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

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): August 10, 2021

Recro Pharma, Inc.

(Exact name of Registrant as Specified in Its Charter)

Pennsylvania	001-36329	26-1523233
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1 E. Uwchlan Ave, Suite 112 Exton, Pennsylvania	19341
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: 770 534-8239

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01	REPH	The NASDAQ Stock Market LLC

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

Emerging growth company ☐

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

Explanatory Note

As previously reported in a Current Report on Form 8-K, filed with the SEC on August 13, 2021 (the "Original Report"), Recro Pharma, Inc. (the "Company") entered into a Unit Purchase Agreement (the "Purchase Agreement") by and among the Company, IriSys, LLC, a California limited liability company ("IriSys"), IriSys, Inc., a California corporation ("IriSys Parent"), Continent Pharmaceuticals U.S., Inc., a Delaware corporation, and EPS Americas Corp., a Delaware corporation (collectively, the "Sellers"), and IriSys Parent, in its capacity as the representative of the Sellers, pursuant to which the Company agreed to purchase 100% of the outstanding units of IrySis from the Sellers (the "Acquisition"). The closing of the Acquisition occurred simultaneously with the execution of the Purchase Agreement. As a result of the Acquisition, IriSys became a wholly owned subsidiary of the Company.

This Current Report on Form 8-K/A (this "Amendment") amends and supplements the Original Report to include the following financial statements and pro forma financial information required by Item 9.01 of Form 8-K that were previously omitted from the Original Report as permitted by Item 9.01(a)(3) and Item 9.01(b)(2) of Form 8-K: (i) the audited financial statements of IriSys and related notes thereto as of and for the years ended December 31, 2020 and 2019, including the related audit report of the independent auditors, PKF San Diego, LLP, which are included in Exhibit 99.1 attached hereto; (ii) the unaudited interim financial statements and related notes thereto of IriSys for the six months ended June 30, 2021 and 2020, which are included in Exhibit 99.2 attached hereto; and (iii) the unaudited pro forma combined financial information of the Company giving effect to the Acquisition (the "pro forma financial information"), which includes the unaudited pro forma combined balance sheet as of June 30, 2021 and related notes thereto, and the unaudited pro forma combined statements of operations and the related notes thereto for the six months ended June 30, 2021 and for the year ended December 31, 2020, which are included in Exhibit 99.3 attached hereto.

The pro forma financial information included in this Amendment has been presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the Acquisition occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that the Company will achieve after the Acquisition.

Item 8.01 Other Events

In connection with the Acquisition, the Company hereby supplements its risk factors as follows:

The acquisition and integration of IriSys may present many risks and we may not realize the strategic and financial goals that were contemplated at the time we entered into the Purchase Agreement.

We acquired IriSys on August 13, 2021, and are in the process of integrating IriSys with our Company. The success of the Acquisition depends on, among other things, our ability to combine our business with IriSys in a manner that does not materially disrupt existing relationships and allows us to achieve operational synergies. If we are unable to achieve these objectives, the anticipated benefits of the Acquisition may not be realized fully or at all or may take longer to realize than expected. In particular, the Acquisition may not be accretive to our stock value in the near or long term.

Some of the risks we may face in connection with the Acquisition include the following:

- We may not realize the benefits we expect to receive from the transaction, such as anticipated synergies;
- We may have difficulties managing IriSys' business portfolio or retaining key personnel from IriSys;
- We may experience performance shortfalls as a result of the diversion of management's attention from our core business caused by integration efforts;
- The Acquisition may not further our business strategy as we expected, we may not successfully integrate IriSys as planned, there could be unanticipated adverse impacts on IriSys' business, or we may otherwise not realize the expected return on our investments, which could adversely affect our business or operating results and potentially cause impairment to assets that we record as a part of an acquisition including intangible assets and goodwill;
- Our operating results or financial condition may be adversely impacted by (i) claims or liabilities related to IriSys' business including, among others, claims from U.S. or international regulatory or other governmental agencies, terminated employees, current or former customers or business partners, or other third parties; (ii) pre-existing

contractual relationships of IriSys that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business; (iii) unfavorable accounting treatment as a result of IriSys' practices; (iv) future intellectual property claims or disputes; and (v) the final valuation and accounting treatment of the Acquisition and any reclassification or estimates needed to conform presentation between IriSys and Recro;

- Prior to the Acquisition, IriSys was not required to maintain an internal control infrastructure that would meet the standards of a public company in the United States, including the requirements of the Sarbanes-Oxley Act of 2002. The costs that we may incur to implement such controls and procedures may be substantial and we could encounter unexpected delays and challenges in this implementation. In addition, we may discover significant deficiencies or material weaknesses in the quality of IriSys' financial and disclosure controls and procedures;

- IriSys operates in segments of the contract development and manufacturing organization market that we have less experience with, and our further expansion of operations into these areas could present various integration challenges and result in increased costs and other unforeseen challenges; and

- We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring IriSys, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, a diversion of management's attention and resources, and other adverse effects on our business, financial condition, and operating results.

If any of these events were to occur, our ability to maintain relationships with customers, suppliers and employees or our ability to achieve the anticipated benefits of the Acquisition could be adversely affected, or could reduce our future earnings or otherwise adversely affect our business and financial results and, as a result, adversely affect the market price of our common stock.

In addition, we expect to incur additional costs integrating the operations of IriSys, as well as higher regulatory and personnel costs, which cannot be estimated accurately at this time. If the total costs of the integration of our companies exceed the anticipated benefits of the Acquisition, our financial results could be adversely affected.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited financial statements of IriSys as of and for the fiscal years ended December 31, 2020 and 2019 and the unaudited financial statements of IriSys as of and for the six months ended June 30, 2021 and 2020 are filed as Exhibit 99.1 and 99.2, respectively, and are incorporated by reference herein.

(b) Pro Forma Financial Information.

The unaudited pro forma combined statement of operations of the Company relating to the acquisition of IriSys for the fiscal year ended December 31, 2020 and the unaudited pro forma combined balance sheet and statement of operations as of and for the six months ended June 30, 2021 are filed as Exhibit 99.3 and incorporated by reference herein.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of PKF San Diego, LLP
99.1	Audited financial statements of Irisys, LLC as of and for the years ended December 31, 2020 and 2019
99.2	Unaudited financial statements of Irisys, LLC as of June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020
99.3	Unaudited pro forma combined balance sheet and statements of operations of Recro Pharma, Inc. as of June 30, 2021, for the six month period then ended and for the year ended December 31, 2020

SIGNATURES

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

			Recro Pharma, Inc.
Date:	September 10, 2021	By:	/s/ J. David Enloe, Jr.
		Name:	J. David Enloe, Jr.
		Title:	President and Chief Executive Officer

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We hereby consent to the incorporation by reference in the Registration Statements (File Nos. 333-236875, 333-229737, 333-229736, 333-224870, 333-223437, 333-223436, 333-216581, 333-216579, 333-208750, 333-208749, 333-206309, 333-194730, 333-253573 and 333-253574) on Form S-8, (File Nos. 333-229734, 333-253571) on Form S-3, and (File No. 333-201841) on Form S-1 of Recro Pharma, Inc. of our report dated May 18, 2021, relating to the financial statements of IriSys, LLC as of and for the years ended December 31, 2020 and 2019 appearing in this Current Report on Form 8-K/A of Recro Pharma, Inc.

/s/ PKF San Diego, LLP

PKF San Diego, LLP
(formerly PKF, LLP)

San Diego, California
September 10, 2021

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
of IriSys, LLC
San Diego, California

We have audited the accompanying financial statements of IriSys, LLC, a California Limited Liability Company (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and members' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IriSys, LLC as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ PKF San Diego, LLP
(formerly PKF, LLP)

San Diego, California
May 18, 2021

IRISYS, LLC
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

		2020		2019
Assets				
Current Assets				
Cash and cash equivalents	$	1,640,775	$	289,419
Accounts receivable, net		3,187,637		2,458,243
Contract assets		420,115		903,143
Inventories		680,330		534,520
Prepaid expenses and other assets		2,859,238		594,033
Total Current Assets		8,788,095		4,779,358
Property and equipment, net		3,527,684		3,496,082
Total Assets	$	12,315,779	$	8,275,440
Liabilities and Members' Capital				
Current Liabilities				
Accounts payable	$	1,310,531	$	359,123
Contract liabilities		1,507,627		1,581,326
Other liabilities and accrued expenses		735,792		476,537
Current portion of equipment loans		229,031		203,400
Current portion of capital leases		60,000		—
Current portion of Economic Injury Disaster Loan		1,492		—
Related party convertible note payable, net of unamortized discount of $104,944		295,056		—
Paycheck Protection Program loan		857,573		—
Total Current Liabilities		4,997,102		2,620,386
Equipment loans, net of current portion		813,787		305,608
Economic Injury Disaster Loan, net of current portion		148,508		—
Capital leases, net of current portion		170,860		—
Related party note payable		—		800,000
Deferred rent, net of current portion		908,188		1,115,229
Total Liabilities		7,038,445		4,841,223
Commitments and Contingencies (Notes 6, 7, 8 and 9)				
Members' Capital		5,277,334		3,434,217
Total Liabilities and Members' Capital	$	12,315,779	$	8,275,440

The accompanying notes are an integral part of these financial statements

IRISYS, LLC
STATEMENTS OF OPERATIONS AND MEMBERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Revenues	$ 12,382,242	$ 10,248,046
Cost of Revenues	5,979,450	4,940,711
Gross Profit	6,402,792	5,307,335
Selling, General, and Administrative Expenses	4,632,495	4,179,551
Operating Income	1,770,297	1,127,784
Other Income (Expense)		
Interest expense	(66,052)	(82,301)
Interest and other income	12,939	152,757
Total Other (Expense) Income	(53,113)	70,456
Net Income	$ 1,717,184	$ 1,198,240
Members' Capital, Beginning	$ 3,434,217	$ 2,410,469
Change in accounting principle	—	(174,492)
Beneficial conversion feature	125,933	—
Net income	1,717,184	1,198,240
Members' Capital, Ending	$ 5,277,334	$ 3,434,217

The accompanying notes are an integral part of these financial statements

IRISYS, LLC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Net income	$ 1,717,184	$ 1,198,240
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	534,022	469,067
Deferred rent	(207,041)	(141,878)
Accretion of discount on convertible note	20,989	—
Bad debt expense	306,066	9,972
Gain on Economic Injury Disaster Loan Advance forgiveness	(10,000)	—
Change in operating assets and liabilities:		
Accounts receivable	(1,035,460)	(566,647)
Inventories	(145,810)	(62,974)
Contract assets	483,028	(520,642)
Prepaid expenses and other assets	(1,476,501)	(371,653)
Accounts payable	162,704	139,117
Contract liabilities	(73,699)	361,302
Other liabilities and accrued expenses	263,633	(71,928)
Net Cash Provided by Operating Activities	539,115	441,976
Cash Flows from Investing Activities		
Purchases of property and equipment	(330,350)	(910,158)
Net Cash Used in Investing Activities	(330,350)	(910,158)
Cash Flows from Financing Activities		
Payments on equipment loans	(227,534)	(209,878)
Payments on capital leases	(8,792)	(478,169)
Payments on related party notes	(800,000)	—
Proceeds from equipment loans	761,344	—
Proceeds from Paycheck Protection Program loan	857,573	—
Proceeds from Economic Injury Disaster Loan	160,000	—
Proceeds from related party motes	—	800,000
Proceeds from related party convertible note	400,000	—
Net Cash Provided by Financing Activities	1,142,591	111,953
Net Increase (Decrease) in Cash and Cash Equivalents	1,351,356	(356,229)
Cash and Cash Equivalents at Beginning of Year	289,419	645,648
Cash and Cash Equivalents at End of Year	$ 1,640,775	$ 289,419
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year For:		
Interest	$ 54,936	$ 82,301
Taxes	—	—
Non-Cash Investing and Financing Information:		
Beneficial conversion feature	$ 125,933	$ —
Equipment deposit in accounts payable	788,704	—
Equipment acquired through capital leases	235,274	—

The accompanying notes are an integral part of these financial statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

IriSys, LLC (the "Company"), was established on January 7, 2015 as a California Limited Liability Company, located in San Diego, California. IriSys, LLC provides contract pharmaceutical product development and manufacturing services specializing in formulation research and development, cGMP (current Good Manufacturing Practices) manufacturing of clinical trial materials and commercial pharmaceutical products, and consulting related to the drug development process.

Except as otherwise provided by the Limited Liability Company Act, the debts, obligations, and liabilities of the Company, whether arising in contracts, tort, or otherwise, shall be solely the debts, obligations, and liabilities of the Company, and the members of the Company shall not be obligated personally for any such debts, obligations, or liabilities of the Company solely by reason of being members of the Company. The Company has no termination date.

Basis of Accounting

The Company's policy is to use the accrual method of accounting and to prepare and present the financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reports of amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

COVID-19

In March 2020, the World Health Organization declared a pandemic due to the outbreak of the coronavirus disease ("COVID-19"). This had a severe economic impact on the United States, with several states, including California, issuing mandatory "shelter in place" orders for all persons except those deemed to be essential employees in March 2020. The stay-at-home orders resulted in a significant decline in retail sales. As a result, during the year ended December 31, 2020, Scot-Tussin sales decreased at retail outlets and there were not enough sales to meet certain profit margin goals, which resulted in a refund to the retail outlets. Most Company operations not affected by COVID-19.

Additionally, COVID-19 has caused significant economic uncertainty throughout 2020 and 2021, on both a domestic and global scale. This disruption, while expected to be temporary, is of an unknown duration, and may result in a material adverse impact on the Company's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to the Company's customers and revenue, absenteeism in the Company's labor workforce, unavailability of inventory, and delayed collection of receivables.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of less than 90 days as cash equivalents. Cash and cash equivalents include cash in readily available checking and money market accounts.

Accounts Receivable, Net

Accounts receivable are stated at the historical carrying amount net of write-offs and allowances for uncollectible accounts. The Company establishes an allowance for uncollectible accounts based on historical experience and any specific customer collection issues that the Company has identified. The allowance for uncollectible accounts was approximately $10,000 at December 31, 2020 and 2019. No interest on past due amounts is charged. Uncollectible accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding balance or when the Company has determined that the balance will not be collected. During the years ended December 31,

2020 and 2019, the Company wrote off approximately $306,000 and $10,000, respectively, of uncollectible accounts receivable balances.

Inventories

Inventories are stated at the lower of cost or net realizable value. Average cost is used to determine the cost of inventories. Inventories include supplies and materials. In evaluating whether inventory is stated at the lower of cost or net realizable value, management considers such factors as the amount of inventory on hand, estimated time required to sell such inventory, and remaining shelf life.

Prepaid Expense and Other Assets

Prepaid expenses and other assets consist primarily of prepaid amounts on licenses, subscriptions, insurance, and occasionally deposits on customized equipment. The balance of prepaid expenses and other assets at December 31, 2020 was $2,859,238, of which approximately $2,144,000 was related to deposits on equipment. The balance of prepaid expenses and other assets at December 31, 2019 was $594,033.

Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; which range from 3 to 15 years. Leasehold improvements are amortized over the lesser of their economic life or the life of the related lease. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in current earnings. Assets held under capital leases are recorded at the lesser of the present value of the future minimum lease payments or the fair value of the asset and are amortized over the lesser of the related lease term or the estimated productive life of the asset. Amortization of assets under capital leases is included in depreciation and amortization expense.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets periodically and upon the occurrence of events or changes in circumstances that indicate that the recoverability of the carrying value of an asset should be reassessed. Management determines the potential impairment by comparing the carrying value of the long-lived asset or asset group with the projected undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net undiscounted cash flows be less than the carrying value, the Company may be required to recognize an impairment loss at that date.

The amount of impairment, if any, is measured based on the difference between the fair value and the carrying value of the assets and is charged to operations in the period in which the asset impairment is determined by management. No impairment losses were identified by management during the years ended December 31, 2020 and 2019.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, contract assets, inventories, other assets, accounts payable, contract liabilities, and other liabilities and accrued expenses approximate fair value due to the short-term nature of those instruments. The carrying amount of the Company's related party notes, capital leases, Paycheck Protection Program loan, Economic Injury Disaster Loan, and equipment loans approximates fair value as the interest rate on the debt approximates the estimated borrowing rate currently available to the Company.

Deferred Rent

The Company amortizes its operating lease for its building using the straight-line method. The differences between rents actually paid and the straight-line method are accumulated within deferred rent. The Company's building lease also provides an allowance for tenant improvements. The allowance for tenant improvements is recorded on the Company's financial statements as leasehold improvements and deferred rent liability and is amortized to rent expense over the life of the lease. At December 31, 2020 and 2019, the Company had $1,093,802 and $1,256,926 in deferred rent, respectively, of which the current portions are included within other liabilities and accrued expenses.

Revenue Recognition

The Company recognizes revenues from primarily the following sources: contract manufacturing, research and development, and consulting. The Company also manufactures and sells proprietary cough suppressant and cold relief products for diabetics (“Scot-Tussin”).

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). The core principle of the guidance in Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”) is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606 effective January 1, 2019.

Effective January 1, 2019, the Company applied a modified retrospective adoption of the new revenue recognition standard. The impact of the new revenue recognition standard results in a change to the timing of the Company’s revenue recognition policy for its contract manufacturing, research and development, and consulting. Prior to the adoption of ASC 606, revenue from contract manufacturing for pharmaceutical products was recognized either upon the delivery of products or when products had been released and stored at the request of the customer and collectability was reasonably assured; and research and development services and consulting were recognized ratably over the associated period of performance, unless there was no discernable pattern of performance, then revenue was recognized on a straight-line basis.

Under the new revenue recognition standard, the Company applies a 5-step model to determine when to recognize revenue and in what amount: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Each of these steps involves the use of significant judgements. The Company changed its revenue recognition for its contract manufacturing, research and development, and consulting services to be satisfied over time as goods were produced and services rendered, rather than at a point in time. The Company is applying the new revenue recognition standard only to contracts not completed as of the date of initial application, referred to as “open contracts”. This adjustment resulted in the recognition of unbilled contract assets for revenue with a corresponding reduction in work-in-progress inventory. The Company recognized the cumulative effect of initially applying the new revenue recognition standard as an adjustment to its opening retained earnings balance at January 1, 2019, included in members’ capital.

The following is a summary of the cumulative effect adjustment of adopting the new revenue recognition standard on prior balances reported:

	Balance as of December 31, 2018	Adjustments due to adoption of ASC 606	Balance as of January 1, 2019
Assets			
Contract assets	$ —	$ 382,501	$ 382,501
Inventories	638,158	(166,612)	471,546
Prepaid expenses	165,753	56,627	222,380
Liabilities			
Contract liabilities	$ —	$ 1,220,024	$ 1,220,024
Customer prepayments	773,016	(773,016)	—
Equity			
Members' capital	$ 2,410,469	$ (174,492)	$ 2,235,977

For contract manufacturing for pharmaceutical products, the customer and Company generally enter into a master supply agreement (“MSA”), that provides the framework under which business will be conducted. The Company and the customer will enter into more specific contracts under the MSA, that detail specific procedures and performance obligations, pricing terms, transfer of title and risk of loss, and other information. Some MSAs state that the customer will send purchase orders as needed with specific quantities. As a result, the Company considers its contract with a customer to be a combination of the MSA and the purchase order, or any other similar documents such as a statement of work, emails, or other communications that embody a commitment to the customer. Revenue is derived from the

manufacturing of products, which are created according to customer specifications, and from additional testing procedures on the final products.

Revenue is recognized as work is performed on the contract over time. The Company has an enforceable right to payment for work completed to date and the goods do not have an alternative use once the manufacturing process has commenced. The Company records an unbilled contract asset for revenue related to its work-in-progress when the manufacturing process has commenced and there is a non-cancelable purchase order. The Company uses the input method of labor hours and materials to measure progress towards satisfying its performance obligation. The Company also does not disclose the information about remaining performance obligations that have original expected durations of one year or less. For the years ended December 31, 2020 and 2019, the Company recognized $3,097,873 and $2,964,316 in revenue related to contract manufacturing for pharmaceutical products, respectively.

For research and development revenue and consulting revenue, the customer and Company enter into a contract that products a framework under which business will be conducted. This contract identifies specific procedures and performance obligations, pricing terms, transfer of title and risk of loss, as well as other important information. In the course of the contract, the Company provides specific deliverables to the customer, detailing progress on the contract. Revenue is derived from testing and development procedures performed by the Company, which are performed according to customer specifications. Revenue is recognized as work is performed on the contract over time.

The Company has an enforceable right to payment for work completed to date and the intellectual property generated through the research and development procedures and consulting procedures do not have an alternative use once procedures have commenced. The Company records an unbilled contract for revenue related to its work-in-progress when research and development procedures and consulting procedures commence after a signed contract has been established. The Company uses the input method of labor hours and materials to measure progress towards satisfying its performance obligation. The Company also does not disclose the information about remaining performance obligations that have original expected durations of one year or less. For the year ended December 31, 2020, the Company recognized $8,997,188 and $121,200 in research and development revenue and consulting revenue, respectively. For the year ended December 31, 2019, the Company recognized $6,995,197 and $229,762 in research and development revenue and consulting revenue, respectively.

If assumptions change related to the inputs or outputs utilized to estimate the performance obligation associated with work-in-progress inventory, this could have a material impact on revenue and the corresponding margin recognized.

The Scot-Tussin revenue is generated from sales of product to distributors or private sellers. The Company manufactures all Scot-Tussin products internally. Revenue on these sales is recognized at a point in time, once control of the product has been transferred to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for fulfilled product orders, including estimates of variable consideration. The most common forms of variable consideration include trade programs, consumer incentives, coupon redemptions, allowances for unsaleable products, and any additional amounts where a distinct good or service cannot be identified or the value cannot be reasonably estimated. Uncertainties related to the estimate of variable consideration are resolved in a short time frame and do not require any additional constraint on variable consideration. Adjustments to variable consideration are recognized in the period the adjustments are identified and have historically been insignificant. During the year ended December 31, 2020, due to the impact of COVID-19, Scot-Tussin retail sales were impacted and the Company had to pay a penalty of approximately $102,000 for not hitting their minimum guaranteed sales margin in 2020. For the years ended December 31, 2020 and 2019, the Company recognized $165,981 and $58,771 in Scot-Tussin revenue, respectively.

Sales taxes and other sales-related taxes collected from customers and remitted to governmental authorities are presented on a net basis.

Contract Assets and Performance Obligations

A contract asset is recognized when the Company has recognized revenue but has not issued an invoice to its customer for payment. Contract assets are classified separately on the balance sheet and transferred to accounts receivable when rights to payment have become unconditional. Generally, the transfer from contract assets to accounts receivable occurs within the next fiscal year. The balance of contract assets at December 31, 2020 and 2019 was $420,115 and $903,143, respectively.

A performance obligation is an implicitly or explicitly promised good or service that is material in the context of the contract and is both capable of being distinct (customer can benefit from the good or service on its own or together with readily available resources) and distinct within the context of the contract (separately identifiable from other promises). The Company considers all activities included in its contracts and identifies those activities representing a promise to transfer goods or services to a customer.

Contract Liabilities

The Company at times requires customers to place deposits prior to manufacturing. Other times, the Company requires an initial prepayment prior to beginning a contract or prepayment before beginning a performance obligation. Revenues on these projects are deferred until the products are ready for shipment or services have been provided. The balance of contract liabilities at December 31, 2020 and 2019 was $1,507,627 and $1,581,326, respectively.

Cost of Revenues

Cost of pharmaceutical goods manufactured include actual product cost, quality control costs, change in inventory reserves, purchasing costs, and an allocation of indirect expenses related to these activities. Cost of research and development services includes related salaries, materials used in testing and development, and an allocation of indirect expenses that are related to these activities. Cost of consulting services includes related salaries and an allocation of indirect expenses related to these activities. Cost of Scot-Tussin revenue includes related salaries, materials used to create the product, and indirect expenses related to these activities.

Concentration of Credit Risk

The Company maintains cash balances with one financial institution. At December 31, 2020, accounts at this bank were insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000; however, at times, these balances may exceed the insured limits by the FDIC. At December 31, 2020, the Company had approximately $1,420,000 in balances over the FDIC limit. The Company has not sustained any credit losses from this institution.

For the year ended December 31, 2020, the Company had two customers which accounted for approximately 39% of revenues. The Company had two customers which accounted for approximately 85% of the Company's accounts receivable balance at December 31, 2020. For the year ended December 31, 2019, the Company had two customers which accounted for approximately 28% of revenues. The Company had four customers which accounted for approximately 67% of the Company's accounts receivable balance at December 31, 2019.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense was approximately $13,000 and $58,000 for the years ended December 31, 2020 and 2019, respectively.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. When effective, the ASU will supersede FASB ASC 840, *Leases*, and add *Topic 842, Leases* to the FASB ASC. The core principle of the proposed requirements is that an entity should recognize assets and liabilities arising from a lease. This represents an improvement over existing lease requirements, which do not require lease assets and lease liabilities to be recognized by many lessees. The standard is effective January 1, 2022 for non-public business entities, with early adoption permitted. The ASU is expected to impact the Company's financial statements as the Company has certain operating lease arrangements for which it is the lessee. The Company is evaluating its contractual arrangements to identify the effects of ASC Topic 842.

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

Income Taxes

The Company is not a tax paying entity for Federal income tax purposes. All taxable income is reported to the individual members and reported on their respective individual income tax returns. Therefore, no provision of liability for Federal income taxes has been recorded in the financial statements.

The Company adopted the accounting guidance for uncertainty in income taxes. The Company recognizes tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of December 31, 2020 and 2019, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Company recognizes interest and penalties related to uncertain tax positions in selling, general and administrative expenses. The Company's tax returns are subject to examination by the Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities. The Company believes it is no longer subject to tax examinations for years prior to 2017.

NOTE 2 – INVENTORIES

Inventories consist of the following as of December 31, 2020 and 2019:

	2020		2019	
Raw materials	$	659,742	$	516,591
Finished goods		20,588		68,405
Total	$	680,330	$	584,996

NOTE 3 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of December 31, 2020 and 2019:

	2020		2019	
Machinery and lab equipment	$	5,177,841	$	4,735,858
Office equipment		319,043		267,255
Furniture and fixtures		103,551		103,551
Leasehold improvements		2,102,994		2,030,722
		7,703,429		7,137,386
Accumulated depreciation and amortization		(4,175,745)		(3,641,304)
Total	$	3,527,684	$	3,496,082

Depreciation and amortization expense was $534,022 and $469,067 for the years ended December 31, 2020 and 2019, respectively, which is allocated between cost of revenues and operating expenses in the statements of operations and members' capital.

NOTE 4 – OTHER LIABILITIES AND ACCRUED EXPENSES

Other liabilities and accrued expenses consist of the following as of December 31, 2020 and 2019:

	2020		2019	
Accrued vendor invoices	$	148,707	$	24,223
Accrued interest		11,116		—
Accrued payroll and benefits		390,355		310,617
Current portion of deferred rent		185,614		141,697
Total	$	735,792	$	476,537

NOTE 5 – RELATED PARTY TRANSACTIONS

The Company has a service agreement with GNI USA, Inc., one of its member's, which enables the Company to perform certain research, filing and other activities as may be necessary on behalf of GNI USA, Inc. Total fees charged to GNI USA, Inc. for the year ended December 31, 2019 was $22,813 of which $0 remain in accounts receivable at December 31, 2019.

During the year ended December 31, 2019, the Company entered into three unsecured notes with a member of the Company – a $300,000 note in June 2019, a $300,000 note in September 2019, and a $200,000 note in October 2019. The notes accrue interest at 6%, which is due annually. There is no set repayment schedule or due date. As of December 31, 2019, the balance of the notes was $800,000 and accrued interest on the notes was $0. During the year ended December 31, 2020, these loans, totaling to $800,000, were paid off in full. Interest paid on this balance during 2020 totaled $4,000.

The Company entered into an unsecured convertible note in November 2020 with a member of the Company for $400,000, at 3% interest, and is due November 11, 2021. The note has an option to convert into Company units on or after the maturity date if not paid. The note is convertible into units of the Company at a conversion price of $15.68. The Company evaluated the note for a beneficial conversion feature in accordance with FASB ASC 470-20 *Debt with Conversion and Other Options*. The Company determined that the conversation price was below the fair value of the Company's units at the commitment date, and the convertible note contained a beneficial conversion feature. The Company recognized the intrinsic value of the embedded beneficial conversion feature of $125,933 as additional paid-in capital and reduced the carrying value of the note to $274,067. The carrying value will be accreted over the term of the convertible note up to the face value of $400,000. Accretion of $20,989 for the year ended December 31, 2020 is included in interest expense.

As of December 31, 2020, the carrying value of the convertible note was $400,000 and had an unamortized discount of $104,944, which will be recognized to interest expense in 2021. As of December 31, 2020, the note had accrued interest of $2,000.

NOTE 6 – LINE OF CREDIT AND EQUIPMENT LOANS

In December 2016, the Company entered a secured line of credit agreement with a bank to borrow up to $250,000. The line of credit is secured by certain assets of the Company and bears interest at 5.75% as of December 31, 2020 and 2019. The Company drew down on this line of credit during 2020 and 2019, however, was repaid by year-end and has a balance of $0 at December 31, 2020 and 2019. Interest paid on this balance during 2020 and 2019 totaled $250 and $3,167, respectively.

The Company has two secured equipment loans with the same bank. At December 31, 2020, these equipment loans had balances of $181,795 and $107,179, respectively. At December 31, 2019, these equipment loans had balances of $320,037 and $188,971, respectively. The equipment loans are secured by certain assets of the Company, bear interest at a fixed rate of 4.42% and 4.47%, and mature on May 15, 2022 and March 31, 2022, respectively.

In September 2020, the Company obtained a ten-year United States Small Business Administration ("SBA") equipment loan for up to $840,000. This loan is secured by certain assets of the Company and bears interest at a variable rate of Wall Street Journal prime plus 2.25%, which was 5.5% as of December 31, 2020. The loan matures on September 10, 2030 and had a balance of $753,844 at December 31, 2020, with approximately $86,000 remaining to draw on the loan.

Future principal payments under equipment loans are due as follows:

Year Ending December 31:		
2021	$	229,031
2022		146,238
2023		73,329
2024		77,466
2025		81,835
Thereafter		434,919
	$	1,042,818

NOTE 7 – PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, the Company applied for and received a Payroll Protection Program loan from the SBA authorized under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The lender is JP Morgan Chase Bank, the loan amount was $857,573, it was received on May 1, 2020, and it matures two years from the distribution date. In accordance with the terms of the note, the loan could be used for payroll costs, expenses for health care benefits and retirement funds, and payments for the mortgage interest, rent utilities, and interest on other debt. Subject to the terms of the CARES Act and subsequent regulations, guidance, and interpretations issued by the SBA, some or all of the loan is subject to forgiveness. For portions not forgiven, interest at a rate of 1.00% accruing from the distribution date plus principal amounts necessary to amortize the loan by the maturity date was due monthly beginning seven months from the distribution date. As of December 31, 2020, the loan had not been forgiven and had approximately $6,300 of accrued interest.

NOTE 8 – ECONOMIC INJURY DISASTER LOAN

Additionally, in June 2020, the Company received $160,000 in loan funding from the SBA under the Economic Injury Disaster Loan ("EIDL") program administered by the SBA, which program was expanded pursuant to the CARES Act. The EIDL is evidenced by a promissory note dated June 24, 2020 in the original principal amount of $160,000 with the SBA, the lender, of which $10,000 was deemed to be an EIDL Advance and was forgiven. As of December 31, 2020, the balance was $150,000 and had approximately $2,800 of accrued interest.

Under the terms of the EIDL note, interest accrues on the outstanding principal at the rate of 3.75% per annum. The term of the EIDL note is 30 years, though it may be payable sooner upon an event of default under the EIDL note. Under the EIDL note, the Company will be obligated to make equal monthly payments of principal and interest beginning in June 2021 through the maturity date of June 24, 2050. The EIDL note may be prepaid in part or in full, at any time, without penalty.

Future principal payments under the EIDL note are due as follows:

Year Ending December 31:		
2021	$	1,492
2022		3,068
2023		3,185
2024		3,307
2025		3,433
Thereafter		135,515
	$	150,000

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases

On July 26, 2014, the Company signed a 130-month lease with a commencement date of December 26, 2014 for 24,431 square feet of office and lab space in San Diego, California. As of December 31, 2020, the lease calls for monthly payments of $58,903 inclusive of common area maintenance fees and includes an annual escalation clause in the following years. Rent expense was $617,014 and $633,042 for the years ended December 31, 2020 and 2019, respectively, which is allocated between cost of revenues and operating expenses on the statements of operations and members' capital.

The future minimum lease obligations for the above lease are as follows:

Year Ending December 31:		
2021	$	708,746
2022		731,780
2023		755,563
2024		780,119
2025		602,473
	$	3,578,681

Capital Leases

The Company entered into three capital leases for certain equipment with terms of 36-60 months, expiring through November 2025. Equipment under the capital leases totaling $235,274 and accumulated amortization of $0 is included in property and equipment as of December 31, 2020. The Company had no capital leases as of December 31, 2019.

Future minimum lease payments under capital leases as of December 31, 2020 are as follow:

Year Ending December 31:		
2021	$	62,462
2022		61,770
2023		58,556
2024		29,132
2025		27,677
Thereafter		1,032
Total minimum lease payments		240,629
Less: Amount representing interest		9,769
Present value of lease payments		230,860
Current portion of capital lease		60,000
Capital lease, net of current portion	$	170,860

Interest rates on capitalized leases are approximately 4% and are imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Project in Process

In 2020, the Company entered into a construction commitment to build a specialized machine. The total cost of the project (machinery and related facility construction) is estimated to be approximately $4,500,000, with approximately $2,000,000 remaining at December 31, 2020 and is being funded through the use of cash and equipment loans. Construction is expected to be completed August 2021.

NOTE 10 – SUBSEQUENT EVENTS

In January 2021, the Company extended their office and lab space operating lease for 120 months with the option to extend, subject to a month of rent abatement, annual rent increases, and a tenant improvement allowance.

In April 2021, the Company applied for PPP loan forgiveness. The PPP loan was forgiven effective April 28, 2021 in its entirety.

Management has evaluated subsequent events, as defined by FASB ASC 855*, Subsequent Events*, through the date that the financial statements were available to be issued on May 18, 2021.

Exhibit 99.2

IRISYS, LLC
BALANCE SHEETS

		(unaudited) June 30, 2021		(audited) December 31, 2020
Assets				
Current Assets				
Cash and cash equivalents	$	1,805,110	$	1,640,775
Accounts receivable, net		1,547,348		3,187,637
Related party receivable		35,721		—
Contract assets		484,723		420,115
Inventories, net		673,848		680,330
Prepaid expenses and other assets		173,641		2,859,238
Total Current Assets		4,720,391		8,788,095
Other long term assets		133,167		-
Property and equipment, net		7,636,160		3,527,684
Total Assets	$	12,489,718	$	12,315,779
Liabilities and Members' Capital				
Current Liabilities				
Accounts payable	$	946,260	$	1,310,531
Contract liabilities		1,086,455		1,507,627
Other liabilities and accrued expenses		796,992		735,792
Current portion of equipment loans		262,226		229,031
Current portion of capital leases		74,716		60,000
Current portion of Economic Injury Disaster Loan		3,011		1,492
Related party convertible note payable, net of unamortized discount of $41,977 and $104,944		358,023		295,056
Paycheck Protection Program loan		-		857,573
Total Current Liabilities		3,527,683		4,997,102
Equipment loans, net of current portion		752,928		813,787
Economic Injury Disaster Loan, net of current portion		146,989		148,508
Capital leases, net of current portion		179,281		170,860
Deferred rent, net of current portion		1,999,439		908,188
Total Liabilities		6,606,320		7,038,445
Commitments and Contingencies (Notes 5, 6, 7, 8 and 9)				
Members' Capital		5,883,398		5,277,334
Total Liabilities and Members' Capital	$	12,489,718	$	12,315,779

See accompanying notes to the financial statements.

IRISYS, LLC
STATEMENTS OF OPERATIONS
FOR THE SIX-MONTHS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Revenues	$ 6,843,820	$ 3,567,728
Cost of Revenues	3,528,878	2,341,093
Gross Profit	3,314,942	1,226,635
Selling, general and administrative	3,087,665	2,191,145
Operating Income (Loss)	227,277	(964,510)
Other Income (Expense)		
Interest expense	(87,368)	(25,455)
Forgiveness of debt	866,155	—
Total Other Income (Expense)	778,787	(25,455)
Net Income (Loss)	$ 1,006,064	$ (989,965)

See accompanying notes to the financial statements.

IRISYS, LLC
STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

FOR THE SIX-MONTHS ENDED JUNE 30, 2021		
Members' Capital, Beginning	$	5,277,334
Member distributions		(400,000)
Net income		1,006,064
Members' Capital, Ending	$	5,883,398
FOR THE SIX-MONTHS ENDED JUNE 30, 2020		
Members' Capital, Beginning	$	3,434,217
Net loss		(989,965)
Members' Capital, Ending	$	2,444,252

See accompanying notes to the financial statements.

IRISYS, LLC
STATEMENT OF CASH FLOWS
FOR THE SIX-MONTHS ENDED JUNE 30, 2021 AND 2020

	June 30, 2021	June 30, 2020
Cash Flows from Operating Activities		
Net income (loss)	$ 1,006,064	$ (989,965)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	284,928	270,694
Deferred rent	238,383	(97,969)
Accretion of discount on convertible note	62,967	—
Bad debt expense	34,646	15
Impairment of inventory	191,986	—
Gain on debt forgiveness	(866,155)	—
Change in operating assets and liabilities:		
Accounts receivable	1,605,643	1,062,767
Inventories	(185,504)	534,520
Contract assets	(64,608)	165,931
Prepaid expenses and other assets	(414,524)	(551,097)
Accounts payable	(355,689)	(11,071)
Contract liabilities	(421,172)	153,730
Other liabilities and accrued expenses	(63,172)	(303,043)
Net Cash Provided by Operating Activities	1,053,793	234,512
Cash Flows from Investing Activities		
Related party receivable	(35,721)	—
Purchases of property and equipment	(390,009)	(194,997)
Net Cash Used in Investing Activities	(425,730)	(194,997)
Cash Flows from Financing Activities		
Payments on equipment loans	(27,664)	(108,778)
Payments on capital leases	(36,064)	(1,398)
Payments on related party notes	—	(600,000)
Proceeds from Economic Injury Disaster Loan	—	160,000
Proceeds from Paycheck Protection Program loan	—	857,573
Distributions	(400,000)	—
Net Cash (Used in) Provided by Financing Activities	(463,728)	307,397
Net Increase in Cash and Cash Equivalents	164,335	346,912
Cash and Cash Equivalents at Beginning of Period	1,640,775	289,419
Cash and Cash Equivalents at End of Period	$ 1,805,110	$ 636,331
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period For:		
Interest	$ 22,300	$ 11,457
Taxes	—	—
Non-Cash Investing and Financing Information:		
Leasehold improvement incentives in deferred rent	$ 977,240	$ —
Equipment acquired through capital leases	59,201	4,698
Reclassification of deposits to equipment	2,966,954	—

See accompanying notes to the financial statements.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

IriSys, LLC (the "Company"), was established on January 7, 2015 as a California Limited Liability Company, located in San Diego, California. IriSys, LLC provides contract pharmaceutical product development and manufacturing services specializing in formulation research and development, cGMP (current Good Manufacturing Practices) manufacturing of clinical trial materials and commercial pharmaceutical products, and consulting related to the drug development process.

Except as otherwise provided by the Limited Liability Company Act, the debts, obligations, and liabilities of the Company, whether arising in contracts, tort, or otherwise, shall be solely the debts, obligations, and liabilities of the Company, and the members of the Company shall not be obligated personally for any such debts, obligations, or liabilities of the Company solely by reason of being members of the Company. The Company has no termination date.

Basis of Accounting

The Company's policy is to use the accrual method of accounting and to prepare and present the financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reports of amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

COVID-19

In March 2020, the World Health Organization declared a pandemic due to the outbreak of the coronavirus disease ("COVID-19"). This had a severe economic impact on the United States, with several states, including California, issuing mandatory "shelter in place" orders for all persons except those deemed to be essential employees in March 2020. The stay-at-home orders resulted in a significant decline in retail sales. Most Company operations were not affected by COVID-19.

Additionally, COVID-19 has caused significant economic uncertainty throughout 2021, on both a domestic and global scale. This disruption, while expected to be temporary, is of an unknown duration, and may result in a material adverse impact on the Company's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to the Company's customers and revenue, absenteeism in the Company's labor workforce, unavailability of inventory, and delayed collection of receivables.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of less than 90 days as cash equivalents. Cash and cash equivalents include cash in readily available checking and money market accounts.

Accounts Receivable, Net

Accounts receivable are stated at the historical carrying amount net of write-offs and allowances for uncollectible accounts. The Company establishes an allowance for uncollectible accounts based on historical experience and any specific customer collection issues that the Company has identified. The allowance for uncollectible accounts was approximately $30,000 and $10,000 at June 30, 2021 and December 31, 2020, respectively. No interest on past due amounts is charged. Uncollectible accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding balance or when the Company has determined that the balance will not be collected.

During the six-months ended June 30, 2021 and 2020, the Company wrote off approximately $35,000 and $0, respectively, of uncollectible accounts receivable balances.

Inventories, Net

Inventories are stated at the lower of cost or net realizable value. Average cost is used to determine the cost of inventories. Inventories include supplies and materials. In evaluating whether inventory is stated at the lower of cost or net realizable value, management considers such factors as the amount of inventory on hand, estimated time required to sell such inventory, and remaining shelf life. There were approximately $113,000 and $0 of inventory reserves of as June 30, 2021 and December 31, 2020, respectively.

Prepaid Expense and Other Assets

Prepaid expenses and other assets consist primarily of prepaid amounts on licenses, subscriptions, insurance, and occasionally deposits on customized equipment. The balance of prepaid expenses and other assets at December 31, 2020 was $2,859,238, of which approximately $2,144,000 was related to deposits on equipment. At June 30, 2021, there were no such deposits within prepaid expenses and other assets and the balance was $173,641.

Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; which range from 3 to 15 years. Leasehold improvements are amortized over the lesser of their economic life or the life of the related lease. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in current earnings. Assets held under capital leases are recorded at the lesser of the present value of the future minimum lease payments or the fair value of the asset and are amortized over the lesser of the related lease term or the estimated productive life of the asset. Amortization of assets under capital leases is included in depreciation and amortization expense.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets periodically and upon the occurrence of events or changes in circumstances that indicate that the recoverability of the carrying value of an asset should be reassessed. Management determines the potential impairment by comparing the carrying value of the long-lived asset or asset group with the projected undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net undiscounted cash flows be less than the carrying value, the Company may be required to recognize an impairment loss at that date.

The amount of impairment, if any, is measured based on the difference between the fair value and the carrying value of the assets and is charged to operations in the period in which the asset impairment is determined by management. No impairment losses were identified by management during the six-months ended June 30, 2021 and 2020.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, contract assets, other assets, accounts payable, contract liabilities, and other liabilities and accrued expenses approximate fair value due to the short-term nature of those instruments. The carrying amount of the Company's related party notes, capital leases, Paycheck Protection Program loan, Economic Injury Disaster Loan, and equipment loans approximates fair value as the interest rate on the debt approximates the estimated borrowing rate currently available to the Company.

Deferred Rent

The Company amortizes its operating lease for its building using the straight-line method. The differences between rents actually paid and the straight-line method are accumulated within deferred rent. The Company's building lease also provides an allowance for tenant improvements. The allowance for tenant improvements is recorded on the Company's financial statements as leasehold improvements and deferred rent liability and is amortized to rent expense

over the life of the lease. At June 30, 2021 and December 31, 2020, the Company had $2,123,811 and $1,093,802, respectively, in deferred rent, of which the current portion is included within other liabilities and accrued expenses.

Revenue Recognition

The Company recognizes revenues from primarily the following sources: contract manufacturing, research and development, and consulting. The Company also manufactures and sells proprietary cough suppressant and cold relief products for diabetics ("Scot-Tussin").

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The core principle of the guidance in Accounting Standards Codification ("ASC") Topic 606 ("ASC 606") is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606 effective January 1, 2019.

Under this standard, the Company applies a 5-step model to determine when to recognize revenue and in what amount: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Each of these steps involves the use of significant judgements. The Company recognizes revenue for its contract manufacturing, research and development, and consulting services over time as goods are produced and services rendered, rather than at a point in time.

For contract manufacturing for pharmaceutical products, the customer and Company generally enter into a master supply agreement ("MSA"), that provides the framework under which business will be conducted. The Company and the customer will enter into more specific contracts under the MSA, that detail specific procedures and performance obligations, pricing terms, transfer of title and risk of loss, and other information. Some MSAs state that the customer will send purchase orders as needed with specific quantities. As a result, the Company considers its contract with a customer to be a combination of the MSA and the purchase order, or any other similar documents such as a statement of work, emails, or other communications that embody a commitment to the customer. Revenue is derived from the manufacturing of products, which are created according to customer specifications, and from additional testing procedures on the final products. Revenue is recognized as work is performed on the contract over time. The Company has an enforceable right to payment for work completed to date and the goods do not have an alternative use once the manufacturing process has commenced. The Company records an unbilled contract asset for revenue related to its work-in-progress when the manufacturing process has commenced and there is a non-cancelable purchase order. The Company uses the input method of labor hours and materials to measure progress towards satisfying its performance obligation. The Company also does not disclose the information about remaining performance obligations that have original expected durations of one year or less. For the six-months ended June 30, 2021 and 2020, the Company recognized $897,855 and $264,043 respectively, in revenue related to contract manufacturing for pharmaceutical products.

For research and development revenue and consulting revenue, the customer and Company enter into a contract that products a framework under which business will be conducted. This contract identifies specific procedures and performance obligations, pricing terms, transfer of title and risk of loss, as well as other important information. In the course of the contract, the Company provides specific deliverables to the customer, detailing progress on the contract. Revenue is derived from testing and development procedures performed by the Company, which are performed according to customer specifications. Revenue is recognized as work is performed on the contract over time.

The Company has an enforceable right to payment for work completed to date and the intellectual property generated through the research and development procedures and consulting procedures do not have an alternative use once procedures have commenced. The Company records an unbilled contract for revenue related to its work-in-progress when research and development procedures and consulting procedures commence after a signed contract has been established. The Company uses the input method of labor hours and materials to measure progress towards satisfying its performance obligation. The Company also does not disclose the information about remaining performance obligations that have original expected durations of one year or less. For the six-months ended June 30, 2021, the Company recognized $5,898,604 and $26,559 in research and development revenue and consulting revenue,

respectively. For the six-months ended June 30, 2020, the Company recognized $3,043,585 and $13,200 in research and development revenue and consulting revenue, respectively.

If assumptions change related to the inputs or outputs utilized to estimate the performance obligation associated with work-in-progress inventory, this could have a material impact on revenue and the corresponding margin recognized.

The Scot-Tussin revenue is generated from sales of product to distributors or private sellers. The Company manufactures all Scot-Tussin products internally. Revenue on these sales is recognized at a point in time, once control of the product has been transferred to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for fulfilled product orders, including estimates of variable consideration. The most common forms of variable consideration include trade programs, consumer incentives, coupon redemptions, allowances for unsaleable products, and any additional amounts where a distinct good or service cannot be identified or the value cannot be reasonably estimated. Uncertainties related to the estimate of variable consideration are resolved in a short time frame and do not require any additional constraint on variable consideration. Adjustments to variable consideration are recognized in the period the adjustments are identified and have historically been insignificant. For the six months ended June 30, 2021 and 2020, the Company recognized $20,802 and $246,900, respectively, in Scot-Tussin revenue.

Sales taxes and other sales-related taxes collected from customers and remitted to governmental authorities are presented on a net basis.

Contract Assets and Performance Obligations

A contract asset is recognized when the Company has recognized revenue but has not issued an invoice to its customer for payment. Contract assets are classified separately on the balance sheet and transferred to accounts receivable when rights to payment have become unconditional. Generally, the transfer from contract assets to accounts receivable occurs within the next fiscal year. The balance of contract assets at June 30, 2021 and December 31, 2020 was $484,723 and $420,115, respectively.

A performance obligation is an implicitly or explicitly promised good or service that is material in the context of the contract and is both capable of being distinct (customer can benefit from the good or service on its own or together with readily available resources) and distinct within the context of the contract (separately identifiable from other promises). The Company considers all activities included in its contracts and identifies those activities representing a promise to transfer goods or services to a customer.

Contract Liabilities

The Company at times requires customers to place deposits prior to manufacturing. Other times, the Company requires an initial prepayment prior to beginning a contract or prepayment before beginning a performance obligation. Revenues on these projects are deferred until the products are ready for shipment or services have been provided. The balance of contract liabilities at June 30, 2021 and December 31, 2020 was $1,086,455 and $1,507,627, respectively.

Cost of Revenues

Cost of pharmaceutical goods manufactured include actual product cost, quality control costs, change in inventory reserves, purchasing costs, and an allocation of indirect expenses related to these activities. Cost of research and development services includes related salaries, materials used in testing and development, and an allocation of indirect expenses that are related to these activities. Cost of consulting services includes related salaries and an allocation of indirect expenses related to these activities. Cost of Scot-Tussin revenue includes related salaries, materials used to create the product, and indirect expenses related to these activities.

Concentration of Credit Risk

The Company maintains cash balances with one financial institution. At June 30, 2021, accounts at this bank were insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000; however, at times, these balances may exceed the insured limits by the FDIC. At June 30, 2021, the Company had approximately $1,546,000 in balances over the FDIC limit. The Company has not sustained any credit losses from this institution.

For the six-months ended June 30, 2021, the Company had one customer which accounted for approximately 13% of revenues. The Company had three customers which accounted for approximately 50% of the Company's accounts receivable balance at June 30, 2021. For the six-months ended June 30, 2020, the Company had three customers which accounted for approximately 61% of revenues. The Company had two customers which accounted for approximately 85% of the Company's accounts receivable balance at December 31, 2020.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense was approximately $18,000 and $2,000 during the six-months ended June 30, 2021 and 2020, respectively.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. When effective, the ASU will supersede FASB ASC 840, *Leases*, and add *Topic 842, Leases* to the FASB ASC. The core principle of the proposed requirements is that an entity should recognize assets and liabilities arising from a lease. This represents an improvement over existing lease requirements, which do not require lease assets and lease liabilities to be recognized by many lessees. The standard is effective January 1, 2022 for non-public business entities, with early adoption permitted. The ASU is expected to impact the Company's financial statements as the Company has certain operating lease arrangements for which it is the lessee. The Company is evaluating its contractual arrangements to identify the effects of ASC Topic 842.

Income Taxes

The Company is not a tax paying entity for Federal income tax purposes. All taxable income is reported to the individual members and reported on their respective individual income tax returns. Therefore, no provision of liability for Federal income taxes has been recorded in the financial statements.

The Company adopted the accounting guidance for uncertainty in income taxes. The Company recognizes tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of June 30, 2021 and December 31, 2020, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Company recognizes interest and penalties related to uncertain tax positions in selling, general and administrative expenses. The Company's tax returns are subject to examination by the Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities. The Company believes it is no longer subject to tax examinations for years prior to 2017.

NOTE 2 – INVENTORIES, NET

Inventories consist of the following as of June 30, 2021 and December 31, 2020:

	2021	2020
Raw materials	$ 773,821	$ 659,742
Finished goods	12,969	20,588
Total inventory	786,790	680,330
Inventory reserves	(112,942)	—
Total	$ 673,848	$ 680,330

NOTE 3 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of June 30, 2021 and December 31, 2020:

		2021		2020
Machinery and lab equipment	$	5,520,448	$	5,177,841
Office equipment		345,358		319,043
Furniture and fixtures		103,551		103,551
Construction in progress		2,966,954		—
Leasehold improvements		3,160,731		2,102,994
		12,097,042		7,703,429
Accumulated depreciation and amortization		(4,460,882)		(4,175,745)
Total	$	7,636,160	$	3,527,684

Depreciation and amortization expense was $284,928 and $270,694 for the six-months ended June 30, 2021 and 2020, respectively, which is allocated between cost of revenues and operating expenses in the statements of operations.

NOTE 4 – OTHER LIABILITIES AND ACCRUED EXPENSES

Other liabilities and accrued expenses consist of the following as of June 30, 2021 and December 31, 2020:

		2021		2020
Accrued vendor invoices	$	185,652	$	159,823
Accrued payroll and benefits		486,968		390,355
Current portion of deferred rent		124,372		185,614
Total	$	796,992	$	735,792

NOTE 5 – RELATED PARTY TRANSACTIONS

In 2019, the Company entered into three unsecured notes with a member of the Company – a $300,000 note in June 2019, a $300,000 note in September 2019, and a $200,000 note in October 2019. The notes accrue interest at 6%, which is due annually. There was no set repayment schedule or due date. During the year ended December 31, 2020, these loans, totaling to $800,000, were paid off in full. Interest paid on this balance during the six months ended June 30, 2020 totaled $2,000.

The Company entered into an unsecured convertible note in November 2020 with a member of the Company for $400,000, at 3% interest, and is due November 11, 2021. The note has an option to convert into Company units on or after the maturity date if not paid. The note is convertible into units of the Company at a conversion price of $15.68. The Company evaluated the note for a beneficial conversion feature in accordance with FASB ASC 470-20 *Debt with Conversion and Other Options*. The Company determined that the conversation price was below the fair value of the Company's units at the commitment date, and the convertible note contained a beneficial conversion feature. The Company recognized the intrinsic value of the embedded beneficial conversion feature of $125,933 as additional paid-in capital and reduced the carrying value of the note to $274,067. The carrying value will be accreted over the term of the convertible note up to the face value of $400,000. Accretion of $62,967 for the six months ended June 30, 2021 is included in interest expense.

As of December 31, 2020, the carrying value of the convertible note was $400,000 and had an unamortized discount of $104,944. As of June 30, 2021, the carrying value of the convertible note remained at $400,000 and had an unamortized discount of $41,977, which will be recognized to interest expense in the remainder of 2021. As of June 30, 2021, the note had accrued interest of $2,000.

NOTE 6 – LINE OF CREDIT AND EQUIPMENT LOANS

In December 2016, the Company entered a secured line of credit agreement with a bank to borrow up to $250,000. The line of credit is secured by certain assets of the Company and bears interest at 5.50% and 5.75% as of June 30, 2021 and December 31, 2020, respectively. The Company did not draw down on this line of credit during 2021 and has a balance of $0 at June 30, 2021 and December 31, 2020. Interest paid on this balance during 2021 and 2020 totaled $0.

The Company has two secured equipment loans with the same bank. At June 30, 2021, these equipment loans had balances of $110,294 and $64,860, respectively. At December 31, 2020, these equipment loans had balances of $181,795 and $107,179, respectively. The equipment loans are secured by certain assets of the Company, bear interest at a fixed rate of 4.42% and 4.47%, and mature on May 15, 2022 and March 31, 2022, respectively.

In September 2020, the Company obtained a ten-year United States Small Business Administration ("SBA") equipment loan for up to $840,000. This loan is secured by certain assets of the Company and bears interest at a variable rate of Wall Street Journal prime plus 2.25%, which was 5.5% as of June 30, 2021 and December 31, 2020. The loan matures on September 10, 2030 and had a balance of $840,000 at June 30, 2021. At December 31, 2020, the loan had a balance of $753,844, with approximately $86,000 remaining to draw on the loan.

Future principal payments under equipment loans as of June 30, 2021 are due as follows:

Period Ending December 31:		
2021	$	119,857
2022		136,130
2023		73,329
2024		77,466
2025		81,835
Thereafter		526,537
	$	1,015,154

NOTE 7 – PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, the Company applied for and received a Payroll Protection Program loan from the SBA authorized under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The lender is JP Morgan Chase Bank, the loan amount was $857,573, it was received on May 1, 2020, and it matures two years from the distribution date. In accordance with the terms of the note, the loan could be used for payroll costs, expenses for health care benefits and retirement funds, and payments for the mortgage interest, rent utilities, and interest on other debt. Subject to the terms of the CARES Act and subsequent regulations, guidance, and interpretations issued by the SBA, some or all of the loan is subject to forgiveness. For portions not forgiven, interest at a rate of 1.00% accruing from the distribution date plus principal amounts necessary to amortize the loan by the maturity date was due monthly beginning seven months from the distribution date. As of December 31, 2020, the loan had not been forgiven and had approximately $6,300 of accrued interest. In April 2021, the Company applied for PPP loan forgiveness. The PPP loan was forgiven effective April 28, 2021 in its entirety, along with $8,404 of accrued interest. The Company recorded a forgiveness of debt of $866,155 for the six months ended June 30, 2021.

NOTE 8 – ECONOMIC INJURY DISASTER LOAN

In June 2020, the Company received $160,000 in loan funding from the SBA under the Economic Injury Disaster Loan ("EIDL") program administered by the SBA, which program was expanded pursuant to the CARES Act. The EIDL is evidenced by a promissory note dated June 24, 2020 in the original principal amount of $160,000 with the SBA, the lender, of which $10,000 was deemed to be an EIDL Advance and was forgiven. As of December 31, 2020, the balance was $150,000. As of June 30, 2021, the balance was $150,000 and had approximately $2,800 of accrued interest.

Under the terms of the EIDL note, interest accrues on the outstanding principal at the rate of 3.75% per annum. The term of the EIDL note is 30 years, though it may be payable sooner upon an event of default under the EIDL note. Under the EIDL note, the Company will be obligated to make equal monthly payments of principal and interest beginning in June 2021 through the maturity date of June 24, 2050. The EIDL note may be prepaid in part or in full, at any time, without penalty.

Future principal payments under the EIDL note are due as follows:

Period Ending December 31:		
2021	$	1,492
2022		3,068
2023		3,185
2024		3,307
2025		3,433
Thereafter		135,515
	$	150,000

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases

On July 26, 2014, the Company signed a 130-month lease with a commencement date of December 26, 2014 for 24,431 square feet of office and lab space in San Diego, California. In January 2021, the Company extended this office and lab space operating lease for 120 months with the option to extend, subject to a month of rent abatement, annual rent increases, and a tenant improvement allowance. As of June 30, 2021, the lease calls for monthly payments of $78,179 exclusive of common area maintenance fees and includes an annual escalation clause in the following years. Rent expense was $442,837 and $309,523 for the six-months ended June 30, 2021 and 2020, respectively, which is allocated between cost of revenues and operating expenses on the statements of operations.

The future minimum lease obligations for the above lease as of June 30, 2021 are as follows:

Period Ending December 31:		
2021	$	390,896
2022		963,950
2023		992,868
2024		1,022,654
2025		1,053,334
Thereafter		5,862,066
	$	10,285,768

Capital Leases

As of June 30, 2021, the Company has four capital leases for certain equipment with terms of 36-60 months, expiring through January 2026. Equipment under the capital leases totaling $292,257 and accumulated amortization of $34,184 is included in property and equipment as of June 30, 2021. At December the equipment under the capital leases totaled $235,274 and accumulated amortization of $0, which was included in property and equipment.

Future minimum lease payments under capital leases as of June 30, 2021 are as follow:

Period Ending December 31:		
2021	$	32,018
2022		74,716
2023		71,752
2024		42,328
2025		39,337
Thereafter		1,032
Total minimum lease payments		261,183
Less: Amount representing interest		7,186
Present value of lease payments		253,997
Current portion of capital lease		74,716
Capital lease, net of current portion	$	179,281

Interest rates on capitalized leases are approximately 4% and are imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Project Commitments

The Company has entered into a construction commitment to build a specialized machine. The total cost of the project (machinery and related facility construction) is estimated to be approximately $4,500,000, with approximately $725,000 remaining at June 30, 2021 and is being funded through the use of cash, equipment loans, and tenant improvement allowance. Construction is expected to be completed in September 2021.

NOTE 10 – SUBSEQUENT EVENTS

On August 13, 2021, the Company was acquired by Recro Pharma Inc. ("Recro") for approximately $50 million in a combination of cash, shares of Recro common stock and a seller promissory note. As a part of the acquisition, Recro paid approximately $1.8 million to pay off the equipment loans, capital leases, related party convertible note, and the SBA EIDL loan. Additionally, $140,000 in member distributions were paid out.

Management has evaluated subsequent events, as defined by FASB ASC 855*, Subsequent Events*, through the date that the financial statements were available to be issued on September 8, 2021.

Exhibit 99.3

Recro Pharma, Inc.
Unaudited Pro Forma Combined Balance Sheet
June 30, 2021

(amounts in thousands, except share and per share data)	Historical Recro	Historical IriSys	Pro forma adjustments		Pro forma combined
Assets					
Current assets:					
Cash and cash equivalents	$ 45,724	$ 1,805	$ (25,181)	(a)	$ 22,348
Accounts receivable	12,813	1,583	—		14,396
Contract asset	7,350	485	—		7,835
Inventory	7,878	674	—		8,552
Prepaid expenses and other current assets	2,028	174	—		2,202
Total current assets	75,793	4,721	(25,181)		55,333
Property, plant and equipment, net	41,867	7,636	1,100	(b)	50,603
Intangible assets, net	—	—	4,600	(c)	4,600
Goodwill	4,319	—	36,494	(d)	40,813
Operating lease asset	449	—	5,500	(e)	5,949
Other assets	2	133	—		135
Total assets	$ 122,430	$ 12,490	$ 22,513		$ 157,433
Liabilities and equity					
Current liabilities:					
Accounts payable	$ 1,155	$ 946	$ (140)	(f)	$ 1,961
Current portion of debt	—	340	(340)	(f)	—
Current portion of related party debt	—	358	1,644	(a)(f)	2,002
Current portion of operating lease liability	145	—	900	(e)	1,045
Accrued expenses and other current liabilities	4,003	1,884	2,275	(e)(g)	8,162
Total current liabilities	5,303	3,528	4,339		13,170
Debt, net of current portion	89,780	1,079	(1,079)	(f)	89,780
Related party debt, net of current portion	—	—	3,405	(a)(g)	3,405
Operating lease liability, net of current portion	327	—	4,600	(e)	4,927
Other liabilities	604	1,999	(1,999)	(e)	604
Total liabilities	96,014	6,606	9,266		111,886
Commitments and contingencies					
Shareholders' equity:					
Preferred stock, $0.01 par value. 10,000,000 shares authorized, none issued or outstanding	—	—	—		—
Common stock, $0.01 par value. 95,000,000 shares authorized, 46,501,849 shares issued and outstanding	465	—	—		465
Additional paid-in capital	265,862	—	20,331	(a)(g)	286,193
Accumulated deficit	(239,911)	—	(1,200)	(g)	(241,111)
Total shareholders' equity	26,416	—	19,131		45,547
Members' equity	—	5,884	(5,884)	(h)	—
Total liabilities and shareholders' and members' equity	$ 122,430	$ 12,490	$ 22,513		$ 157,433

See notes to unaudited pro forma combined financial statements.

Recro Pharma, Inc.
Unaudited Pro Forma Combined Statements of Operations
Six Months Ended June 30, 2021

(amounts in thousands, except share and per share data)	Historical Recro	Historical IriSys	Pro forma adjustments		Pro forma combined
Revenue	$ 34,820	$ 6,844	$ —		$ 41,664
Operating expenses:					
Cost of sales	26,671	3,529	300	(b)	30,500
Selling, general and administrative	8,470	3,088	—		11,558
Amortization of intangible assets	700	—	450	(c)	1,150
Total operating expenses	35,841	6,617	750		43,208
Operating (loss) income	(1,021)	227	(750)		(1,544)
Interest expense	(7,858)	(87)	(213)	(f)	(8,158)
Gain on extinguishment of debt	3,352	866	—		4,218
Net (loss) income	$ (5,527)	$ 1,006	$ (963)		$ (5,484)
Loss per share:					
Basic	$ (0.16)				$ (0.13)
Diluted	(0.16)				(0.13)
Weighted average shares outstanding					
Basic	34,403,935		9,302,718	(i)	43,706,653
Diluted	34,403,935		9,302,718	(i)	43,706,653

See notes to unaudited pro forma combined financial statements.

Recro Pharma, Inc.
Unaudited Pro Forma Combined Statements of Operations
Year Ended December 31, 2020

(amounts in thousands, except share and per share data)	Historical Recro	Historical IriSys	Pro forma adjustments		Pro forma combined
Revenue	$ 66,499	$ 12,382	$ —		$ 78,881
Operating expenses:					
Cost of sales	54,134	5,979	600	(b)	60,713
Selling, general and administrative	18,124	4,633	—		22,757
Amortization of intangible assets	2,583	—	900	(c)	3,483
Total operating expenses	74,841	10,612	1,500		86,953
Operating (loss) income	(8,342)	1,770	(1,500)		(8,072)
Interest expense	(19,159)	(53)	(547)	(f)	(19,759)
Net (loss) income	$ (27,501)	$ 1,717	$ (2,047)		$ (27,831)
Loss per share:					
Basic	$ (1.16)				$ (0.84)
Diluted	(1.16)				(0.84)
Weighted average shares outstanding					
Basic	23,744,313		9,302,718	(i)	33,047,031
Diluted	23,744,313		9,302,718	(i)	33,047,031

See notes to unaudited pro forma combined financial statements.

Recro Pharma, Inc.
Notes to Unaudited Pro Forma Combined Financial Statements

1. Description of the transaction

On August 13, 2021, Recro Pharma, Inc. (the "Company" or "Recro") entered into a Unit Purchase Agreement (the "Purchase Agreement") by and among the Company, IriSys, LLC, a California limited liability company ("IriSys"), IriSys, Inc., a California corporation ("IriSys Parent"), Continent Pharmaceuticals U.S., Inc., a Delaware corporation, and EPS Americas Corp., a Delaware corporation (each, a "Seller" and collectively, the "Sellers"), and IriSys Parent, in its capacity as the representative of the Sellers, pursuant to which the Company agreed to purchase 100% of the outstanding units of IrySis from the Sellers (the "Acquisition"). The closing of the Acquisition (the "Closing") occurred simultaneously with execution of the Purchase Agreement. As a result of the Acquisition, IriSys became a wholly owned subsidiary of the Company.

The total purchase price (the "Purchase Price") payable by the Company for the Acquisition was approximately $49.85 million, subject to certain adjustments as provided in the Purchase Agreement based on transaction expenses, cash and cash equivalents, indebtedness and net working capital of IriSys at the Closing. The Purchase Price consisted of: (i) $25.5 million in cash paid to the Sellers at the Closing; (ii) 9,302,718 shares of the Company's common stock, par value $0.01 per share, to be issued to the Sellers six (6) months after the Closing; and (iii) a subordinated promissory note issued to certain Sellers by the Company in the aggregate principal amount of approximately $6.1 million (the "Note"). The Note is unsecured, has a three-year term, and bears interest at a rate of six percent (6%) per annum. The Note may be prepaid in whole or in part at any time prior to the maturity date. The Note is expressly subordinated in right of payment and priority to the Company's existing loans with Athyrium Capital Management issued under that certain Credit Agreement, dated as of November 17, 2017 (as amended from time to time, the "Credit Agreement"), by and among the Company, the Company's subsidiaries named as guarantors therein (the "Guarantors"), the lenders party thereto (the "Lenders"), and Athyrium Opportunities III Acquisition LP ("Athyrium Opportunities III") as administrative agent.

2. Basis of presentation

The accompanying unaudited pro forma combined financial statements combine the historical consolidated financial statements of Recro and those of IriSys after giving effect to the Acquisition, using the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations", and applying the assumptions and adjustments described in the accompanying notes. The accompanying unaudited pro forma combined financial information was prepared in accordance with Article 11 of Regulation S-X.

The unaudited pro forma balance sheet combines the balance sheet of Recro as of June 30, 2021 with the balance sheet of IriSys as of June 30, 2021. The unaudited pro forma combined statements of operations combine the operating results of Recro for the six months ended June 30, 2021 and the year ended December 31, 2020 with the operating results of IriSys for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively.

The unaudited pro forma combined balance sheet gives effect to the Acquisition as if such acquisition had occurred on June 30, 2021. The unaudited pro forma combined statements of operations give effect to the Acquisition as if such acquisition had occurred on January 1, 2020. The historical consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma combined statements of operations, expected to have a continuing impact on the combined results following the business combination. The unaudited pro forma combined financial information herein should be read in conjunction with the historical financial statements and the related notes thereto of Recro which are presented in Recro's Annual Report on Form 10-K for the year ended December 31, 2020, Recro's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 as well as the historical financial statements of IriSys included as exhibits 99.1 and 99.2 to the Company's Current Report on Form 8-K/A filed on September 10, 2021. The unaudited pro forma combined financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results that would have been achieved if the Acquisition had been consummated as of January 1, 2020 or June 30, 2021, nor are they necessarily indicative of the future operating results of the combined company.

No effect has been given in these pro forma financial statements for additional ongoing costs or synergistic benefits that may be realized through the combination, nor has any effect been given to costs that may be incurred in integrating operations. In addition, no adjustments have been made to eliminate non-recurring or unusual costs included in the historical results of Recro or IriSys, such as the gains on the extinguishment of debt included in the statement of operations.

3. Estimated consideration and preliminary purchase price allocation

Recro accounted for the Acquisition as the purchase of a business under generally accepted accounting principles in the U.S. (U.S. GAAP). Under this method of accounting, the assets of IriSys will be recorded as of the acquisition date at their fair values and consolidated with Recro. The fair value estimates include, but are not limited to, future expected cash flows, revenue and expense projections, discount rates and revenue volatility. Recro is still in the process of assembling the information necessary to finalize the allocation of the total purchase price, which will likely change upon completion of this assessment process.

Total consideration transferred (in thousands):

Cash paid	$	25,181
Issuance of note		6,007
Issuance of Recro common stock		20,931
Less: IriSys cash on hand		(1,805)
Total estimated consideration	$	50,314

Transaction costs related to the Acquisition are expensed as incurred and are not included in the calculation of consideration transferred.

The table below represents the estimated preliminary purchase price allocation to the net assets acquired based on their estimated fair values as if the Acquisition occurred on June 30, 2021 (in thousands):

Accounts receivable, net		1,583
Contract asset		485
Inventory		674
Property, plant and equipment, net		8,736
Prepaid expenses and other current assets		174
Identifiable intangible assets		4,600
Goodwill		36,494
Other assets		133
Accounts payable		(806)
Accrued expenses and other current liabilities		(1,759)
Total estimated fair value of net assets acquired	$	50,314

The fair value of identifiable intangible assets and weighted average useful lives have been preliminary estimated as follows (amounts in thousands):

		Estimated fair value	**Estimated useful life (in years)**
Customer relationships	$	3,500	12.0
Backlog		750	2.4
Trademarks and tradenames		350	1.5
Total identifiable intangible assets	$	4,600	

Fair value measurement methodologies used to calculate the value of any asset can be broadly classified into one of three approaches, referred to as the cost, market and income approaches. In any fair value measurement analysis, all three approaches may be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value measurement of that asset. The estimated fair values of customer relationships and backlog were estimated using a multi-period excess earnings approach. The estimated fair value of the trademarks and tradenames

is based on the relief from royalty method, which estimates the value of the trademarks and tradenames based on the hypothetical royalty payments that are avoided by owning the asset. The fair value of property, plant and equipment was determined using a cost approach.

Some of the more significant assumptions inherent in the development of intangible asset fair values, from the perspective of a market participant, include, but are not limited to (i) the amount and timing of projected future cash flows (including revenue and expenses), (ii) the discount rate selected to measure the risks inherent in the future cash flows, (iii) the assessment of the asset's life cycle, and (iv) the competitive trends impacting the asset.

These preliminary estimates of fair value and estimated useful lives may be different from the amounts included in the final Acquisition accounting, and the difference could have a material impact on the accompanying unaudited pro forma combined financial statements.

4. Pro forma adjustments

Adjustments included in the pro forma adjustments column of the pro forma combined balance sheet and the pro forma combined statement of operations include the following:

(a) Reflects consideration paid and payable of $25.2 million cash, $6.0 million fair value of notes issued to a former IriSys shareholder (of which $2.0 million will be repaid on the first anniversary of the Acquisition) and $20.9 million fair value of common shares of Recro issuable to former IriSys shareholders six months following the Acquisition.

(b) Reflects approximately $1.1 million of adjustments to state the carrying amounts of IriSys property, plant and equipment at their estimated fair values and the related adjustments to depreciation of $0.3 million for the six months ended June 30, 2021 and $0.6 million for the year ended December 31, 2020. The fair value estimates and related depreciation adjustments are preliminary and subject to change.

(c) Reflects the preliminary fair value estimate of identifiable intangible assets of approximately $4.6 million and the related adjustments to amortization of $0.5 million for the six months ended June 30, 2021 and $0.9 million for the year ended December 31, 2020. Those fair value estimates and related amortization adjustments are preliminary and subject to change.

(d) Reflects the adjustments to record goodwill related to the Acquisition.

(e) Reflects the adoption of new lease accounting guidance by IriSys to conform to Recro's current basis of accounting. The adjustments include the establishment of a $5.5 million operating lease asset, $0.9 million current portion of operating lease liability and $4.6 million noncurrent portion of operating lease liability as well as the derecognition of $0.1 million of other current liabilities and $2.0 million of other liabilities related to deferred rent that had been recognized under prior lease accounting guidance.

(f) Reflects the repayment of $1.9 million of historic indebtedness of IriSys at closing, which resulted in reductions of $0.1 to accounts payable, $0.3 million to current portion of debt, $0.4 million to current portion of related party debt and $1.1 million to noncurrent debt. Also reflects the elimination of $0.1 million of historic interest expense related to that indebtedness for each of the respective periods, as well as interest expense related to the issuance of a note to a former shareholder of IriSys of $0.3 million for the six months ended June 30, 2021 and $0.6 million for the year ended December 31, 2020. Interest expense on the note was estimated using an effective rate of interest of approximately 10%.

(g) Reflects accrued payments of $2.4 million, of which $1.2 million are transaction costs related to the Acquisition, $0.6 million are costs related to the issuance of debt and $0.6 million are costs related to the issuance of equity.

(h) Reflects the elimination of the historical equity of Irisys.

(i) Reflects the $20.9 million estimated fair value of the 9.3 million shares of common stock of Recro that are issuable to the former shareholders of IriSys six months after the date of the Acquisition.