586
Total operating expenses	<u>20,872</u>	<u>16,703</u>	<u>67,690</u>	<u>38,923</u>
Operating loss	<u>(3,921)</u>	<u>(164)</u>	<u>(15,717)</u>	<u>(3,724)</u>
<b>Other income (expense):</b>				
Interest income	10	2	27	10
Interest expense	(1,450)	(1,990)	(4,279)	(3,888)
Net loss before income taxes	<u>(5,361)</u>	<u>(2,152)</u>	<u>(19,969)</u>	<u>(7,602)</u>
Income tax benefit (expense)	(18)	—	166	—
Net loss	<u>\$ (5,379)</u>	<u>\$ (2,152)</u>	<u>\$ (19,803)</u>	<u>\$ (7,602)</u>
Basic and diluted net loss per common share	<u>\$ (0.50)</u>	<u>\$ (0.24)</u>	<u>\$ (2.01)</u>	<u>\$ (0.92)</u>
Weighted average basic and diluted common shares outstanding	<u>10,780,911</u>	<u>9,118,664</u>	<u>9,862,526</u>	<u>8,243,909</u>

See accompanying notes to unaudited consolidated financial statements.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Consolidated Statement of Shareholders' Equity  
Nine Months Ended September 30, 2016  
(unaudited)

	Common stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amount			
(amounts in thousands, except share and per share data)					
Balance, December 31, 2015	9,224,315	\$ 92	\$ 71,321	\$ (31,063)	\$ 40,350
Sale of common stock under Aspire equity facility, net of transaction costs	643,940	7	3,944	—	3,951
Sale of common stock in public offering, net of offering costs	1,986,666	20	13,347		13,367
Issuance of restricted stock units, net of shares withheld for income taxes	8,739	—	(33)		(33)
Stock-based compensation expense	—	—	2,799	—	2,799
Net loss	—	—	—	(19,803)	(19,803)
Balance, September 30, 2016	<u>11,863,660</u>	<u>\$ 119</u>	<u>\$ 91,378</u>	<u>\$ (50,866)</u>	<u>\$ 40,631</u>

See accompanying notes to unaudited consolidated financial statements.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows  
(unaudited)

(amounts in thousands, except share and per share data)	For the Nine Months Ended September 30,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net loss	\$ (19,803)	\$ (7,602)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	2,799	1,725
Depreciation expense	3,756	2,730
Noncash interest expense	800	439
Amortization	1,937	1,238
Change in warrant valuation	47	119
Change in contingent consideration valuation	7,705	2,586
Deferred income taxes	(352)	—
Changes in operating assets and liabilities:		
Inventory	(830)	1,384
Prepaid expenses	(911)	(475)
Accounts receivable and other receivables	(3,844)	3,007
Accounts payable and accrued expenses	4,498	2,688
Net cash (used in) provided by operating activities	(4,198)	7,839
<b>Cash flows from investing activities:</b>		
Acquisition of Gainesville, net of cash acquired	—	(52,690)
Purchase of property and equipment	(2,014)	(1,787)
Net cash used in investing activities	(2,014)	(54,477)
<b>Cash flows from financing activities:</b>		
Proceeds from Aspire facility	4,175	—
Proceeds from sale of common stock, net of transaction costs	13,367	14,812
Proceeds from long-term debt	—	50,000
Payment on long-term debt	(6,324)	(7,838)
Payment of deferred financing costs	—	(1,718)
Payment of deferred equity costs	—	(253)
Payment of withholdings on shares withheld for income taxes	(33)	—
Proceeds from option exercise	—	228
Net cash provided by financing activities	11,185	55,231
Net increase in cash and cash equivalents	4,973	8,593
Cash and cash equivalents, beginning of period	19,779	19,682
Cash and cash equivalents, end of period	\$ 24,752	\$ 28,275
<b>Supplemental disclosure of cash flow information:</b>		
Common stock issued in connection with equity facility	—	\$ 285
Cash paid for interest	\$ 3,479	\$ 3,449
Purchase of property, plant and equipment included in accrued expenses	\$ 307	\$ 179
Amortization of deferred equity costs	\$ 224	—

See accompanying notes to unaudited consolidated financial statements.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

**(1) Background**

Recro Pharma, Inc., or the Company, was incorporated in Pennsylvania on November 15, 2007. The Company is a revenue-generating, specialty pharmaceutical company focused on products for hospital and ambulatory care settings, currently developing non-opioid products for treatment of serious acute pain. On April 10, 2015, the Company acquired from Alkermes plc, or Alkermes, worldwide rights to intravenous and intramuscular, or injectable meloxicam, a proprietary, long-acting preferential COX-2 inhibitor for the treatment of moderate to severe acute pain, as well as a contract manufacturing, royalty and formulation business in Gainesville, Georgia, now operating through the Company's subsidiary, Recro Gainesville, LLC, or Gainesville. The acquisition is referred to herein as the Gainesville Transaction. Gainesville develops and manufactures innovative pharmaceutical products that deliver clinically meaningful benefits to patients, using its proprietary delivery technologies for pharmaceutical companies who commercialize or plan to commercialize these products.

**(2) Development-Stage Risks and Liquidity**

The Company has incurred losses from operations since its incorporation and has an accumulated deficit of \$50,866 as of September 30, 2016. Though its Gainesville business has been profitable, the Company anticipates incurring additional losses on a consolidated basis until such time, if ever, that it can generate significant sales of its products currently in development. Substantial additional financing will be needed by the Company to fund its operations and to commercially develop its product candidates.

The Company's future operations are highly dependent on a combination of factors, including (i) the continued profitability of the Gainesville business, (ii) the timely and successful completion of additional financing and/or alternative sources of capital, debt and partnering transactions; (iii) the success of its research and development, including the results and timing of its clinical trials; (iv) the development of competitive therapies by other biotechnology and pharmaceutical companies; and, ultimately (v) regulatory approval and market acceptance of the Company's proposed future products.

**(3) Summary of Significant Accounting Principles**

**(a) Basis of Presentation and Principles of Consolidation**

The accompanying unaudited consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, for interim financial information. The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of September 30, 2016 and its results of operations for the three and nine months ended September 30, 2016 and 2015 and cash flows for the three and nine months ended September 30, 2016 and 2015. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016. The consolidated interim financial statements, presented herein, do not contain the required disclosures under U.S. GAAP for annual financial statements.

The accompanying unaudited interim consolidated financial statements should be read in conjunction with the annual audited financial statements and related notes as of and for the year ended December 31, 2015 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

**(b) Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

**(c) Cash and Cash Equivalents**

The Company considers all highly liquid investments that have maturities of three months or less when acquired to be cash equivalents. Cash equivalents as of September 30, 2016 and December 31, 2015 consisted of money market mutual funds and government and agency bonds.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

**(d) Fair Value of Financial Instruments**

Management believes that the carrying amounts of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the short-term nature of those instruments. Management believes the carrying value of debt approximates fair value as the interest rates are reflective of the rate the Company could obtain on debt with similar terms and conditions.

**(e) Inventory**

Inventory is stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. Included in inventory are raw materials used in production of commercial products.

**(f) Property and Equipment**

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are as follows: four to ten years for furniture, office and computer equipment; six to ten years for manufacturing equipment; two to five years for vehicles; 35 to 40 years for buildings; and the shorter of the lease term or useful life for leasehold improvements. Repairs and maintenance costs are expensed as incurred.

**(g) Goodwill and Intangible Assets**

Goodwill represents the excess of purchase price over the fair value of net assets acquired by the Company. Goodwill is not amortized, but assessed for impairment on an annual basis or more frequently if impairment indicators exist. The impairment model prescribes a two-step method for determining impairment.

The first step compares a reporting unit's fair value to its carrying amount to identify potential goodwill impairment. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the impairment test must be completed to measure the amount of the reporting unit's goodwill impairment loss, if any. Step two requires an assignment of the reporting unit's fair value to the reporting unit's assets and liabilities to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of the reporting unit's goodwill to determine the goodwill impairment loss to be recognized, if any.

Intangible assets include the Company's royalties and contract manufacturing relationships intangible asset as well as an in-process research and development, or IPR&D, asset. The royalties and contract manufacturing relationships intangible asset is considered a definite-lived intangible asset and is amortized on a straight-line basis over a useful life of six years.

Intangible assets related to IPR&D are considered indefinite-lived intangible assets and are assessed for impairment annually or more frequently if impairment indicators exist. If the associated research and development effort is abandoned, the related assets will be written-off and the Company will record a noncash impairment loss on its consolidated statements of operations. For those compounds that reach commercialization, the IPR&D assets will be amortized over their estimated useful lives.

The impairment test for indefinite-lived intangible assets is a one-step test, which compares the fair value of the intangible asset to its carrying value. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. Based on accounting standards, it is required that these assets be assessed at least annually for impairment unless a triggering event occurs between annual assessments which would then require an assessment in the period which a triggering event occurred.

**(h) Revenue Recognition**

The Company generates revenues from manufacturing, packaging and related services for multiple pharmaceutical companies. The agreements that the Company has with its commercial partners provide for manufacturing revenues, royalties and/or profit sharing components.

Manufacturing and other related services revenue is recognized when persuasive evidence of an arrangement exists, shipment has occurred and the title to the product and associated risk of loss has passed to the customer, the sales price is fixed or determinable and collectability is reasonably assured.



**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

In addition to manufacturing and other related services revenue, the customer agreements have royalties and/or profit sharing payments, computed on the net product sales of the partner. Royalty and profit sharing revenues are generally recognized under the terms of the license and supply agreement in the period the products are sold and expenses are incurred by our commercial partner and collectability is reasonably assured.

Revenues related to research and development are generally recognized as the related services or activities are performed, in accordance with the contract terms. To the extent that the agreements specify services are to be performed on a fixed basis, revenues are recognized consistent with the pattern of the work performed.

**(i) Concentration of Credit Risk**

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company's policy is to limit the amount of credit exposure to any one financial institution and place its cash and cash equivalents with financial institutions evaluated as being creditworthy. To date, the Company has not experienced any losses on its cash equivalents.

**(j) Research and Development**

Research and development costs for the Company's proprietary products/product candidates are charged to expense as incurred. Research and development expenses consist primarily of funds paid to third parties for the provision of services for manufacturing of clinical supplies, drug development, clinical trials, statistical analysis and report writing, and regulatory compliance costs. At the end of the reporting period, the Company compares payments made to third-party service providers to the estimated progress toward completion of the research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that the Company estimates has been made as a result of the service provided, the Company may record net prepaid or accrued expense relating to these costs.

Upfront and milestone payments made to third parties who perform research and development services on the Company's behalf are expensed as services are rendered. Costs incurred in obtaining technology licenses are charged to research and development expense as acquired in-process research and development if the technology licensed has not reached technological feasibility and has no alternative future use.

**(k) Stock-Based Awards**

The Company measures employee stock-based awards at grant-date fair value and recognizes employee compensation expense on a straight-line basis over the vesting period of the award.

Determining the appropriate fair value of stock options requires the input of subjective assumptions, including the expected life of the option and expected stock price volatility. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

The expected life of stock options was estimated using the "simplified method," as the Company has limited historical information to develop reasonable expectations about future exercise patterns and post vesting employment termination behavior for its stock options grants. The simplified method is based on the average of the vesting tranches and the contractual life of each grant. For stock price volatility, the Company uses comparable public companies as a basis for its expected volatility to calculate the fair value of options grants. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected life of the option.

Nonemployee stock-based awards are revalued until an award vests and the Company recognizes compensation expense on a straight-line basis over the vesting period of each separated vesting tranche of the award, or the accelerated attribution method. The estimation of the number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts are recognized as an adjustment in the period in which estimates are revised.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

**(l) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is recorded to the extent it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Unrecognized income tax benefits represent income tax positions taken on income tax returns that have not been recognized in the consolidated financial statements. The Company recognizes the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit is recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company accrues interest and related penalties are classified as income tax expense in the Consolidated Statements of Operations. The Company does not anticipate significant changes in the amount of unrecognized income tax benefits over the next year.

**(m) Net Loss Per Common Share**

Basic and diluted net loss per common share is determined by dividing net loss applicable to common shareholders by the weighted average common shares outstanding during the period. For all periods presented, the outstanding common stock options and warrants have been excluded from the calculation because their effect would be anti-dilutive. Therefore, the weighted average shares used to calculate both basic and diluted net loss per share are the same.

The following potentially dilutive securities have been excluded from the computations of diluted weighted average shares outstanding as of September 30, 2016 and 2015, as they would be anti-dilutive:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Options and restricted stock units outstanding	2,363,794	1,570,982
Warrants	784,928	784,928

Amounts in the table above reflect the common stock equivalents of the noted instruments.

**(n) Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board, or FASB, issued updated guidance in the classification of certain cash receipts and payments in the statement of cash flows where diversity in practice exists. This new guidance is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued updated guidance on the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, employee tax withholding, calculation of shares for use in diluted earnings per share and the classification on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company early adopted the guidance effective July 1, 2016. The guidance did not have a material impact to the consolidated financial statements upon adoption.

In November 2015, the FASB issued updated guidance on the presentation requirements for deferred income tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. The update is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The Company adopted this guidance during the year ended December 31, 2015.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

In September 2015, the FASB issued updated guidance regarding the accounting for and disclosure of measurement-period adjustments that occur in periods after a business combination is consummated. This update requires that the acquirer recognize measurement-period adjustments in the reporting period in which they are determined. Prior period information should not be revised. This update also requires an entity to present separately on the face of the income statement or disclose in the notes the amount recorded in the current-period income statement that would have been recorded in previous reporting periods if the adjustments had been recognized as of the acquisition date. The effective date for annual and interim periods begins after December 15, 2015. The adoption of this updated standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

In July 2015, the FASB issued updated guidance which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. The amendments in this guidance do not apply to inventory that is measured using last-in, first-out, or LIFO, or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost. Within the scope of this new guidance, an entity should measure inventory at the lower of cost and net realizable value; where, net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The new guidance must be applied on a prospective basis. The Company is evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued updated guidance on the presentation requirements for debt issuance costs and debt discount and premium. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance is effective for annual and interim periods beginning after December 15, 2015 and early adoption is permitted for financial statements that have not been previously issued. The Company adopted this guidance during the year ended December 31, 2015.

In August 2014, the FASB issued updated guidance regarding the going concern assumption. The amendments in this update will explicitly require a company's management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This new guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the potential impact of the adoption of this standard, but the Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued updated guidance regarding the accounting for and disclosures of revenue recognition, with an effective date for annual and interim periods beginning after December 15, 2016. The update provides a single comprehensive model for accounting for revenue from contracts with customers. The model requires that revenue recognized reflect the actual consideration to which the entity expects to be entitled in exchange for the goods or services defined in the contract, including in situations with multiple performance obligations. In July 2015, the FASB deferred the effective date by one year. The guidance will be effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the effect that this guidance may have on its consolidated financial statements.

**(4) Acquisition of Gainesville and Meloxicam**

On April 10, 2015, the Company completed the Gainesville Transaction. The consideration paid in connection with the Gainesville Transaction consisted of \$50,000 at closing, a \$4,010 working capital adjustment and a seven-year warrant to purchase 350,000 shares of the Company's common stock at an exercise price of \$19.46 per share. In addition, the Company may be required to pay up to an additional \$120,000 in milestone payments (including \$10,000 payable upon the new drug application "NDA" filing and \$30,000 upon regulatory approval, and other revenue target milestones), and royalties on future product net sales related to injectable meloxicam. Under the acquisition method of accounting, the consideration paid and the fair value of the contingent consideration and royalties are allocated to the fair value of the assets acquired and liabilities assumed. The contingent consideration obligation is remeasured each reporting date with changes in fair value recognized as a period charge within the statement of operations (see note 6 for further information regarding fair value).

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

The following is the purchase price for the Gainesville Transaction:

	<b>Estimated Fair Value</b>
Purchase price agreement	\$ 50,000
Fair value of warrants	2,470
Fair value of contingent consideration	54,600
Working capital adjustment	4,010
	<u>\$ 111,080</u>

The contingent consideration consists of three separate components. The first component consists of two potential payments, which will be payable upon the submission of the new drug application, or NDA, for meloxicam, and the related regulatory approval, respectively. The second component consists of three potential payments, based on the achievement of specified annual revenue targets. The third component consists of net sales milestones related to injectable meloxicam and royalties on future product sales of injectable meloxicam between 10% and 12% (subject to a 30% reduction when no longer covered by patent).

The fair value of the first contingent consideration component recognized on the acquisition date was estimated by applying a risk adjusted discount rate to the probability adjusted contingent payments and the expected approval dates. The fair value of the second contingent consideration component recognized on the acquisition date was estimated by applying a risk adjusted discount rate to the potential payments resulting from probability weighted revenue projections and expected revenue target attainment dates. The fair value of the third contingent consideration component recognized on the acquisition date was estimated by applying a risk adjusted discount rate to the potential payments resulting from probability weighted revenue projections and the defined royalty percentage.

These fair values are based on significant inputs not observable in the market, which are referred to in the guidance as Level 3 inputs. The contingent consideration components are classified as liabilities and are subject to the recognition of subsequent changes in fair value through the results of operations.

The Gainesville results of operations have been included in the consolidated statement of operations beginning April 10, 2015.

The following is the allocation of fair value to the assets acquired and the liabilities assumed in connection with the Gainesville Transaction, reconciled to the purchase price:

	<b>Amount</b>
Accounts receivable	\$ 12,519
Inventory	10,253
Prepaid expenses	380
Property, plant and equipment	39,424
Intangible assets	41,900
Goodwill	6,446
Total assets acquired	<u>110,922</u>
Accounts payable and accrued expenses	1,162
Warrants	2,470
Contingent consideration	54,600
Total liabilities assumed	<u>58,232</u>
Cash paid, net of \$1,320 of cash acquired	<u>\$ 52,690</u>

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

The fair value of the property, plant and equipment and their weighted-average useful lives are as follows:

	Estimated Fair Value	Estimated Useful Life
Buildings and improvements	\$ 16,371	35 years
Land	3,263	N/A
Furniture, office & computer equipment	2,510	4-5 years
Vehicles	30	2 years
Manufacturing equipment	17,250	6-7 years
	<u>\$ 39,424</u>	

The estimated fair value of property, plant and equipment was determined using the cost and sales approaches.

The fair value of the identifiable intangible assets and their weighted-average useful lives are as follows:

	Estimated Fair Value	Weighted Average Estimated Useful Life
Royalties and contract manufacturing relationships	\$ 15,500	6
In-process research and development	26,400	N/A
Total intangible assets	<u>\$ 41,900</u>	

The in-process research and development asset and customer relationships were valued using the multi-period excess earnings method, which is an income approach in which excess earnings are the earnings remaining after deducting the market rates of return on the estimated values of contributory assets, including debt-free net working capital, tangible and intangible assets. The excess earnings are thereby calculated for each quarter of a multi-quarter projection period discounted to a present value utilizing an appropriate discount rate for the subject asset.

**(5) Unaudited Pro Forma Results of Operations**

The unaudited pro forma combined results of operations for the nine months ended September 30, 2016 (assuming the closing of the Gainesville Transaction had occurred on January 1, 2015) are as follows:

	<u>Nine Months Ended</u>	
Net revenue	\$	54,931
Net loss		(6,978 )

The pro forma results have been prepared for reporting purposes only and are not necessarily indicative of the actual results of operations had the closing of the Transaction taken place on January 1, 2015. Furthermore, the pro forma results do not purport to project the future results of operations of the Company.

**(6) Fair Value of Financial Instruments**

The Company follows the FASB accounting guidance on fair value measurements for financial assets and liabilities measured on a recurring basis. The guidance requires fair value measurements to maximize the use of "observable inputs." The three-level hierarchy of inputs to measure fair value are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity)

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

The Company has classified assets and liabilities measured at fair value on a recurring basis as follows:

	Fair value measurements at reporting date using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>At December 31, 2015:</b>			
Assets:			
Money market mutual funds	\$ 5,081	—	—
Government and agency bonds	10,250	—	—
Cash equivalents	<u>\$ 15,331</u>	<u>—</u>	<u>—</u>
Liabilities:			
Warrants	—	—	\$ 3,770
Contingent consideration	—	—	59,846
	<u>—</u>	<u>—</u>	<u>\$ 63,616</u>
<b>At September 30, 2016:</b>			
Assets:			
Money market accounts	\$ 8,585	—	—
Government and agency bonds	9,270	—	—
Cash equivalents	<u>\$ 17,855</u>	<u>—</u>	<u>—</u>
Liabilities:			
Warrants	—	—	\$ 3,817
Contingent consideration	—	—	67,551
	<u>—</u>	<u>—</u>	<u>\$ 71,368</u>

The reconciliation of the contingent consideration and warrants measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Warrants	Contingent Consideration
Balance at December 31, 2015	\$ 3,770	\$ 59,846
Additions	—	—
Remeasurement	47	7,705
Balance at September 30, 2016	<u>\$ 3,817</u>	<u>\$ 67,551</u>

**(7) Inventory**

Inventory consists of the following:

	September 30, 2016	December 31, 2015
Raw materials	\$ 2,098	\$ 2,933
Work in process	3,149	4,340
Finished goods	4,565	1,709
	<u>\$ 9,812</u>	<u>\$ 8,982</u>

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

**(8) Property, Plant and Equipment**

Property, plant and equipment consists of the following:

	September 30, 2016	December 31, 2015
Land	\$ 3,263	\$ 3,263
Building and improvements	16,689	16,367
Furniture, office and computer equipment	3,341	2,888
Vehicles	30	30
Manufacturing equipment	21,050	19,504
	44,373	42,052
Less: accumulated depreciation and amortization	7,886	4,130
Property, plant and equipment, net	<u>\$ 36,487</u>	<u>\$ 37,922</u>

Depreciation expense for the three and nine months ended September 30, 2016 was \$1,245 and \$3,756, respectively, and \$1,445 and \$2,730 for the three and nine months ended September 30, 2015, respectively.

**(9) Intangible Assets**

The following represents the balance of the intangible assets at September 30, 2016:

	Cost	Accumulated Amortization	Net Intangible Assets
Royalties and contract manufacturing relationships	\$ 15,500	\$ 3,821	\$ 11,679
In-process research and development	26,400	—	26,400
Total	<u>\$ 41,900</u>	<u>\$ 3,821</u>	<u>\$ 38,079</u>

The following represents the balance of the intangible assets at December 31, 2015:

	Cost	Accumulated Amortization	Net Intangible Assets
Royalties and contract manufacturing relationships	\$ 15,500	\$ 1,884	\$ 13,616
In-process research and development	26,400	—	26,400
Total	<u>\$ 41,900</u>	<u>\$ 1,884</u>	<u>\$ 40,016</u>

Amortization expense for the three and nine months ended September 30, 2016 was \$646 and \$1,937, respectively, and \$646 and \$1,238 for the three and nine months ended September 30, 2015, respectively. The amortization expense for each of the next five years will be \$2,583 per year.

**(10) Accrued Expenses**

Accrued expenses consist of the following:

	September 30, 2016	December 31, 2015
Clinical trial and related costs	\$ 2,265	\$ 1,364
Professional and consulting fees	429	863
Payroll and related costs	3,555	697
Income tax payable	106	86
Deferred revenue	747	
Other	755	408
	<u>\$ 7,857</u>	<u>\$ 3,418</u>

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

**(11) Long-Term Debt**

The Company financed the Gainesville Transaction with cash on hand and a \$50,000 five-year senior secured term loan, pursuant to a credit agreement, entered into on April 10, 2015, with OrbiMed Royalty Opportunities II, LP, or OrbiMed. The unpaid principal amount under the credit agreement is due and payable on the five year anniversary of the loan provided thereunder by OrbiMed. The credit agreement also provides for certain mandatory prepayment events, including a quarterly excess cash flow prepayment requirement at OrbiMed's request. The Company may make voluntary prepayments in whole or in part, subject to: (i) on or prior to the 36 month anniversary of the closing of the credit agreement, payment of a buy-out premium amount equal to (A) for full prepayments of the unpaid principal amount, \$75,000 less all previously prepaid principal amounts and all previously paid interest or (B) for partial prepayments of the unpaid principal amount, 0.5 times the partial prepayment amount less interest payments previously paid in respect to the partial prepayment amount and (ii) after the 36 month anniversary of the closing of the credit agreement, payment of an exit fee amount equal to 10% of the amount of any prepayments. As defined by the agreement, based upon the Gainesville business financial results, OrbiMed has the option to require the Company to prepay a portion of the loan balance based upon an Excess Cash Flow. No payments under this option shall be subject to the buy-out premium. As of September 30, 2016, the Company has paid \$22,653 of principal payments on the senior secured loan from the Excess Cash Flow calculation.

The credit agreement carries interest at three-month LIBOR plus 14.0% with a 1.0% floor. The Company's obligations under the senior term loan are secured by substantially all of the Company's assets.

The credit agreement contains certain usual and customary affirmative and negative covenants, as well as financial covenants that the Company will need to satisfy on a monthly and quarterly basis. As of September 30, 2016, the Company was in compliance with the covenants.

The Company issued to OrbiMed a warrant to purchase 294,928 shares of common stock, with an exercise price of \$3.28 per share. The warrant is exercisable through April 10, 2022. The initial fair value of the warrant of \$2,861 was recorded as debt issuance costs.

Debt issuance costs related to the term loan of \$4,579, including the initial warrant fair value of \$2,861, are being amortized to interest expense over the five year term of the loan and netted with the loan principal amount. The unamortized balance of debt issuance costs is \$3,111 as of September 30, 2016. As of September 30, 2016, the long-term debt balance is comprised of the following:

Principal balance outstanding	\$ 27,347
Unamortized deferred issuance costs	(3,111)
	<u>24,236</u>
Current portion	(1,498)
	<u>\$ 22,738</u>

The Company has estimated the amount of the Excess Cash Flow payments that could be payable within one year of September 30, 2016 upon request of OrbiMed and has classified that amount as a current debt in the accompanying consolidated balance sheet.

**(12) Commitments and Contingencies**

**(a) License and Supply Agreements**

In August 2008, the Company entered into a License Agreement with Orion Corporation, or Orion, for Non-Injectable Dexmedetomidine. Under the Dexmedetomidine License Agreement, the Company was granted an exclusive license under the Orion Know-How and Cygnus/Farmos Patent to commercialize products worldwide, except for Europe, Turkey, and the CIS (currently includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan), referred to herein as the Territory, and to use, research, develop, and manufacture products worldwide solely for purposes of commercialization. The Company also entered into a supply agreement with Orion in which Orion will supply the Company with Dexmedetomidine at no cost during the product development period and upon U.S. Food and Drug Administration, or FDA, approval, Orion will supply commercial quantities of bulk active pharmaceutical ingredient Dexmedetomidine, for commercialization.



**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

The Company will pay up to €20,500 (\$23,038 as of September 30, 2016) in contingent milestones upon the achievement of certain regulatory and commercialization events. There are also royalty payments to be paid at varying percentages of net sales, which generally range from 10% to 20% depending on annual sales levels. No amounts were due or payable during 2016 or 2015.

In July 2010, the Company entered into a License Agreement with Orion for Fadolmidine. Under the Fadolmidine License Agreement, the Company was granted an exclusive license under the Orion Know-How and Orion Patent Rights (each as defined in the License Agreement) to commercialize products in the Territory, and to use, research, develop, and manufacture products worldwide solely for purposes of commercialization.

The Company will pay up to an additional €12,200 (\$13,710 as of September 30, 2016) in contingent milestones upon the achievement of certain regulatory and commercialization events. There are also royalty payments to be paid at varying percentages, which range from 10% to 15% of net sales. No amounts were due or payable during 2016 or 2015.

As of September 30, 2016, the Company had \$3,663 of non-cancellable commitments at the Gainesville facility for capital expenditures and material and services.

**(b) Agreements with Alkermes**

Pursuant to the purchase and sale agreement governing the Gainesville Transaction, the Company agreed to pay to Alkermes up to \$120.0 million in milestone payments upon the achievement of certain regulatory and net sales milestones related to injectable meloxicam and royalties on future product sales of injectable meloxicam between 10% and 12% (subject to a 30% reduction when no longer covered by patent).

In July 2015, the Company also entered into a Development, Manufacturing and Supply Agreement, or Supply Agreement, with Alkermes (through a subsidiary of Alkermes), pursuant to which Alkermes will (i) provide clinical and, if elected by the Company, commercial bulk supplies of injectable meloxicam formulation and (ii) provide development services with respect to the Chemistry, Manufacturing and Controls section of a NDA for injectable meloxicam. Pursuant to the Supply Agreement, Alkermes will supply the Company with such quantities of bulk injectable meloxicam formulation as shall be reasonably required for the completion of clinical trials of injectable meloxicam, subject to a maximum of eight clinical batches in any twelve-month period unless otherwise agreed by the parties. The Company has elected to have Alkermes supply its initial commercial requirements of bulk injectable meloxicam formulation. During the term of the Supply Agreement, the Company will purchase its clinical and commercial supplies of bulk injectable meloxicam formulation exclusively from Alkermes, subject to certain exceptions, for a period of time.

**(c) Litigation**

The Company is involved, from time to time, in various claims and legal proceedings arising in the ordinary course of its business. Except as disclosed below, the Company is not currently a party to any such claims or proceedings that, if decided adversely to it, would either individually or in the aggregate have a material adverse effect on its business, financial condition or results of operations.

As part of the Gainesville Transaction, the Company acquired the rights to Zohydro ER<sup>®</sup>, which the Company licenses to its commercial partner, Pernix Therapeutics Holdings, Inc., or Pernix, in the United States, and which is subject to ongoing intellectual property litigation and proceedings.

Zohydro ER<sup>®</sup> is subject to six paragraph IV certifications, two of which were filed in 2014 by Actavis plc, or Actavis, and Alvogen Pine Brook, Inc., or Alvogen, regarding the filing of Abbreviated NDAs, or ANDAs, with the FDA for a generic version of Zohydro ER<sup>®</sup>, one of which was filed in April 2015, by Actavis regarding the filing of a supplemental ANDA, or sANDA, and another three of which were filed in November 2015 and October 2016, by Actavis, and in December 2015, by Alvogen regarding one of our recently issued patents relating to a formulation of Zohydro ER<sup>®</sup>. These certification notices allege that three U.S. patents listed in the FDA's Orange Book for Zohydro ER<sup>®</sup>, with an expiration date of November 2019 and September 2034, will not be infringed by Actavis' or Alvogen's proposed products, are invalid and/or are unenforceable. In 2014, Davrata Limited (a subsidiary of Alkermes and the Company's predecessor in interest) filed suit against each of Actavis and Alvogen in the U.S. District Court for the District of Delaware based on the ANDAs, and in 2015, the Company filed suit against Actavis in the U.S. District Court of the District of Delaware based on the sANDA. On September 29, 2016, the Company entered into a settlement agreement with Alvogen pursuant to which the case against Alvogen was dismissed.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

Under the Company's license agreement with Pernix, we have the right to control the enforcement of the Company's patents and related proceedings involving Zohydro ER<sup>®</sup> and any prospective generic entrant, and Pernix has the obligation to reimburse the Company for all reasonable costs of paragraph IV certification actions. The Company intends to vigorously enforce the intellectual property rights relating to Zohydro ER<sup>®</sup>, but cannot predict the outcome of these matters or guarantee the outcome of any litigation or interference.

**(13) Capital Structure**

**(a) Common Stock**

The Company is authorized to issue 50,000,000 shares of common stock, with a par value of \$0.01 per share.

On March 12, 2014, the Company completed an initial public offering, or IPO, in which the Company sold 4,312,500 shares of common stock at \$8.00 per share resulting in gross proceeds of \$34,500. In connection with the IPO, the Company paid \$4,244 in underwriting discounts, commissions and offering costs resulting in net proceeds of \$30,256. Also in connection with the IPO, all of the outstanding shares of the Company's Series A Redeemable Convertible Preferred Stock, or Series A Stock, including accreted dividends, and Bridge Notes, including accrued interest, were converted into common stock.

On July 7, 2015, the Company closed a Private Placement with certain accredited investors in which the Company sold 1,379,311 shares of common stock at a price per share of \$11.60, for net proceeds of \$14,812 after deducting the placement agents fee.

On August 19, 2016, the Company closed an underwritten public offering in which the company sold 1,986,666 shares of common stock at a price per share of \$7.50 for net proceeds of \$13,367 after deducting underwriting commissions and offering expenses.

**(b) Common Stock Purchase Agreement**

On February 2, 2015, the Company entered into a Common Stock Purchase Agreement, or the Purchase Agreement, with Aspire Capital Fund, LLC, or Aspire Capital, pursuant to which Aspire Capital is committed to purchase, at the Company's election, up to an aggregate of \$10,000 of shares of the Company's common stock over the 24 month term of the Purchase Agreement. On the execution of the Purchase Agreement, the Company issued 96,463 shares of common stock to Aspire Capital with a fair value of \$285, as consideration for entering in the Purchase Agreement. In addition, the Company incurred \$229 of costs in connection with the Aspire Capital Purchase Agreement, which, along with the fair value of the common stock has been recorded as deferred equity costs. As of September 30, 2016, the Company has sold 643,940 shares of common stock under the Purchase Agreement for proceeds of \$4,175.

**(c) Preferred Stock**

The Company is authorized to issue 10,000,000 shares of preferred stock, with a par value of \$0.01 per share. As of September 30, 2016, no preferred stock was issued or outstanding.

**(d) Warrants**

As of September 30, 2016, the Company had the following warrants outstanding to purchase shares of the Company's common stock:

<u>Number of Shares</u>	<u>Exercise Price per Share</u>	<u>Expiration Date</u>
140,000	\$ 12.00	March 2018
350,000	\$ 19.46	April 2022
294,928	\$ 3.28	April 2022

The warrant to purchase 350,000 shares is liability classified since it contains a contingent net cash settlement feature. The warrant to purchase 294,928 shares is liability classified since it contains an anti-dilution provision. The fair value of both warrants will be remeasured through settlement or expiration with changes in fair value recognized as a period charge within the statement of operations.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

**(14) Stock-Based Compensation**

The Company established the 2008 Stock Option Plan, or the 2008 Plan, which allows for the granting of common stock awards, stock appreciation rights, and incentive and nonqualified stock options to purchase shares of the Company's common stock to designated employees, nonemployee directors, and consultants and advisors. As of September 30, 2016, no stock appreciation rights have been issued. Subsequent to adoption, the 2008 Plan was amended to increase the authorized number of shares available for grant to 444,000 shares of common stock. In October 2013, the Company established the 2013 Equity Incentive Plan, or the 2013 Plan, which allows for the grant of stock options, stock appreciation rights and stock awards for a total of 600,000 shares of common stock. In June 2015, the Company's shareholders approved the Amended and Restated Equity Incentive Plan, or the A&R Plan, which amended and restated the 2013 Plan and increased the aggregate amount of shares available for issuance to 2,000,000. In December 2015, per the "evergreen" provision of the A&R Plan, the number of shares authorized for issuance under the plan was increased by 461,215 shares which represented 5% of outstanding shares of common stock of the Company on December 1, 2015. The total number of shares authorized for issuance under the A&R Plan as of September 30, 2016 is 2,461,215.

Stock options are exercisable generally for a period of 10 years from the date of grant and generally vest over four years. As of September 30, 2016, 855,022 shares and 174 shares are available for future grants under the A&R Plan and 2008 Plan, respectively.

The weighted average grant-date fair value of the options awarded to employees during the nine months ended September 30, 2016 and 2015 was \$5.02 and \$8.07, respectively. The fair value of the options was estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions:

	September 30, 2016	September 30, 2015
Range of expected option life	6 years	6-7 years
Expected volatility	79.95%	78.98%
Risk-free interest rate	1.07-1.91%	2.06-2.51%
Expected dividend yield	—	—

The following table summarizes stock option activity during the nine months ended September 30, 2016:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual life
Balance, December 31, 2015	2,042,194	\$ 7.00	
Granted	323,700	7.28	
Exercised	—	—	
Expired/forfeited/cancelled	(22,075)	11.03	
Balance, September 30, 2016	<u>2,343,819</u>	<u>\$ 7.00</u>	7.4 years
Vested	1,196,833	\$ 6.15	6.0 years
Vested and expected to vest	2,303,250	\$ 6.79	7.4 years

Included in the table above are 364,000 options granted outside the plan. The grants were made pursuant to the NASDAQ inducement grant exception in accordance with NASDAQ Listing Rule 5635(c)(4). Also included in the table above are 105,300 performance based options granted to the Chief Executive Officer in December 2015. As of September 30, 2016, 52,650 of these options vested upon meeting the first of two performance targets resulting in compensation expense of \$275.

**RECRO PHARMA, INC. AND SUBSIDIARIES**  
Notes to unaudited Consolidated Financial Statements  
(amounts in thousands, except share and per share data)

The following table summarizes restricted stock units activity during the nine months ended September 30, 2016:

	Number of shares
Balance, December 31, 2015	32,200
Granted	—
Vested	(12,225)
Expired/forfeited/cancelled	—
Balance, September 30, 2016	19,975
Vested and expected to vest	32,200

In December 2015, the Company granted 32,200 performance-based restricted stock units, or RSUs, which vest based on attaining clinical and operational goals during 2016. Included in the 12,225 units of restricted stock vested during the nine months ended September 30, 2016 are 3,486 shares with a weighted average fair value of \$9.70 per share that were withheld for withholding tax purposes upon vesting of such awards from stockholders who elected to net share settle such tax withholding obligation.

Stock-based compensation expense for the nine months ended September 30, 2016 and 2015 was \$2,799 and \$1,725, respectively, and for the three months ended September 30, 2016 and 2015 was \$1,369 and \$988, respectively.

As of September 30, 2016, there was \$7,094 of unrecognized compensation expense related to unvested options and RSUs that are expected to vest and will be expensed over a weighted average period of 2.9 years.

The aggregate intrinsic value represents the total amount by which the fair value of the common stock subject to options exceeds the exercise price of the related options. As of September 30, 2016, the aggregate intrinsic value of the vested and unvested options was \$3,556 and \$1,811, respectively.

**(15) Related Party Transactions**

In July 2008, the Company entered into an agreement with Malvern Consulting Group, Inc., or MCG, a pharmaceutical incubator and consulting firm, affiliated with the Company's President and Chief Executive Officer. A new agreement was signed in October 2013 under which MCG continues to provide consulting services to the Company. MCG consulting fees for services are based on a flat fee and time worked at hourly rates for consultants. The Company recorded MCG consulting fees for research and development and general and administrative expenses of \$88 and \$135 for the three months ended September 30, 2016 and 2015, respectively, and \$278 and \$372 for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, \$0 and \$33 are recorded in accounts payable and accrued expenses, respectively, as amounts due to MCG. In addition to fees for services, employees of MCG, certain of whom are related to the Company's President and Chief Executive Officer, received options to purchase 246,800 shares of common stock during 2009. The Company also paid \$155 in rental fees to MCG for a month to month lease for facilities space for the nine months ended September 30, 2016 and \$85 for facilities space for the nine months ended September 30, 2015. The increase in rental fees during the 2016 period was the result of an increase in the amount of space rented resulting from increases in headcount at the Company.

**(16) Subsequent Event**

During October and November 2016, pursuant to the terms of the Company's Purchase Agreement with Aspire Capital, Aspire Capital purchased 300,000 shares of the Company's common stock for proceeds of \$2,231.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with interim unaudited financial statements contained in Part I, Item 1 of this quarterly report, and the audited financial statements and notes thereto for the year ended December 31, 2015 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our annual report on Form 10-K filed with the SEC on March 24, 2016. As used in this report, unless the context suggests otherwise, "we," "us," "our," "the Company" or "Recro" refer to Recro Pharma, Inc. and its consolidated subsidiaries.*

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. We may in some cases, use terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements.

These forward-looking statements in this quarterly report on Form 10-Q include, among other things, statements about:

- the results and timing of our clinical trials of intravenous and intramuscular, or injectable, meloxicam, dexmedetomidine, or Dex, or our other product candidates, and any future clinical and preclinical studies;
- unfavorable new clinical data and additional analyses of existing clinical data;
- whether results of early clinical trials will be indicative of the results of future clinical trials and whether interim results from a clinical trial will be predictive of the final results of the clinical trial;
- the ability to obtain and maintain regulatory approval of our product candidates, and the labeling under any approval that we may obtain;
- regulatory developments in the United States and foreign countries;
- our plans to develop and commercialize our product candidates;
- our ability to raise future financing for continued development;
- the performance of our third-party suppliers and manufacturers;
- our ability to obtain patent protection and defend our intellectual property rights;
- our ability to successfully implement our strategy;
- our ability to maintain our relationships and contracts with our commercial partners;
- our ability to comply with stringent U.S. and foreign government regulation in the manufacture of pharmaceutical products, including Good Manufacturing Practice, or cGMP, compliance and U.S. Drug Enforcement Agency, or DEA, compliance;
- our ability to successfully integrate our acquisition of certain assets acquired in the Gainesville Transaction (as defined below); and
- our ability to meet required debt payments and operate under increased leverage and associated lending covenants.

Any forward-looking statements that we make in this Quarterly Report speak only as of the date of such statement, and we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

You should also read carefully the factors described in the "Risk Factors" included in Part II, Item 1A of this Quarterly Report and Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 24, 2016 to better understand significant risks and uncertainties inherent in our business and underlying any forward-looking statements. As a result of these factors, actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements in this report and you should not place undue reliance on any forward-looking statements.

## Overview

We are a revenue-generating, specialty pharmaceutical company focused on products for hospital and ambulatory care settings, currently developing non-opioid products for treatment of serious acute pain. Our lead product candidate is a proprietary injectable form of meloxicam. Meloxicam is a long-acting preferential COX-2 inhibitor and the oral form of meloxicam has been marketed by Boehringer Ingelheim Pharmaceuticals, Inc. since the 1990s as Mobic®. Intravenous, or IV, meloxicam has successfully completed five clinical trials in the treatment of moderate to severe pain, including a recently completed pivotal Phase III clinical trial. We believe injectable meloxicam compares favorably to competitive therapies in onset of pain relief, duration of pain relief, extent of pain relief and time to peak analgesic effect. Based on feedback from the U.S. Food and Drug Administration, or FDA, we initiated a Phase III program that includes two pivotal clinical trials, as well as other trials, which began dosing in the first quarter of 2016 and we expect to enroll a total of approximately 1,100 patients in these trials. In July 2016 we announced positive results from one pivotal clinical trial, evaluating pain relief over a 48-hour period in a hard tissue, post-operative pain model (bunionectomy). We have completed enrollment of patients in the other pivotal clinical trial designed to demonstrate pain relief over a 24-hour period in a soft tissue, post-operative pain model (abdominoplasty). We are currently enrolling patients following a variety of surgical conditions in an additional safety study of IV meloxicam. The populations selected for inclusion in the safety study is intended to replicate real world use of injectable meloxicam. Our pipeline also includes Dex-IN, a proprietary intranasal formulation of dexmedetomidine, or Dex, which successfully completed a Phase II clinical trial in post-operative pain in 2015. Based on feedback from the FDA regarding Dex-IN's benefit-risk profile, we have determined not to pursue Dex-IN in post-operative pain due to time, cost and associated risk and we plan to pursue Dex-IN in peri-procedural pain. Dex is a selective alpha-2 adrenergic agonist that has demonstrated analgesic properties in multiple studies. If approved, Dex-IN would also be the first and only approved peri-procedural pain drug in its class of drugs. As our product candidates are not in the opioid class of drugs, we believe they will overcome many of the issues associated with commonly prescribed opioid therapeutics, including addiction, misuse/diversion, respiratory distress and constipation while maintaining analgesic, or pain relieving, effect. In addition, we also have other product candidates in our pipeline, including additional proprietary formulations of injectable meloxicam and Dex.

We currently own and operate a 97,000 square foot, DEA-licensed facility that manufactures five commercial products and receives royalties associated with the sales of these products. We manufacture the following products for our commercial partners: Ritalin LA®, Focalin XR®, Verelan PM®, generic Verapamil and Zohydro ER®, as well as development stage products.

We have a limited operating history. We have funded our operations to date primarily from proceeds received from private placements of convertible preferred stock, convertible notes and common stock and public offerings of common stock, including our initial public offering of common stock, or IPO. On March 12, 2014, we announced the closing of the IPO of 4,312,500 shares of common stock, including the full exercise of the underwriters' over-allotment, at a public offering price of \$8.00 per share. Total gross proceeds from the IPO were \$34.5 million before deducting underwriting discounts and commissions and other offering expenses payable by us resulting in net proceeds of \$30.4 million. On July 7, 2015, we closed a Private Placement with certain accredited investors in which we sold 1,379,311 shares of common stock at a price per share of \$11.60, for net proceeds of approximately \$14.8 million. The Company paid the placement agents a fee equal to 6.0% of the aggregate gross proceeds from the Private Placement, plus reimbursement of certain expenses. On August 19, 2016, we closed an underwritten public offering in which we sold 1,986,666 shares of common stock at a price per share of \$7.50, for net proceeds of approximately \$13.4 million after deducting underwriting commissions and offering expenses. As of September 30, 2016, we have sold 643,940 shares of common stock under a common stock purchase agreement with Aspire Capital Fund, LLC for net proceeds of \$4.2 million.

We have incurred losses and generated negative cash flows from operations since inception. As of September 30, 2016, we had an accumulated deficit of \$50.8 million. Substantially all of our operating losses resulted from costs incurred in connection with our development programs, including our non-clinical and formulation development activities, manufacturing and clinical trials. We expect to incur increasing expenses over the next several years to develop both injectable meloxicam and Dex. For IV meloxicam, we plan to continue our ongoing Phase III pivotal and safety trials as well as pre-commercial activities. With respect to Dex, we plan to initiate Phase II dose-ranging trials at the appropriate time. Based upon the availability of additional financial resources, we may also develop and commercialize our other product candidates in our pipeline, including additional proprietary formulations of injectable meloxicam and Dex.

We expect that annual operating results of operations will fluctuate for the foreseeable future due to several factors. As a result, we expect to continue to incur significant and increasing operating losses for the foreseeable future.

On April 10, 2015, we completed our acquisition from Alkermes plc, or Alkermes, of certain assets, including the worldwide rights to injectable meloxicam and the contract manufacturing facility, royalty and formulation development business in Gainesville, Georgia, now operating through our subsidiary, Recro Gainesville LLC, or Gainesville. We refer to the acquisition herein as the Gainesville Transaction. The Gainesville Transaction transformed our business through the addition of a revenue-generating business and the increase in our workforce as a result of the addition of the Gainesville employees.

The consideration paid in connection with the Gainesville Transaction consisted of \$50.0 million, a \$4.0 million working capital adjustment and a seven-year warrant to purchase 350,000 shares of our common stock at an exercise price of \$19.46 per share. In addition, we may be required to pay up to an additional \$120.0 million in milestone payments upon the achievement of certain regulatory and net sales milestones and royalties on future product net sales related to injectable meloxicam. The up-front payment was funded with \$50.0 million in borrowings under a credit agreement that we entered into with OrbiMed Royalty Opportunities II, LP, or OrbiMed, and cash on hand. The interest rate under the credit agreement is equal to LIBOR plus 14.0%, with a 1.0% LIBOR floor. Pursuant to the credit agreement, we issued OrbiMed a warrant to purchase an aggregate of 294,928 shares of our common stock at an exercise price of \$3.28 per share, subject to certain adjustments.

## **Financial Overview**

### **Revenues**

During the three and nine months ended September 30, 2016 and 2015, we recognized revenues in four categories: manufacturing revenue, royalty, profit sharing and research and development revenue.

**Manufacturing revenues**—We recognize manufacturing revenues from the sale of products we manufacture for our commercial partners. Manufacturing revenues are recognized when persuasive evidence of an arrangement exists, shipment has occurred and title to the product and associated risk of loss has passed to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

**Royalty revenues**—We recognize royalty revenues related to the sale of products by our commercial partners that incorporate our technologies. Royalties are earned under the terms of a license and supply agreement in the period the products are sold by a commercial partner and collectability is reasonably assured.

**Profit sharing revenue**—We recognize revenue from profit sharing related to the sale of certain of our manufactured products by our commercial partners. Profit sharing revenue is earned under the terms of a license and supply agreement in the period the products are sold and expenses are incurred by our commercial partner and collectability is reasonably assured.

**Research and development revenue**—Research and development revenue consists of funding that compensates us for formulation, pre-clinical and clinical testing performed by Gainesville under research and development arrangements with commercial partners. We generally bill our commercial partners under research and development arrangements using a full-time equivalent, or FTE, or hourly rate, plus direct external costs, if any.

### **Research and Development Expenses**

Research and development expenses currently consist primarily of costs incurred in connection with the development of injectable meloxicam and other pipeline activities. These expenses consist primarily of:

- expenses incurred under agreements with contract research organizations, investigative sites and consultants that conduct our clinical trials and a substantial portion of our preclinical studies;
- the cost of acquiring and manufacturing clinical trial materials and manufacturing services;
- costs related to facilities, depreciation and other allocated expenses;
- costs associated with non-clinical and regulatory activities; and
- salaries and related costs for personnel in research and development and regulatory functions.

In addition, research and development expenses consist of costs incurred by Gainesville in connection with research and development services performed for our partners, as well as other product development activities. We expense research and development costs as incurred. Advanced payments for goods and services that will be used in future research and development activities are initially recorded as prepaid expenses and expensed as the activity is performed or when the goods have been received.

The majority of our external research and development costs relate to clinical trials, analysis and testing of the product and patent costs. We currently use third parties, including Malvern Consulting Group, Inc., or MCG, a related party, for a portion of our administration, manufacturing and regulatory affairs. Costs related to facilities, depreciation, and support are not charged to specific programs.

The successful development of our product candidates is highly uncertain and subject to a number of risks including, but not limited to:

- the duration of clinical trials, which varies substantially according to the type, complexity and novelty of the product candidate;
- the imposition by the FDA and comparable agencies in foreign countries of substantial requirements on the introduction of therapeutic pharmaceutical products, which may require lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures;
- the possibility that data obtained from nonclinical and clinical activities at any step in the testing process may be adverse and lead to discontinuation or redirection of development activity or may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval;
- the costs, timing and outcome of regulatory review of a product candidate;
- the emergence of competing technologies and products and other adverse market developments which could impede our commercial efforts; and
- the risks disclosed in the section titled “Risk Factors” of our most recent annual report on Form 10-K filed with the SEC.

Development timelines, probability of success and development costs vary widely. As a result of the uncertainties discussed above, we anticipate that we will make determinations as to which additional programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical data of each product candidate, as well as ongoing assessments of such product candidate’s commercial potential. Accordingly, we cannot currently estimate with any degree of certainty the amount of time or costs that we will be required to expend in the future on our product candidates to complete current or future clinical or pre-commercial stages prior to their regulatory approval, if such approval is ever granted. As a result of these uncertainties surrounding the timing and outcome of any approvals, we are currently unable to estimate precisely when, if ever, any of our other product candidates will generate revenues and cash flows.

We expect our research and development costs to primarily relate to injectable meloxicam for the foreseeable future as we advance this product candidate through clinical trials, manufacturing scale-up and other pre-approval activities. We also expect to have expenses as we initiate the Dex-IN Phase II clinical trials in peri-procedural pain and related work, as well as for our clinical trials and related work for our other product candidates. We may elect to seek out collaborative relationships in order to provide us with a diversified revenue stream and to help facilitate the development and commercialization of our product candidate pipeline.

#### ***General and Administrative Expenses***

General and administrative expenses consist principally of salaries and related costs for personnel in executive, marketing and finance functions. General and administrative expenses also include professional fees for legal, including patent related expenses, consulting, auditing and tax services, and stock compensation expense.

We expect to continue to have greater expenses relating to our operations as a public company, IV meloxicam pre-commercialization costs and our acquisition of Gainesville, including increased headcount and increased salary, consulting, legal and compliance, accounting, insurance and investor relations costs. We also expect that our patent costs will increase due to the acquisition of new patents through the Gainesville Transaction and, in addition, due to the higher annuity fees that will be due on patents that are issued. In addition, if additional formulation technology is developed for our product candidates, patent expenses could increase further.

#### ***Amortization of Intangible Assets***

We recognize amortization expense related to the intangible asset for our contract manufacturing relationships on a straight-line basis over an estimated useful life of six years. The intangible asset related to injectable meloxicam represents in-process research and development, or IPR&D, which is considered an indefinite-lived intangible asset that is assessed for impairment annually or more frequently if impairment indicators exist.

#### ***Change in Fair Value of Contingent Consideration***

In connection with the acquisition of injectable meloxicam in the Gainesville Transaction, we are required to pay milestone payments on the achievement of certain regulatory and net sales milestones and royalties on future net product sales of between 10% and 12% (subject to a 30% reduction when no longer covered by patent). The estimated fair value of the initial \$54.6 million payment



obligation was recorded as part of the purchase price for the Gainesville Transaction. Each reporting period, we revalue this estimated obligation with changes in fair value recognized as a non-cash operating expense or income (see Note 4 to Notes to Unaudited Consolidated Financial Statements).

#### **Change in Fair Value of Warrants**

We have classified as liabilities certain warrants outstanding which contain a contingent net cash settlement feature, or an anti-dilution provision. The fair value of these warrants are remeasured through settlement or expiration with changes in fair value recognized as a period charge within the statement of operations (see Note 13(d) to Notes to Unaudited Consolidated Financial Statements).

#### **Interest Expense**

Interest expense for the three and nine months ended September 30, 2016 and 2015 was a result of interest expense incurred on our OrbiMed senior secured term loan and the amortization of the related financing costs.

#### **Results of Operations**

##### **Comparison of the three months ended September 30, 2016 and 2015:**

	<b>For the Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>
	(amounts in thousands)	
<b>Revenue:</b>		
Manufacturing, royalty and profit sharing revenue	\$ 16,188	\$ 16,120
Research and development revenue	763	419
Total revenues	<u>16,951</u>	<u>16,539</u>
<b>Operating expenses:</b>		
Costs of sales (excluding amortization of intangible assets)	5,745	10,039
Research and development	7,046	2,716
General and administrative	3,841	3,478
Amortization of intangible assets	646	646
Change in warrant valuation	402	(762)
Change in contingent consideration valuation	3,192	586
Total operating expenses	<u>20,872</u>	<u>16,703</u>
<b>Other income (expense):</b>		
Interest income (expense)	(1,440)	(1,988)
Net loss before income taxes	(5,361)	(2,152)
Income tax expense	(18)	—
Net loss	<u>\$ (5,379)</u>	<u>\$ (2,152)</u>

**Revenue and costs of sales.** Our revenue was \$17.0 million and \$16.5 million for the three months ended September 30, 2016 and 2015, respectively. 2016 revenues included \$2.3 million related to a one-time, contractually based manufacturing revenue amount from one of our commercial partners, and \$1.1 million higher profit-sharing revenue from another commercial partner's new customer base, offset primarily by lower product shipment revenue. Costs of sales decreased by \$4.3 million due to lower product shipment revenue.

**Research and Development.** Our research and development expenses were \$7.0 million and \$2.7 million for the three months ended September 30, 2016 and 2015, respectively, an increase of \$4.3 million and 159% from September 30, 2015, primarily due to an increase of \$3.3 million in our IV meloxicam clinical expenses and \$0.8 million in increased salaries and benefits expense due to increased headcount, partially offset by a decrease in meloxicam pre-commercial manufacturing costs of \$0.4 million, as well as an increase of \$0.6 million in research and development costs incurred at our Gainesville facility for our partners, which are primarily related to process development, regulatory affairs and research and development analytical work.

**General and Administrative.** Our general and administrative expenses were \$3.8 million and \$3.5 million for the three months ended September 30, 2016 and 2015, respectively, an increase of \$0.3 million and 9% from September 30, 2015 primarily resulting from an increase in salaries and benefits due to increased headcount and marketing expenses, offset by a decrease in professional fees.

**Amortization of Intangible Assets.** Amortization expense was \$0.6 million for the three months ended September 30, 2016 and 2015 and is exclusively related to the amortization of our royalties and contract manufacturing relationships intangible asset over its six year estimated useful life.

**Interest Expense.** Interest expense was \$1.5 million and \$2.0 million during the three months ended September 30, 2016 and 2015, respectively, as a result of interest expense incurred on our OrbiMed senior secured term loan and amortization of the related financing costs. The interest rate under the credit agreement with OrbiMed is equal to LIBOR plus 14.0%, with a 1.0% LIBOR floor.

**Income Tax Expense.** Income tax expense was \$0.02 million for the three months ended September 30, 2016 due to income tax related to our US operations. We believe that it is more likely than not that the deferred income tax assets associated with our foreign operations will not be realized, and as such, there is a full valuation allowance against our foreign deferred tax assets. As there was a full valuation allowance against our net deferred tax assets as of September 30, 2015, there was no income tax expense recorded for the three months ended September 30, 2015.

**Comparison of the nine months ended September 30, 2016 and 2015:**

	For the Nine Months Ended September 30,	
	2016	2015
	(amounts in thousands)	
<b>Revenue:</b>		
Manufacturing, royalty and profit sharing revenue	\$ 50,260	\$ 32,824
Research and development revenue	1,713	2,375
Total revenues	<u>51,973</u>	<u>35,199</u>
<b>Operating expenses:</b>		
Costs of sales (excluding amortization of intangible assets)	25,563	19,228
Research and development	23,175	7,260
General and administrative	9,263	8,492
Amortization of intangible assets	1,937	1,238
Change in warrant valuation	47	119
Change in contingent consideration valuation	7,705	2,586
Total operating expenses	<u>67,690</u>	<u>38,923</u>
<b>Other income (expense):</b>		
Interest income (expense)	(4,252)	(3,878)
Net loss before income taxes	(19,969)	(7,602)
Income tax benefit	166	—
Net loss	<u>\$ (19,803)</u>	<u>\$ (7,602)</u>

**Revenue and costs of sales.** Our revenues were \$52.0 million and \$35.2 million and cost of sales were \$25.6 million and \$19.2 million for the nine months ended September 30, 2016 and 2015, respectively. The increase of \$16.8 million in revenue and \$6.3 million in cost of sales was primarily the result of the Gainesville Transaction closing early in the second quarter of 2015. 2016 revenues included \$2.3 million related to a one-time, contractually based manufacturing revenue amount from one of our commercial partners.

**Research and Development.** Our research and development expenses were \$23.2 million and \$7.3 million for the nine months ended September 30, 2016 and 2015, respectively, an increase of \$15.9 million and 219% from September 30, 2015, primarily due to an increase of \$15.2 million in our IV meloxicam clinical expenses and \$2.1 million in increased salaries and benefits expense due to increased headcount, partially offset by a decrease in pre-commercial manufacturing costs and preclinical costs of \$0.3 million, and a decrease of \$2.6 million in Dex clinical expenses, as well as an increase of \$1.9 million in research and development costs incurred at our Gainesville facility for our partners, which are primarily related to process development, regulatory affairs and research and development analytical work.

**General and Administrative.** Our general and administrative expenses were \$9.3 million and \$8.5 million for the nine months ended September 30, 2016 and 2015, respectively, an increase of \$0.8 million and 9% from September 30, 2015, due to increased headcount and marketing expenses.

**Amortization of Intangible Assets.** Amortization expense was \$1.9 million and \$1.2 million for the nine months ended September 30, 2016 and 2015, respectively, which was exclusively related to the amortization of our royalties and contract manufacturing relationships intangible asset over its six year estimated useful life.

**Interest Expense.** Interest expense was \$4.3 million and \$3.9 million during the nine months ended September 30, 2016 and 2015, respectively, as a result of interest expense incurred on our OrbiMed senior secured term loan and amortization of the related financing costs. The interest rate under the credit agreement with OrbiMed is equal to LIBOR plus 14.0%, with a 1.0% LIBOR floor.

**Income Tax Expense.** Income tax benefit was \$0.2 million for the nine months ended September 30, 2016 due to income tax related to our US operations offset by estimated federal research and development credits. We believe that it is more likely than not that the deferred income tax assets associated with our foreign operations will not be realized, and as such, there is a full valuation allowance against our foreign deferred tax assets. As there was a full valuation allowance against our net deferred tax assets as of September 30, 2015, there was no income tax expense recorded for the nine months ended September 30, 2015.

#### **Liquidity and Capital Resources**

As of September 30, 2016 and December 31, 2015, we had \$24.8 million and \$19.8 million, respectively, in cash and net cash equivalents.

Since inception through September 30, 2016, we have financed our product development, operations and capital expenditures primarily from private sales of \$13.6 million of our Series A Stock and Bridge Notes, \$30.3 million from our IPO, \$28.2 million in sales of common stock and \$4.2 million from the Aspire Capital common shares purchase agreement. Revenues from the Gainesville manufacturing business are used to fund operations and capital expenditures at the Gainesville facility, as well as to partially fund our operations, including clinical trials of our product candidates. During the nine months ended September 30, 2016, our capital expenditures were \$2.0 million. We expect our capital expenditures to remain at or below approximately \$4.0 million during 2016, in compliance with the covenants contained in our credit agreement with OrbiMed.

We will need to raise substantial additional funds in order to continue our clinical trials of our product candidates, to commercialize any product candidates or technologies and to enhance our sales and marketing efforts for additional products we may acquire. Insufficient funds may cause us to delay, reduce the scope of, or eliminate one or more of our development, commercialization or expansion activities. Our future capital needs and the adequacy of our available funds will depend on many factors, including the cost of clinical studies and other actions needed to obtain regulatory approval of our products in development, and the costs of commercialization activities, as well as the continued profitability of the Gainesville manufacturing business. If additional funds are required, we may raise such funds through public or private sales of equity or debt securities or from bank or other loans or through strategic research and development, licensing and/or marketing arrangements from time to time. Financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could materially adversely impact our growth plans and our financial condition or results of operations. Additional equity financing, if available, may be dilutive to the holders of our common stock and may involve significant cash payment obligations and covenants that restrict our ability to operate our business.

On February 2, 2015, we entered into a common stock purchase agreement, or the Purchase Agreement, with Aspire Capital Fund, LLC, or Aspire Capital, pursuant to which Aspire Capital is committed to purchase, at our election, up to an aggregate of \$10.0 million of shares of our common stock over the 24-month term of the Purchase Agreement. The shares may be sold by us to Aspire Capital on any business day we select in two ways: (1) through a regular purchase of up to 50,000 shares at a known price based on the market price of our common stock prior to the time of each sale, and (2) through a purchase at a volume weighted average price, or VWAP, of a number of shares up to 30% of the volume traded on the purchase date at a price equal to the lesser of the closing sale price or 95% of the VWAP for such purchase date. Through September 30, 2016, we have sold 643,940 shares of common stock to Aspire Capital under the Purchase Agreement and have raised \$4.2 million.

On March 7, 2015, in connection with the Gainesville Transaction, we, through a wholly owned subsidiary, entered into a credit agreement with OrbiMed. Pursuant to the credit agreement, OrbiMed provided us with a term loan in the original principal amount of \$50.0 million on April 10, 2015, which amount was used to fund the Gainesville Transaction. The unpaid principal amount under the credit agreement is due and payable on the five year anniversary of the loan provided thereunder by OrbiMed. The credit agreement also provides for certain mandatory prepayment events, including a quarterly excess cash flow prepayment requirement at OrbiMed's request. We may make voluntary prepayments in whole or in part, subject to: (i) on or prior to the 36 month anniversary of the closing of the credit agreement, payment of a buy-out premium amount equal to (A) for full prepayments, \$75,000 less all previously prepaid principal amount and all previously paid interest or (B) for partial prepayments of the unpaid principal amount, 0.5 times the partial prepayment amount less interest payments previously paid in respect to the partial prepayment amount and; and (ii) after the 36 month anniversary of the closing of the credit agreement, payment of an exit fee amount equal to 10% of the amount of any

prepayments. As defined by the agreement, based upon the Gainesville business financial results, OrbiMed has the option to require us to prepay a portion of the Loan balance based upon an Excess Cash Flow calculation. No payments under this option shall be subject to the buy-out premium. The credit agreement carries interest at three-month LIBOR plus 14.0% with 1.0% floor. This obligation is secured by substantially all of the Company's assets. As of September 30, 2016, we have paid \$22.7 million of the outstanding principal on our senior secured term loan from free cash flow.

### Sources and Uses of Cash

Cash (used in) provided by operations was (\$4.2) million and \$7.8 million for the nine months ended September 30, 2016 and 2015, respectively, which represents our operating losses less our stock-based compensation, depreciation, non-cash interest expense, changes in fair value of warrants and contingent consideration and amortization of intangibles, as well as changes in operating assets and liabilities.

Cash used in investing activities was \$2.0 million and \$54.5 million for the nine months ended September 30, 2016 and 2015, respectively as a result of purchase of property and equipment at the plant in Gainesville and the Gainesville Transaction.

Cash provided by financing activities was \$11.2 million for the nine months ended September 30, 2016 primarily as a result of the sale of common stock raising net proceeds of \$13.4 million, \$4.2 million in proceeds from the sale of shares of common stock through our agreement with Aspire Capital, offset by the excess cash flow payments of \$6.3 million made related to the OrbiMed credit agreement. Cash provided by financing activities of \$55.2 million for the nine months ended September 30, 2015 was a result of a private placement with accredited investors for net proceeds of \$14.8 million, the \$50.0 million OrbiMed senior secured term loan net of the payment of \$1.7 million of issuance costs incurred in conjunction with the agreement, offset by the excess cash flow payments of \$7.8 million.

Our future use of operating cash and capital requirements will depend on many forward-looking factors, including the following:

- the timing and expenses of trials prior to a New Drug Application, or NDA, for injectable meloxicam and Dex-IN;
- the timing and outcome of the FDA's review of an NDA for injectable meloxicam and Dex-IN if our trials are successful;
- the extent to which the FDA may require us to perform additional preclinical studies, clinical trials or pre-commercial manufacturing of injectable meloxicam and Dex-IN;
- the costs of our commercialization activities if approved by the FDA;
- the cost of purchasing manufacturing and other capital equipment for our potential products;
- the scope, progress, results and costs of development for our other product candidates;
- the cost, timing and outcome of regulatory review of our other product candidates;
- the extent to which we acquire or invest in products, businesses and technologies;
- our ability to maintain our relationships and contracts with our commercial partners;
- our ability to comply with stringent U.S. & foreign government regulation in the manufacture of pharmaceutical products, including cGMP and U.S. DEA requirements;
- the extent to which we choose to establish collaboration, co-promotion, distribution or other similar agreements for product candidates; and
- the costs of preparing, submitting and prosecuting patent applications and maintaining, enforcing and defending intellectual property claims.

We might use existing cash and cash equivalents on hand, additional debt or equity financing or a combination of the three to fund our operations or product acquisitions. If we increase our debt levels, we might be restricted in our ability to raise additional capital and might be subject to financial and restrictive covenants. Our shareholders may experience dilution as a result of the issuance of additional equity securities. This dilution may be significant depending upon the amount of equity securities that we issue and the prices at which we issue any securities.

## **Contractual Commitments**

The following is a discussion of our contractual commitments as of the end of the #NAME? quarter of 2016. We are involved with in-licensing of product candidates that are generally associated with payments to the partner from whom we have licensed the product. Such payments frequently take the form of:

- an up-front payment, the size of which varies depending on the phase of the product candidate and how many other companies would like to obtain the product, which is paid very soon after signing a license agreement;
- royalties as a percentage of net sales of the product; and
- milestone payments which are paid when certain parts of the overall development program and regulatory milestones (such as filing an investigational new drug application, or IND, or an NDA) are successfully accomplished, as well meeting certain sales thresholds.

We may also out-license products, for which we hold the rights, to other companies for commercialization in other territories, or at times, for other uses. If this happens, we would expect to be paid:

- an up-front payment made at or shortly after signing a partnering agreement;
- royalties as a percentage of net sales of the product;
- milestone payments that may be made on completion of a phase of a clinical program, or regulatory approval in a given territory; and
- a payment or payments made upon achievement of a certain level of sales in a given year.

## ***Alkermes***

Pursuant to the purchase and sale agreement governing the Gainesville Transaction, we agreed to pay to Alkermes up to \$120.0 million in milestone payments upon the achievement of certain regulatory and net sales milestones related to injectable meloxicam and royalties on future product sales of injectable meloxicam between 10% and 12% (subject to a 30% reduction when no longer covered by patent).

In July 2015, we also entered into a Development, Manufacturing and Supply Agreement, or Supply Agreement, with Alkermes (through a subsidiary of Alkermes), pursuant to which Alkermes will (i) provide clinical and, if elected by us, commercial bulk supplies of injectable meloxicam formulation and (ii) provide development services with respect to the Chemistry, Manufacturing and Controls section of a NDA for injectable meloxicam. Pursuant to the Supply Agreement, Alkermes will supply us with such quantities of bulk injectable meloxicam formulation as shall be reasonably required for the completion of clinical trials of injectable meloxicam, subject to a maximum of eight clinical batches in any twelve-month period unless otherwise agreed by the parties. We have elected to have Alkermes supply our initial commercial requirements of bulk injectable meloxicam formulation. During the term of the Supply Agreement, we will purchase our clinical and commercial supplies of bulk injectable meloxicam formulation exclusively from Alkermes, subject to certain exceptions, for a period of time.

## ***Orion***

In August 2008, we entered into a License Agreement with Orion for non-injectable Dex. Under the Dexmedetomidine License Agreement, we were granted an exclusive license under Orion Know-How and Cygnus/Farmos Patent (each as defined in the License Agreement) to commercialize products worldwide, except for Europe, Turkey, and the CIS (currently includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan), referred to herein as the Territory and to use, research, develop and have made products worldwide solely for purposes of commercialization. We also entered into a Supply Agreement with Orion pursuant to which Orion will supply us with development quantities of Dex at no cost. Upon receipt of regulatory approval, Orion will supply commercial quantities of bulk active pharmaceutical ingredient Dex for commercialization.

In July 2010, we entered into a License Agreement with Orion for Fadolmidine, or Fado. Fado is a second selective alpha-2 agonist product candidate in our pipeline. Under the Fadolmidine License Agreement, we were granted an exclusive license under Orion Know-How and Orion Patent Rights (each as defined in the License Agreement) to commercialize products in the Territory, and to use, research, develop, and make products worldwide solely for purposes of commercialization.

There are milestone payments and royalty rates associated with both the Dex and Fado programs. Through September 30, 2016, no milestones have been achieved.

### **Leases**

We lease our Malvern facility space under an operating lease on a month-to-month basis with MCG, a related party. This lease is expected to be terminated effective December 31, 2016. In August 2016, we entered into a five-year lease, directly with our building owner, of our Malvern facility with a lease term that will begin on January 1, 2017. Our Gainesville facility leases local space for additional equipment and documentation storage on a month to month basis

### **Debt**

Pursuant to our credit agreement with OrbiMed, OrbiMed provided us with a term loan in the original principal amount of \$50.0 million on April 10, 2015. The unpaid principal amount under the credit agreement is due and payable in April 2020. The credit agreement also provides for certain mandatory prepayment events, including a quarterly excess cash flow prepayment requirement at OrbiMed's request. As defined by the agreement, based upon the Gainesville business financial results, OrbiMed has the option to require the Company to prepay a portion of the loan balance based upon an Excess Cash Flow calculation. As of September 30, 2016, we have paid \$22.7 million of the outstanding principal on our senior secured term loan from free cash flow.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

### **Critical Accounting Policies and Estimates**

Our critical accounting policies and estimates are disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of annual report on Form 10-K filed with the SEC on March 24, 2016. There have not been any significant changes to such critical accounting policies since December 31, 2015.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks in the ordinary course of our business. These market risks are principally limited to interest rate fluctuations. At September 30, 2016, we had approximately \$17.9 million invested in money market instruments and government and agency bonds. We believe our policy of investing in highly rated securities, whose liquidities are, at September 30, 2016, all less than 90 days, minimizes such risks. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10.0% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio. We do not enter into investments for trading or speculative purposes. Our OrbiMed senior secured term loan interest expense is based on the current committed rate of LIBOR plus 14% with a 1.0% LIBOR floor. A fluctuation in LIBOR of 0.25% would result in a charge of \$0.1 million of interest expense.

We have license agreements with Orion for Dex and Fado which require the payment of milestones upon the achievement of certain regulatory and commercialization events and royalties on product sales. These payments are required to be made in Euros. As of September 30, 2016, no milestones or royalties were due under these agreements, and we do not anticipate incurring milestone or royalty costs under these agreements until we advance our development of Dex or Fado. We do not believe foreign currency exchange rate risk is a material risk at this time; however, these agreements could, in the future, give rise to foreign currency transaction gains or losses. As a result, our results of operations and financial position could be exposed to changing currency exchange rates. In the future, we may periodically use forward contracts to hedge certain transactions or to neutralize exposures.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer, principal financial officer and principal accounting officer evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of September 30, 2016. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's, or the SEC's, rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in

evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our principal executive officer, principal financial officer and principal accounting officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

As part of the Gainesville Transaction, we acquired the rights to Zohydro ER<sup>®</sup>, which we license to our commercial partner, Pernix Therapeutics Holdings, Inc., or Pernix, in the United States, and which is subject to ongoing intellectual property litigation and proceedings.

Zohydro ER<sup>®</sup> is subject to six paragraph IV certifications, two of which were filed in 2014 by Actavis plc, or Actavis, and Alvogen Pine Brook, Inc., or Alvogen, regarding the filing of Abbreviated NDAs, or ANDAs, with the FDA for a generic version of Zohydro ER<sup>®</sup>, one of which was filed in April 2015, by Actavis regarding the filing of a supplemental ANDA, or sANDA, and another three of which were filed in November 2015 and October 2016, by Actavis, and in December 2015, by Alvogen regarding one of our recently issued patents relating to a formulation of Zohydro ER<sup>®</sup>. These certification notices allege that the three U.S. patents listed in the FDA's Orange Book for Zohydro ER<sup>®</sup>, with an expiration date in November 2019 or September 2034, will not be infringed by Actavis' or Alvogen's proposed products, are invalid and/or are unenforceable. In 2014, Daravita Limited (a subsidiary of Alkermes and our predecessor in interest) filed suit against each of Actavis and Alvogen in the U.S. District Court for the District of Delaware based on the ANDAs, and in 2015, we filed suit against Actavis in the U.S. District Court for the District of Delaware based on the sANDA. On September 29, 2016, we entered into a settlement agreement with Alvogen pursuant to which the case against Alvogen was dismissed. In addition, in April 2015, the U.S. Patent and Trademark Office declared an interference between one of our patent applications relating to a dosage form of Zohydro ER<sup>®</sup> and two Purdue Pharma, LP, or Purdue, applications. On April 29, 2016, the USPTO found our claims and the Purdue claims involved in the interference to be invalid. Purdue appealed this decision to the U.S. Court of Appeals for the Federal Circuit on June 28, 2016.

Under our license agreement with Pernix, we have the right to control the enforcement of our patents and related proceedings involving Zohydro ER<sup>®</sup> and any prospective generic entrant, and Pernix has the obligation to reimburse us for all reasonable costs of such actions. We intend to vigorously enforce the intellectual property rights relating to Zohydro ER<sup>®</sup>, but we cannot predict the outcome of these matters or guarantee the outcome of any litigation or interference.

### **Item 1A. Risk Factors.**

There have been no material changes from our risk factors as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

### **Item 6. Exhibits.**

(a) Exhibits required by Item 601 of Regulation S-K.



## EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
10.1	Employment Agreement, dated July 1, 2016, between Recro Pharma, Inc. and Michael Celano.	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2016 (File no. 001-36329)
31.1	Rule 13a-14(a)/15d-14(a) certification of Principal Executive Officer.	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) certification of Principal Financial Officer.	Filed herewith.
31.3	Rule 13a-14(a)/15d-14(a) certification of Principal Accounting Officer.	Filed herewith.
32.1	Section 1350 certification, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101 INS	XBRL Instance Document	Filed herewith.
101 SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101 CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101 DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101 LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101 PRE	XBRL Taxonomy Extension Presentation Linkbase	



**SIGNATURES**

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

**RECRO PHARMA, INC.**

Date: November 10, 2016

By: /s/ Gerri A. Henwood  
Gerri A. Henwood  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 10, 2016

By: /s/ Michael Celano  
Michael Celano  
Chief Financial Officer  
(Principal Financial Officer)

Date: November 10, 2016

By: /s/ Donna M. Nichols  
Donna M. Nichols  
Corporate Controller and Chief Accounting Officer  
(Principal Accounting Officer)

## EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
10.1	Employment Agreement, dated July 1, 2016, between Recro Pharma, Inc. and Michael Celano.	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2016 (File no. 001-36329)
31.1	Rule 13a-14(a)/15d-14(a) certification of Principal Executive Officer.	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) certification of Principal Financial Officer.	Filed herewith.
31.3	Rule 13a-14(a)/15d-14(a) certification of Principal Accounting Officer.	Filed herewith.
32.1	Section 1350 certification, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101 INS	XBRL Instance Document	Filed herewith.
101 SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101 CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101 DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101 LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101 PRE	XBRL Taxonomy Extension Presentation Linkbase	



## CERTIFICATION

I, Gerri A. Henwood, certify that:

1. I have reviewed this Quarterly Report of Recro Pharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2016

/s/ Gerri A. Henwood  
Gerri A. Henwood  
President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Michael Celano, certify that:

1. I have reviewed this Quarterly Report of Recro Pharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2016

/s/ Michael Celano  
\_\_\_\_\_  
Michael Celano  
Chief Financial Officer  
(Principal Financial Officer)

## CERTIFICATION

I, Donna M. Nichols, certify that:

1. I have reviewed this Quarterly Report of Recro Pharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2016

/s/ Donna M. Nichols

Donna M. Nichols

Corporate Controller and Chief Accounting Officer  
(Principal Accounting Officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Recro Pharma, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2016

/s/ Gerri A. Henwood

Gerri A. Henwood  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Michael Celano

Michael Celano  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Donna M. Nichols

Donna M. Nichols  
Corporate Controller and Chief Accounting Officer  
(Principal Accounting Officer performing the functions of  
the Principal Financial Officer)